# PANORAMIC VIEW OF THE WEEK



## Weekly Data Center

| Equities | Level 20-Jul-18 | Returns (%) 1w | 3m | YTD | 1y |
|---|---|---|---|---|---|
| S&P500 | 2,802 | 0.0% | 4.9% | 4.8% | 13.3% |
| DJIA30 | 25,058 | 0.2% | 2.4% | 1.4% | 15.9% |
| EuroSTOXX | 3,460 | 0.2% | (1.0%) | (1.3%) | (1.1%) |
| DAX | 12,561 | 0.2% | 0.2% | (2.8%) | 0.9% |
| FTSE | 7,679 | 0.2% | 4.2% | (0.1%) | 2.5% |

| Commodity | Level 20-Jul-18 | Returns (%) 1w | 3m | YTD | 1y |
|---|---|---|---|---|---|
| Crude (Brent) | 72.7 | (2.1%) | (1.2%) | 8.8% | 49.3% |
| Crude (WTI) | 70.5 | (0.8%) | 3.0% | 16.6% | 50.6% |
| Gold | 1,230 | (1.2%) | (8.0%) | (5.6%) | (1.2%) |
| Silver | 15.5 | (1.9%) | (9.4%) | (8.4%) | (5.0%) |

| EM Equities | Level 20-Jul-18 | Returns (%) 1w | 3m | YTD | 1y |
|---|---|---|---|---|---|
| Brazil | 78,571 | 2.6% | (8.2%) | 2.8% | 21.0% |
| Russia | 1,697 | 0.6% | 8.5% | 10.5% | 17.6% |
| India | 11,010 | (0.1%) | 4.2% | 4.6% | 11.5% |
| China | 2,829 | (0.1%) | (7.9%) | (14.5%) | (12.8%) |
| South Africa | 56,990 | 1.1% | (1.0%) | (4.2%) | 5.0% |

| Credit | On the Run Levels (bps) 20-Jul-18 | 13-Jul-18 | 20-Apr-18 | 31-Dec-17 | 20-Jul-17 |
|---|---|---|---|---|---|
| iTraxx Mains | 66 | 65 | 55 | 45 | 52 |
| iTraxx Fin Snr | 81 | 77 | 57 | 44 | 49 |
| iTraxx X-Over | 295 | 292 | 275 | 233 | 235 |
| CDX IG | 62 | 61 | 61 | 49 | 57 |
| CDX HY | 339 | 333 | 350 | 306 | 320 |

| Forex | Levels 20-Jul-18 | 13-Jul-18 | 20-Apr-18 | 31-Dec-17 | 20-Jul-17 |
|---|---|---|---|---|---|
| EUR | 1.17 | 1.17 | 1.23 | 1.20 | 1.16 |
| GBP | 1.31 | 1.32 | 1.40 | 1.35 | 1.30 |
| AUD | 0.74 | 0.74 | 0.77 | 0.78 | 0.80 |
| YEN | 111.41 | 112.38 | 107.66 | 112.69 | 111.91 |

| Rates | Levels (%) 20-Jul-18 | 13-Jul-18 | 20-Apr-18 | 31-Dec-17 | 20-Jul-17 |
|---|---|---|---|---|---|
| 2-yr US Treasury | 2.59 | 2.58 | 2.46 | 1.88 | 1.35 |
| 10-yr US Treasury | 2.89 | 2.83 | 2.96 | 2.41 | 2.26 |
| 30-yr US Treasury | 3.03 | 2.93 | 3.15 | 2.74 | 2.83 |
| 10-yr German Bunc | 0.37 | 0.34 | 0.59 | 0.43 | 0.53 |
| 10-yr UK Gilt | 1.23 | 1.27 | 1.48 | 1.19 | 1.21 |

