

Market Recap 12-03-2017

United States

The S&P 500 closed at \$2,372.60, slightly depreciating when compared with the beginning of the week, where it was standing at \$2,375.32, but still higher than the weeks' low of \$2,357.98. Similar was the fate of both the Dow Jones Industrial Average and the NASDAQ, as they closed at slightly lower levels than their opening prices last week, being \$20,902.80 and \$70.96.

Following concerns of falling market share and increase in competitors, SNAP closed its second week after becoming public at \$22.07, roughly 20% lower than its highest of \$27.09. It was one of the hottest topics in the US Equities markets during the week. Interesting to note is that despite the current, lower valuation, the stock is still trading at a premium with respect to its initial valuation of \$17.

The Labor Department released positive news with regards to the unemployment rate dropping to 4.7% for February, lower than January's 4.8%, as the economy gained 235,000 jobs. Non-Farm Payrolls (NFP) came in at 227,000 for February, above the 221,000 of January and consensus 193,000. Average hourly earnings growth came in at 0.2% for February, in line with January data. This has only increased the likelihood of a FED rate hike for the 14th of March, the key event for the coming week.

The probability of a FED rate hike, as of the 10th of March, is estimated at 93%. Following the strong economic indicators, being lower unemployment and stable inflation, it is only natural for the FED hike to take place. Senior FED board members have strongly signaled for such a hike to happen. The 10 year bonds have already partially priced in the rate hike, with their yields reaching 2.57%. Speculators predict three to four future rate hikes happening this year.

In terms of FOREX the US dollar depreciated against the Euro, closing the week at 1.0676 dollars per Euro. On the other hand when compared with the Japanese Yen, the USD appreciated slightly reaching 114.78 Yen per USD. Comparing it with the British Pound, it can also be said that it appreciated, closing at 1.2168 Dollars per Pound.

Eurozone

During the previous week the major broad stock indices in the Eurozone stayed basically flat with the EURO STOXX 50 up by 0.38%, the DAX down by 0.53%, the CAC40 down by 0.04% and the FTSE MIB down by 0.03%. As one of the strongest sectors this weeks the EURO STOXX Banks index performed strongly positive with an increase of about 3.97%. This positive performance was mostly driven by the upward shift in the yield curve due to positive economic data and the outcome of the ECB meeting.

In contrast to the last few weeks when the French elections were the most important market mover of the Eurozone, this week the ECB meeting had the most significant impact on the financial markets. After inflation in the Eurozone rose into line with the ECB's target of just under 2 percent in February after years of undershooting, Mario Draghi indicated that the risk of deflation has largely disappeared whilst expectations for growth have improved. Moreover the ECB has revised its 2017 inflation forecast up to 1.7 percent from the 1.3 percent it saw in December. Therefore Draghi clearly said that further rate cuts will not be necessary if there are no negative externalities impacting the Eurozone. These indications were largely seen as a turnaround and as a first minor step to prepare the markets for the discussions about how to exit the ultra-loose monetary policy and when to start tapering the volume of the bond buying programme.

Additionally the Sentix headline index in the Eurozone surprised positively on Tuesday by increasing 3.30 points to the highest index level in 10 years. Moreover it has beaten the consensus estimates of 18.50 by 2.20 points with an actual value of 20.70.

The overall yield curve shifted upwards with an increase in the 2y to -0.85%, the 5y to -0.32% and the 10 year German Bund to 0.48%. The EUR depreciated slightly during the first 3 days of the week to about 1.0525 and spiked after the ECB meeting to about 1.0672 with an overall +0.68% over the week against the USD. This was mainly driven by USD relative depreciation due to Friday data on NFP and average hourly earnings growth. Moreover the EUR appreciated by about 1.76% compared to the GBP closing at 0.8777.

