Market Recap 30-04-2017

United States

After the French election relief and solid first quarter earnings reports the US equities finished the week higher. Slightly more than half of the S&P 500 has reported, showing positive signs of improving economic growth, with best performers tech and industrial companies. The S&P 500 after the rally at the beginning of the week closed up 1.5% at $2,384.08 from the $2,348.69 previous week close. The NASDAQ index broke above $6,000 for the first time ever and ended the week up 2.3% at $6,047.61 fueled by tech earnings results. Similarly, the Dow Jones Industrial Average closed at $20,940.51, advancing by 1.9%.

On Wednesday President Trump's economic team announced what they define as the biggest tax cut in US history, that will include a cut of corporate taxes from 35% to 15% and a one-time cut in the tax rate in order to favorite repatriations of cash from overseas. However, the market remained unimpressed by the plan since it was lacking of details. Moreover, the Committee for a Responsible Federal Budget estimates that the plan would cost $5.5tn over 10-year period. For that reason, it is more likely that the administration will pass a less ambitious plan. Furthermore, on Friday the US Congress did not reach a consensus on the budget and passed a short-term spending bill that will avoid the federal government to shut down this weekend but to remain open for another week.

GDP grew at 0.7% annualized rate in Q1 2017, lower than expected and in decline from the 2.1% at the end of the last year. However, first quarter GDP have tended to be weak in last years for seasonal factors, therefore an acceleration is expected and the economy could grow at 2.5% in 2017.

Regarding currencies, after the geopolitical risks relief in Europe, the Euro appreciated against the dollar. Moreover, the proposal of tax reform did not reboot the "Trumpflation trade". The EUR/USD closed the week up 1.6% at 1.0895 from the previous week close at 1.0725, with the USD depreciating.

Given less geopolitical concerns the VIX index has tumbled to 10.36 on Thursday. This was the lowest level since 2014 and just above the post-crisis low of 9.97 achieved at the begging of February. Finally, the index closed the week down at 10.82.

The rally in risky assets during the week weighted on haven assets as well, producing some volatility. The 10-year US Treasury bond yield closed up 0.04% at 2.28%.

Next week will be busy with more earnings reports and major economic releases. On Wednesday there will be the ISM Manufacturing PMI (consensus 56.4, previous 57.2) followed by the FOMC rate meeting where the consensus expects the target range for the federal funds rate to remain unchanged at 75-100bp. Moreover, there will be the Non-Farm-Payrolls (consensus 185K, previous 98K) and Unemployment Rate (consensus 4.6%, previous 4.5%) on Friday. Finally, attention will still need to be paid on the postponed deadline for government funding.

Eurozone

On the week ended April 28th, 2017, European markets rallied. On Sunday, the first round of the French election took place, with pro-EU centrist Emmanuel Macron finishing first-place, followed by far-right nationalist Marine Le Pen. Polls suggest Mr. Macron will win the second round with a large margin. A Macron presidency would be much more market-friendly – Ms. Le Pen has suggested things like exiting the European Union and redenominating French debt in francs, which would lead to the largest sovereign default in history. The European Commission confirmed that Greece recorded a primary budget surplus of 4.2% of GDP in 2016 – the first such surplus for the country in 21 years.

The DAX closed the week higher at 12,438 from last week close of 12,048, after touching a high of 12,472 as a response to French elections. The CAC 40 followed a similar path, closing at 5267, rallying from last week close of 5059. Finally the FTSE MIB closed at 20,609, rallying from last week close of 19,741.

Euro Stoxx 50 closed the week 2.27% higher, led by big gains in the banking sector, while the broader Stoxx Europe 600 rose 2.37%. The euro rose to a 5-month high of 1.0895 USD. Midway through the earnings season, the Stoxx 600 companies which have so far reported delivered an average increase in earnings of 9.5% and an average increase in sales of 2% - these figures beat expectations by far. After the April policy meeting of the European Central Bank, which kept interest rates and the monetary stimulus program unchanged – and where President Mario Draghi said the "cyclical recovery of the euro area economy is becoming increasingly solid" – government bonds across the Eurozone rallied, with the 10-year German bund yield falling under 0.3%. French 10-year government bond yields fell to 0.83%, with their spread with respect to the German bunds narrowing dramatically

Next week, European markets, with the exception of Denmark, will be closed on Monday, May 1st due to the Labour Day holiday. Major data next week: on Tuesday, German unemployment rate (consensus = previous = 5.8%), Italian unemployment rate (consensus = previous = 11.5%), Eurozone unemployment rate (consensus 9.4%, previous 9.5%); on Wednesday, Eurozone GDP growth rate YoY (1.7% stable) and QoQ (0.5% consensus, 0.4% previous) for Q1 2017 Flash.