## Key Economic Releases

### The week in review

**Mon, 16-Jul**

**Tue, 17-Jul**
US Industrial Production MoM (Actual: 0.60%; Cons.: 0.50%)

**Wed, 18-Jul**
UK CPI YoY (Actual: 2.40%; Cons.: 2.60%)
Eurozone CPI YoY (Actual: 2.00%; Cons.: 2.00%)

**Thu, 19-Jul**
US Initial Jobless Claims (Actual: 207k; Cons.: 220k)

**Fri, 20-Jul**

### The week ahead

**Mon, 23-Jul**

**Tue, 24-Jul**
US Manufacturing PMI MoM (Cons.: 55.1; Prior: 55.4)

**Wed, 25-Jul**

**Thu, 26-Jul**
US Initial Jobless Claims (Cons.: 215k; Prior: 207k)
ECB Main Refinancing Rate (Cons.: 0.00%; Prior: 0.00%)

**Fri, 27-Jul**
US GDP QoQ (Cons.: 4.30%; Prior: 2.00%)

## Market Commentary

Global stocks inched lower amidst the escalating trade anxieties driven by US President's latest tariff threats against China, offsetting a string of robust earnings in the West. The US stocks witnessed flat sessions for the week on the back of comments from the President on the monetary policy, sending both the dollar and government bond prices sliding. Major indexes struggled to break higher throughout the week as investors parsed dozens of earnings reports confirming that the markets have shrugged off the external influences and are now focusing on a very positive earnings backdrop. The trade-sensitive industrial group, which fell earlier in the session, gained momentum to close 0.16% higher, while the information technology sector rose 0.30%. As the second-quarter reporting period gains momentum, analysts forecast for profit at S&P 500 companies have risen to 22%, compared with the 20.7% gain seen on July 1. Of the 87 S&P 500 companies that have reported so far, 83.9% have topped profit expectations, compared with a 75% beat rate over the past four quarters, confirming that S&P 500 firms are on track to report their second fastest pace of earnings growth since 2010 for the second quarter. While the DJIA and S&P500 both posted consecutive weekly gains, the defensive real estate and utilities sectors fell the most among the seven main S&P sectors that were trading lower. Advancing issues outnumbered decliners by a 1.03-to-1 ratio on the NYSE and by a 1.19-to-1 ratio on the Nasdaq. The S&P index recorded 21 new 52-week highs and two new lows, while the Nasdaq recorded 95 new highs and 29 new lows. Overall, the tariff concerns were offset to some degree by a sharp rise in corporate earnings on the Wall Street. But in Europe, car making stocks were badly hit, with the Stoxx 600 index tracking the sector falling 2.1%. That helped push the German DAX index down 1%, a bigger fall than most of its regional peers.

In the fixed income market, the global bond market suffered a bout of jitters on Friday, after reports that the Bank of Japan is thinking of tweaking its interest rate policy unnerved investors already on edge over the ending of post-crisis monetary policy. While the BoJ's target kept Japanese yields anchored on Friday, the report rippled through other major government bond markets, with the 10-year Treasury yield rising 6 basis points to 2.89%. The UK and German 10-year government bond yields rose by 5 bps and 4 bps respectively, while the biggest exchange-traded bond fund, the $56bn AGG, dipped 0.2%. The US Federal Reserve is the most important central bank in the world, but global bond yields have in recent years been kept pinned down by the European Central Bank and BoJ's QE programmes. Thus, an end to ECB's bond-buying initiative will increase the weight to BoJs as the primary anchor of global rates. With the Fed slowly pruning its balance sheet of bonds acquired through its QE programme and the ECB halting its purchases by the end of the year, central banks could by the end of the year be withdrawing liquidity from global markets for the first time since the financial crisis. In the currencies, the US dollar weakened on Friday against key world currencies as President Donald Trump complained again about its strength and accusing the European Union and China of manipulating their currencies. The dollar was on pace for its biggest single-session drop in three weeks against a basket of six major currencies, stalling a rally that had driven the greenback to a year high. Across the Atlantic, the British pound steadied around the $1.30 mark on Friday as traders took stock at the end of a bruising week in which weak economic data and more political uncertainty around the government's Brexit position hammered sterling. Elsewhere, Oil prices rose on Friday as a weakening dollar and lower expected August crude exports from Saudi Arabia supported the market, offsetting concerns about US-China trade tensions and supply increases. While the WTI crude settled at $70.46 a barrel, the Brent crude inched up 49 cents in the last trading session.

