PANORAMIC VIEW OF THE WEEK

Weekly Data Center

Equities	Level	Returns (%)			
	13-Jul-18	1w	3m	YTD	1y
S&P500	2,801	1.5%	5.5%	4.8%	14.4%
DJIA30	25,019	2.3%	2.7%	1.2%	16.1%
EuroSTOXX	3,455	0.2%	0.2%	(1.4%)	(2.1%)
DAX	12,541	0.4%	0.8%	(2.9%)	(0.8%)
FTSE	7,662	0.6%	5.5%	(0.3%)	3.4%

Credit	On the Run Levels (bps)				
	13-Jul-18	06-Jul-18	13-Apr-18	31-Dec-17	13-Jul-17
iTraxx Mains	65	69	55	45	54
iTraxx Fin Snr	77	83	58	44	51
iTraxx X-Over	292	305	276	233	243
CDX IG	61	64	61	49	59
CDX HY	333	345	350	306	320

Commodity	Level	Returns (%)			
	13-Jul-18	1w	3m	YTD	1y
Crude (Brent)	74.3	(3.0%)	1.9%	11.1%	55.4%
Crude (WTI)	71.0	(3.8%)	5.4%	17.5%	54.1%
Gold	1,244	(0.9%)	(7.6%)	(4.5%)	2.2%
Silver	15.8	(1.4%)	(5.0%)	(6.6%)	0.7%

Forex	Levels				
	13-Jul-18	06-Jul-18	13-Apr-18	31-Dec-17	13-Jul-17
EUR	1.17	1.17	1.23	1.20	1.14
GBP	1.32	1.33	1.42	1.35	1.29
AUD	0.74	0.74	0.78	0.78	0.77
YEN	112.38	110.47	107.35	112.69	113.28

EM Equities	Level	Returns (%)			
	13-Jul-18	1w	3m	YTD	1y
Brazil	76,594	2.1%	(9.2%)	0.3%	17.5%
Russia	1,189	1.4%	5.9%	3.3%	16.1%
India	11,019	2.3%	5.1%	4.6%	11.4%
China	2,831	3.1%	(10.4%)	(14.4%)	(12.0%)
South Africa	56,364	(1.7%)	(0.4%)	(5.3%)	5.7%

Rates	Levels (%)				
	13-Jul-18	06-Jul-18	13-Apr-18	31-Dec-17	13-Jul-17
2-yr US Treasury	2.58	2.54	2.36	1.88	1.36
10-yr US Treasury	2.83	2.82	2.83	2.41	2.34
30-yr US Treasury	2.93	2.93	3.03	2.74	2.92
10-yr German Bund	0.34	0.29	0.51	0.43	0.60
10-yr UK Gilt	1.27	1.27	1.44	1.19	1.30

Key Economic Releases

The week in review

Mon, 09-Jul

Tue, 10-Jul
UK Industrial Production MoM (Actual: -0.40%; Cons.: 0.50%)

Wed, 11-Jul

Thu, 12-Jul
US Initial Jobless Claims (Actual: 214k; Cons.: 225k)
US CPI MoM (Actual: 0.10%; Cons.: 0.20%)

Fri, 13-Jul

The week ahead

Mon, 16-Jul

Tue, 17-Jul
US Industrial Production MoM (Cons.: 0.50%; Prior: -0.10%)

Wed, 18-Jul
UK CPI MoM (Cons.: 0.20%; Prior: 0.40%)
Eurozone CPI YoY (Cons.: 2.00%; Prior: 1.90%)

Thu, 19-Jul
US Initial Jobless Claims (Cons.: 221k; Prior: 214k)

Fri, 20-Jul

Market Commentary

There was plenty of volatility this week as equities initially got hit following more detail from the US around additional tariffs on Chinese imports. The announcement actually contained nothing new, as Trump said in late June that the US would look to impose an additional 10% tariff on $200 billion of Chinese imports if China was to retaliate against US trade tariffs (which China did last week). After investors looked through the noise and decided that fundamentally, nothing had changed, stocks had a good rebound. There were also encouraging comments from China’s Vice Minister of Commerce calling for more talks with the US, with the White House indicating it was open to this. US equities were 1.5% higher over the week, Japanese shares surged by +3.7% (thanks to a weaker yen), China also rebounded significantly from recent lows, up by +3.8% while Eurozone equities were higher by +0.2%. The US dollar rose a little further this week, but is probably close to reaching a peak for now. US 10 year treasury yields were slightly lower this week and commodities generally weakened against the higher US dollar. According to a forecast by the US Energy Information Administration this week, US is set to be the world's largest oil producer by 2019. The EIA projects that the US will produce an average of 11.8 million barrels of crude a day next year, surpassing both Saudi Arabia and Russia. US production in June averaged 10.9 million barrels a day. The US last led the world in oil output in 1974.