UK

On Friday, the Office for National Statistics released macroeconomic data for January. Industrial production and manufacturing production decreased respectively by 0.4% and 0.9% from December (expectations were -0.4% and -0.6%), while construction output fell by 0.4% from last month, against forecasts of -0.2%. These figures contrast with the end of 2016, when all indicators witnessed an increase.

As regards the trade balance, it increased from December -10.91 billion £ to -10.83 billion £ and beat the forecasted worsening at -11.05 billion £.

Consumers' expected inflation for the following 12 months, as released by a BOE's survey, reached 2.9%, the highest level since November 2013.

FTSE 100 fell by -0.423% over the week, but it closed bullish at 7343.08 on Friday. GBP/USD declined as well, reaching 1.2168 on Friday after having lost 1.01% during the week.

Coming to next week's data, on Wednesday 15 March we will see Average Earnings index (with Bonus) for January, expected 2.4%; claimant count change (change in number of unemployed people) for February, expected -5000; unemployment rate for January, expected 4.8%. Finally, on Thursday 16 March, the BoE will take its monetary policy decision. No change in interest rate is expected.

Rest of the World

In Japan, the NIKKEI 225 closed the week up by 0.77%, with data that showed Japanese machine tool orders up 9.1% YoY and improving sentiment among large manufacturing companies. The Japanese 10Y bond closed a flat week with yield at 0.089%. The USDJPY closed the week almost flat at 114.78, with the Japanese yen at -0.73% from last week. Next week the focus will be on Thursday, when there will be the Bank of Japan interest rate decision.

Flat week for all the Chinese stock indexes and also for USDCNY, with the Chinese Yuan quoting at 6.88, below the minimum of 6.99 reached in January. On Tuesday, the Chinese foreign exchange reserves were announced to be stable MoM, after several months of steep decrease. On Wednesday, China posted the first monthly trade deficit in three years (-\$9.15bn), driven by lower than expected exports (-1.3% YoY) and higher imports (+38.1% YoY). Moreover, on Thursday inflation rate YoY was registered at 0.8%, way below consensus and forecasts of 1.7%. Next week the focus will be on data on industrial production YoY and retail sales YoY that will be published on Tuesday, and on the House Price Index YoY, that will be updated on Saturday.

On Friday, protests took place in Seoul after President Park Guen-hye, the first democratically elected leader of the country, was forced out of office. This came at the end of several months of political turmoil in the country

and now South Korea must hold elections within 60 days. The KOSPI index closed the week up by 0.89%, with Samsung shares up to KRW 2.009bn on Friday (despite the sentencing of his vice-chairman). The USDKRW is stable at 1147.5 (down by 0.3% WoW).

In Russia, the MICEX closed the week down by 3.59% at 1976 points, after losing 2.5% on Thursday (biggest drop since January 2016), and it is now trading below its 200-day moving average for the first time in more than a year. This inversion has mainly been driven by falling oil prices and disillusionment about the perspectives of better relations between Russia and the new Trump administration. The USDRUB is trading at 58.97, with the Russian Ruble down 1.07% WoW and up 15.76% YoY. On Tuesday, the inflation rate was announced at 4.6% YoY (below consensus and forecast of 4.7%). Next week, data on the balance of trade will be released on Tuesday.

In Brazil the BOVESPA closed the week down by 3.17%. Data released on Tuesday showed GDP growth rate YoY at -2.5% (forecast was -2.1%) and QoQ at -0.9% (forecast was at -0.2%). On the other hand, industrial production was registered on Wednesday up 1.4% YoY (forecast was +0.1%) and inflation rate YoY was announced on Friday at 4.76% (forecast was 5%).

TAGS: US, EU, UK, world, S&P 500, NASDAQ, DJIA, SNAP, NFP, Labor Department, FED, rate hike expectation, FX, EUROSTOXX 50, DAX, CAC 40, FTSE MIB, ECB, inflation, Sentix, FTSE 100, BoE, industrial production, construction output, expected inflation, unemployment rate, NIKKEI 225, BoJ, China, South Korea, Samsung, Russia, Brazil