In the week, while the global markets will focus on the next Chinese move to support its economy and temper damage from higher US tariffs, the emerging markets will witness the biggest week for the year as the leaders of the BRIC and G20 nations will meet to decide the interest rates for the respective economies.

## Economic Commentary

The calendar in the West focussed on the consumer aspects of the economy. Retail sales rose 0.5% in June, while May's gain was revised up from 0.8% to a robust 1.3%. Contributing to the strong pace of headline growth were big gains in sales at car dealerships and gasoline stations. Higher prices at the pump have helped to boost gasoline sales, which are up 21.6% y-o-y. Core "control" group retail sales were flat in June, however, as sales declined at general merchandise and clothing stores. The overall strong pace of retail sales growth puts the consumer on track to drive real GDP growth in Q2, after a weak Q1. Industrial production also looked strong in June, with the index growing 0.6% to reach a new high. The June improvement had much to do with a recovery in manufacturing output, coming after a fire at a motor vehicle and parts manufacturing plant disrupted production in May. Output from the manufacturing sector rose 0.8% in June, while mining output rose 1.2%. Utilities output was the drag, falling 1.5%. Despite tariffs on steel and aluminium imposed in March and expanded to all major trading partners in June, primary metal manufacturing was essentially flat in June. Output of iron and steel products fell 0.8%, while aluminium and production and processing declined 3.0%. We expect production to expand at least somewhat in the months ahead. Capacity utilization is still below its historic average in the manufacturing sector, at 75.5% in June, suggesting that slack remains, and can be deployed to increase production if demand warrants. This contrasts with the mining sector, where an energy-driven rebound has pushed capacity utilization up to a very tight 92.7%.

The data across the English Channel that were released this week cast some doubt on the widely-held expectation that the Monetary Policy Committee (MPC) of the Bank of England will hike rates at its next policy meeting on August 2nd. For starters, inflation data for June were weaker than most analysts had expected. To wit, the overall rate of CPI inflation held steady at 2.4%, rather than ticking up as most analysts had expected, and the core rate of inflation dropped to 1.9% from the 2.1% rate that had been registered in May. Furthermore, real retail sales slipped 0.5% in June relative to the previous month, significantly weaker than the modest increase that the consensus forecast had anticipated. If inflation is receding back toward the BoE's target of 2% and spending data are weaker than expected, why should the MPC be in a hurry to hike rates? Although some of the data this week were modestly disappointing, the British economy is hardly falling apart. Even with the drop-in retail sales in June, real retail spending was still up 2.1% in the Q2 relative to Q1. Employment was up 137,000 workers in the March-May period relative to the preceding three-month period, and the unemployment rate held steady at its 43-year low of 4.2%. The MPC currently forecasts that real GDP will grow roughly 1.75% per annum over the next few years. The wiggles in recent data notwithstanding, U.K. GDP appears to be on track to grow more or less at this modest pace, which the MPC estimates is slightly higher than the long-run potential rate of growth. Elsewhere, the data released in China showed that the y-o-y rate of real GDP growth slowed marginally to 6.7% in the second quarter, from 6.8% in Q1 2018. The monthly economic indicators show that growth in investment spending, which has been behind the deceleration that has occurred in the Chinese economy over the past few years, slowed further in Q2. All of the combined numbers suggest that growth will tick lower in coming quarters.

The weekly calendar will be highlighted by the ECB's monetary policy meeting to be held in the week that will answer to the raising concerns of ECBs next steps in the bond buying initiative and the pace of movement in the tightening monetary policy. Elsewhere, the Eurozone PMI will confirm the manufacturing prints and the business investment sentiment directly implicating the economy.

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