UK

Over the course of last week, the most important data concerning the United Kingdom came out on Friday when the GDP Growth Rate (both YoY and QoQ) and Consumer Confidence were released. The actual GDP Growth Rate YoY was 2.1%, higher than the previous 1.9% but lower than the consensus which was 2.2%. The actual QoQ number of the same statistic was 0.3%, significantly smaller than the previous 0.7% and also lower than the consensus which was 0.4%. Finally, the UK Consumer confidence, a survey that measures the level of optimism that consumers have about the performance of the economy in the next 12 months, turned out to be -7, in line with market expectation but lower than the previous -6.

The above-mentioned data was slightly bearish for the overall UK equity market. The FTSE100 started the week in a positive fashion, probably related to the market-friendly outcome of the first round of the French Presidential Election which made clear that the final run-off will be between Macron and LePen, with a Monday closing value of 7,264.68 and hence up 2.11% compared with the previous Friday closing value of 7,114.55. However, some of the gain was lost over the course of the week closing on Thursday at 7,237.17 and on Friday (when the data was released) at 7,208.68, down 0.39% for the day and 0.77% from Monday.

On the fixed-income side, the yield on the 10-year government bond, i.e. the 10-year Gilt, showed a smooth upward trend for the week, closing on Friday at 1.097% and up 6.3 basis points from the previous Friday rate of 1.034%. The sterling closed at 1.1885 EUR, slightly lower than last week close, and influenced by the EUR rallying after the French elections results. With respect to the dollar, the pound slightly appreciated to 1.2951 USD.

To conclude, let's look at the data planned to be published in the near future. Next week is going to be quite calm with no major data coming out, except for Manufacturing PMI on Tuesday, Construction PMI on Wednesday and

Services PMI on Thursday. The week after the next, instead, is going to be pretty interesting with the value of the Balance of Trade and the decisions of BOE on QE and interest rate all scheduled for Thursday 11, May, 2017.

Rest of the World

The Nikkei closed at 19,196.74, up 3.1% when compared to the closing value of the previous week, pushed by a weaker Yen that is expected to favor Japanese exports, especially toward the U.S. The Topix followed a similar path, closing at 1,531.80, 2.9% higher for the week. The dollar touched a 3-weeks high of ¥111.77 against the Japanese currency during the Friday trades; the Yen came under pressure together with other safe heaven assets just after the results of the first round of voting in France.

The market's more optimistic view about French elections outcome helped to release some pressure from other, less safe emerging markets currencies such as Turkish lira and South African rand. The KOSPI Index closed the week up 1.9% at 2,205.44 but still influenced by the tensions with North Korea.

The great underperformer among Asian stock indexes has been the Shanghai Stock Exchange Composite Index, which on Monday lost 1.4% amidst concerns about Beijing putting down speculative trading. During the rest of the week the index rose, closing at 3,154.658 but still unable to recover from the huge loss experienced on Monday.

This has been a turbulent week for the Mexican peso; in the first part of the week the dollar strengthened against the Mexican currency touching on Wednesday 19.1910 MXN. From Thursday on, the dollar eased back some of the previous gains amidst uncertainty about the future of the North American Free Trade Agreement (NAFTA) involving U.S.A., Canada and Mexico.

Oil has been very volatile during the last week, following another rise in U.S. gasoline inventories which is fueling concerns about global oversupply. This contrasted with US oil inventories falling by more than expected in the week to April 21. Hence, the two reference benchmarks West Texas Intermediate Crude Oil and Brent Crude oil closed at $49.33 and $52.05 respectively, almost flat with respect to the closing of the previous week. Gold was put under pressure after the results of the first round of voting in French; the precious metal reported losses for 3 days in a row until Thursday. The commodity closed the week $20.8 down with respect to the closing of the previous week at $1,268.30 an ounce.

Next week on Monday May 1, South Korea will release data about its balance of trade. On Tuesday May 2 there will be the Bank of Japan Monetary Policy Meeting Minutes.