Till Thursday, the yield on the benchmark 10-year note advanced one basis point to 2.85%, while the yield on the 30-year bond rose by the same amount to 2.95%. Meanwhile, the yield on the two-year note climbed to 2.59%, its best closing level in a decade as inflation data supported the case for additional Fed rate hikes this year. Notably, the year-to-date advance on the two-year note yield has now surpassed its entire 2017 gains. The spread between yields on two- and 10-year Treasuries continued to narrow, now touching 25 basis points, the tightest since August 2007. As long as the economy continues to grow moderately and inflation remains near the Fed’s 2% target, we expect the Fed to continue increasing short-term interest rates quarterly. As the Fed reduces the size of its balance sheet and short-term rates rise, we expect modestly higher long-term rates as well. But low long-term interest rates in the rest of the world mean foreign buyers are attracted whenever US rates start to rise, keeping long-term US rates low. Higher short-term rates have made CDs and other short-term fixed-income investments attractive.
Brexit issues continued this week with three cabinet members resigning, including Foreign Secretary Boris Johnson and Brexit Secretary David Davis who were two prominent figures for the Leave campaign. These resignations followed PM Theresa May’s latest proposal around the future EU-UK trade relationship, which looks like a free market with the UK in goods (but not in services and people). The risk of a softer Brexit is more likely for now. May’s proposal still needs to be approved by the European Union, which may not be willing to accept free movement of goods, without the inclusion of services/people.

While earnings season is just getting underway, it is worth noting that analysts expect Q2 S&P 500 earnings per share to rise 20% compared with the same quarter a year ago while sales are projected to grow 8.4%. Q1 earnings grew 24.8% while revenues advanced 8.5%. Despite the uncertainties created by higher tariffs, monetary policies in the rest of the world continue to provide stimulus, and interest rates remain well below US levels. Thus, international markets and economic conditions appear to be further from the end of the cycle than the US, and equity valuations looks more attractive.

Economic Commentary

On the economic front, US data was generally good. Inflationary pressures are continuing to lift – core consumer prices were 2.3% higher over the year to June and producer price inflation rose by 2.8%. Labour market indicators remain strong with the latest employment quits rate increasing to 2.4% - its strongest level since 2001 which is a positive sign that there is plenty of demand for workers. It is also a good sign for wages growth with wages running higher for workers who change jobs (rather than those who stay in the same job). With underlying inflation dynamics still relatively muted, the figures are not expected to cause the US Federal Reserve to raise rates more quickly than the market anticipates. Indeed, a survey from the Wall Street Journal released on Thursday shows that economists expect two more hikes in short-term rates this year and two or three hikes in 2019. NFIB small business confidence was a little weaker in June but is above recent averages. But, consumer confidence was softer in July, with consumers citing potential negative impacts from trade issues.

Eurozone data was mixed with the latest ZEW investor confidence down in July and expectations for the Euro area falling to its lowest level since 2012. But industrial production growth was strong over May, thanks to a lift in Germany. The Bank of Canada raised interest rates by 0.25% to 1.5% - which was expected, citing key inflation measures of running around 2% - consistent with the economy close to capacity. Chinese producer price inflation lifted to 4.7% in June thanks to stronger commodity prices, industrial-winter production cutbacks and anti-pollution efforts. Inflation also lifted to 1.9% from higher food prices. The trade surplus rose in June, but import growth was weaker than expected.

The National Association of Business Economists surveys its members quarterly. Most shifts in expectations tend to be mild. For instance, the group downgraded its June real 2018 GDP forecast to 2.8% versus from 2.9% in March. The one data point from this survey that stood out was the shift in the balance of risks to growth through 2019. In March, 75% of respondents saw upside, thanks in large part to the growth boost from tax reform and fiscal stimulus. Now, 57% see growth risks skewed to the downside on the back of surging trade tensions. However, few see any risk of recession until late 2019 or early 2020.

In the coming week, the US data includes June retail sales, industrial production, housing indicators such as starts, the Fed’s Beige Book and Fed Chair Powell’s semi-annual monetary policy testimony. US second quarter corporate earnings season gets underway and consensus expectations are high – with earnings growth expected to lift by 21% year-on-year – thanks to the corporate tax changes and the strong economy. Earnings growth estimates are around their peak and are expected to weaken in 2019 and 2020.

Chinese second quarter GDP is expected to increase by 6.7% over the year to the June quarter, a little weaker than in recent quarters but still solid. June industrial production and retail sales are also released. In Japan, core CPI for June should show annual growth around 0.4% - which is low, but far from deflation.

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Sources used for preparing the report: Bloomberg; Wall Street Journal, Financial Times, Thomson Reuters