

## Market Recap 09-04-2017

### United States

US stocks took a break after last week gains. The S&P 500 fell 0.3% closing the week at 2355.54, while large-caps were flat with the Dow Jones at last week's levels. One of the major drivers of financial markets was the FED releasing the minutes of its mid-March meeting. The minutes highlighted the intention to gradually shrink FED \$4.5 trillion balance sheet. This move should push toward monetary policy normalization after the unconventional stimulus during the financial crisis. The minutes also reported the concerns of some officials regarding US equities, trading at levels deemed quite high for standard valuation measures.

On Wednesday, in a private meeting with lawmakers, Gary Cohn, former Goldman Sachs executive and now White House economic adviser, expressed his support for the separation of commercial and investment banks. Cohn's comments remarked Trump's plan of bringing back a XXI century version of the Glass-Steagall Act. Markets did not expect a former top Wall Street banker to have such a strong stance on a measure that could radically reshape the US banking sector. Financials resulted to be one of the worst weekly performers in the S&P 500.

After Thursday's encouraging news showing jobless claim falling at early-1970s levels, on Friday the job report showed a mixed bag of data. In March, the US economy added 98,000 jobs, well below the expected 185,000. On the other hand, the unemployment rate fell to a decade-low of 4.5%, as hiring outpaced the growing labour force.

The payroll miss weighted on the bond market, with US 10-year Treasury yield falling as low as 2.28% in the mid of the disappointing job report. Yields climbed sharply higher later on Friday, in response to the comment from New York Fed President William Dudley that the Fed might temporarily halt rate increases when it trims its balance sheet. The US 10-year Treasury yield closed the week at 2.38%, still below last week's levels.

Gold rallied after the US missile strike attack against Syria in the raise of geopolitical risk and the weak job report. Gold climbed as much as \$1,270.87 an ounce at five-month high, but later retreated to \$1,254.50.

Dollar appreciated against major currencies. The EUR/USD fell to 1.0581, the lowest reading since March 10.

Next Friday we will get data on US core inflation rate YoY for March 2017 (previous: 2.2%, consensus: 2.3%). Furthermore, there will be data on US inflation rate YoY for March 2017 (previous: 2.7%, consensus: 2.6%). Finally, data on US retail sales MoM for March 2017 is due (previous: 0.1%, consensus: 0.3%).

### Eurozone

Markets this week showed slight volatility and they moved at very high levels. The German DAX 30 index reached an all-time high on Monday with 12,375.58, although closing at a slightly lower level and showing a minor correction towards the end of this week, in addition to an increase of short positions in the market, closing at 12,225.06 (-0.15% from last week). The CAC 40 closed at 5,135.28 (+1.2% from last week) and in Milan the FTSE MIB closed at 20,300.06 (down by 0.19% from last week). The EUROSTOXX 50 closed at 3,495.80 (+0.7% from last week), not far from the local maximum reached on Monday. The strengthening of the US Dollar caused the Euro to depreciate by 0.75% reaching \$1.0581.

In the fixed-income market, the yield difference between 10-year bonds from France and Germany widened on Monday as investors are still weighting the odds of a possible success of Marine Le Pen in the French presidential election. In Italy, the continuing threat of a crisis in its banking industry and the increasing uncertainty considering

its own potential elections, caused the same spread to hit the widest level in more than two years. The yield of the 10-year German bund reached 0.23% at the end of this week.

European unemployment sank to 9.5% in February, in line with expectations and the lowest since May 2009. The youth unemployment rate for the single currency bloc also declined, but from very high levels, to 17.3%.

In Germany, the balance of trade for February 2017 came in at €19.9bn, a widening of the previous result of €14.9bn. Germany confirms itself as a huge net exporter.

Overall, the Euro Area is currently enjoying the best period of economic performance since its debt crisis in 2011. IHS Markit's survey of private firms hit a six-year high, mostly driven by high employment, output and new orders. But also, the Eurozone PMI accelerated to 56.4 last months from 56. Many indicators suggest that the single currency area is enjoying its best quarter of growth in six years.

Next Monday the ECB will release its Annual Report and on Tuesday, data on the industrial production of the Euro Area and the ZEW economic sentiment index will be announced (previous: 12.8, consensus: 14).

## **UK**

UK equities rose during last week. Indeed, both the FTSE 100 and FTSE 250 were slightly up, respectively by 0.36% and 1.36%.

During the week, the PMI survey showed the strongest rise in activity so far in 2017 in UK's service sector. Indeed, the PMI index scored a 55 in March, beating expectations, once again led by strong domestic demand. On the other hand, the Construction PMI showed a growth slowdown in the sector. In particular, housebuilding proved to have become a weak sector for the UK economy, also when compared to civil engineering and infrastructure.

Moreover, on Thursday Unilever revealed to investors its plan to avoid future takeover bids. Such measures were long-awaited by investors, even if they were not overwhelmed. Nevertheless, markets perceived it as good news and the stock posted a 2.56% gain over the week.

The British Pound posted a 0.84% depreciation against the Euro (GBPEUR at 1.1681) and a 1.42% depreciation against the US Dollar (GBPUSD at 1.2371). This happened despite more and more calls from professionals considering the pound as undervalued currency. Nevertheless, it is useful to remember that most of the banks view GBP to be worth around 1.20\$ or less by the end of the year.

Next week's agenda encompasses the CPI index disclosure on Tuesday (YoY for March 2017, previous: 2.3%, consensus: 2.3%), the revelation of the unemployment figures on Wednesday (for February 2017, previous: 4.7%, consensus: 4.7%) and data on retail sales on Friday (YoY retail sales growth, previous: 3.7%, forecast: 2.96%).

## **Rest of the World**

In Japan, the Nikkei 225 index closed Friday with a weekly loss of 1.29% after the Tankan Large Manufacturers Index rose to 12 in the first quarter from 10 in the fourth quarter 2016, 2 points less than what the market expected, and the Japan Leading Economic Index fell from 104.9 to 104.4. USDJPY closed at 110.81 down by 0.38% from the previous week. Monday will see the publication of data of the current account for February 2017 (previous: JPY655bn, consensus JPY2615.6bn) and Economy Watchers Survey Outlook.

In Russia, MICEX saw a solid rise of 2.85% since the beginning of the week closing on Thursday at 2055. However, following the US attack in Syria on Friday which threatens to escalate the conflict further and worsen the US-Russia relations, the benchmark was down 1.72%. Ruble was weaker 1.54% closing at 57.24 rubles per dollar. On Wednesday, inflation rate YoY was announced at 4.3%, 0.1% less than the forecast. Next Tuesday, balance of trade for February is expected to be released (previous: \$11.45bn, consensus: \$10.5bn).

In China, Shanghai Composite increased by 1.99% over the week reaching 3287, the highest value since the beginning of 2016. The foreign exchange reserves have increased to \$3009bn, more than the consensus by 2 billion. USDCNY ended the week at 6.89, a 0.31% increase from the week before. Next week, markets will be awaiting the publication of data for the inflation rate (YoY for March, previous: 0.8%, consensus: 1%) and FDI (YoY YTD for March 2017, previous: -2.3%) on Wednesday, as well as balance of trade for March the day after (previous: -\$9.15bn, consensus: \$10bn).

Reserve Bank of India has kept constant the benchmark repo rate at 6.25% following the announcement on Thursday that the inflation rate may be under upward risk. Indian rupee strengthened by 0.90% over the week closing at 64.27 rupees per dollar, continuing the downward rally that began at the end February. Nikkei Manufacturing PMI for March rose for the third consecutive month to 52.5, more than the forecast of 50.9, due to the increased business confidence and manufacturing jobs number. SENSEX index saw a weekly gain of 0.29%, and investors are looking forward to a chunk of news. On Wednesday, news about the February industrial production YoY (previous: 2.7%, forecast: 2%), the February manufacturing production YoY (previous: 2.3%, forecast: 1.5%) and the March inflation rate YoY (previous: 3.65%, forecast: 3.9%). On Friday, March balance of trade data is out (previous: -\$8.9bn, forecast: -\$8.9bn).

In Brazil, BOVESPA declined 0.60% from last week (at 64,593.11), while USDBRL rose by 0.72% (real depreciating and closing at 3.1434 BRL per USD). The balance of trade reached a record level of \$7,145 million, up from previous month's 4,560 million and higher than the consensus of \$6,800 million, whereby exports jumped by 25.6% and imports rose at a slower 11.9%. Industrial production YoY for February fell by 0.8%, less than January's 1.4% while nevertheless lower than the levels of 2015 and 2016. The March inflation rate unveiled on Friday was 4.57%, 0.03% higher than expected, plunging to the lowest mark since August 2010. Next week we will see the interest rate decision of the Central Bank of Brazil on Wednesday (previous: 12.25%, forecast: 11.75%, expectation of a rate cut of 50bps) and the Business Confidence Index level for April on Thursday (previous: 54, forecast: 55.7).

TAGS: US, EU, UK, world, S&P 500, FED, unemployment rate, US treasuries, Syria, EURUSD, FX, EUROSTOXX 50, DAX, CAC 40, FTSE MIB, HIS Markit, elections, spreads, FTSE 100, FTSE 250, Unilever, GBPUSD, GBPEUR, NIKKEI 225, China, India, Russia, Brazil