# Market Recap 25/02/18

## US

This week, the main event was the release on Wednesday of the minutes of the Fed's January policy meeting. These confirmed the growing sense of confidence among policymakers over the outlook for the US economy and inflation giving further credit to the hypothesis that the FED will raise the rates sooner and at a higher pace.

Indeed, during the beginning of the week, investors continued to withdraw money out of US equity funds despite a rebound in share prices. Indeed, after the market correction which caused a fall in the S&P500 of more than 10% from its historical peak, according to data from EPFR Global, US equity funds saw an outflow of $2.4bn for the week ending February 21, which adds up to the $6.2bn withdrawn last week. Regardless, the market's focus swings between the anxiety of rising interest rates and the optimism for a growing economy with strong fundamentals. For this reason, the S&P500 gained both on Thursday and Friday rising by 1.6% in the last trading day closing the week at 2747.30 with a weekly gain of 0.7%.

The benchmark 10-year Treasury yield touched a new high for the year on Wednesday, hitting 2.95% - its highest level in four years - while ending the week at 2.87%. It is thus interesting to notice that the Treasuries were also advancing on Friday, despite gains in the equities market; a trend that we are getting used to see much more often lately.

Oil prices were steady after the data from the Energy Information Administration which reported that US crude stockpiles dropped unexpectedly last week. Brent crude, the international benchmark, which climbed 1.5% on Thursday, closed the week at $67.31 a barrel. US marker West Texas Intermediate has edged up by more than 1.4% at $63.57. The dollar index, was up 0.2 per cent at 89.87 as the euro shed 0.3 per cent to $1.2293 and sterling edged up 0.1 per cent to $1.3965.

The week ahead will be characterized by few reports which the market will watch closely to try to anticipate the FED future policies. In particular, reports next week include consumer confidence on Tuesday, pending home sales on Wednesday, and Manufacturing PMI and vehicle sales on Thursday.

## Europe

Several Flash indicators for France, Germany and the Euro-Area in general gathered consumer confidence and other sentiment indicators for February so far, at a lower level than in January. This may have been among the reasons while all major European indices did not recover further from the low a couple of weeks ago. The Eurostoxx 50 closed on Friday at 3.441 points, barely 0.28% up. Increases were even more muted in France and Germany. Closing at 5.317 points, the CAC 40 in France improved by 0.15%, while the DAX index rose by 0.18% to close at 12.484 points. The relevant preliminary February indicators published this week were the ZEW sentiment indicators for Germany and the EA, the IFO business climate and expectations in Germany and finally the Markit composite, services and manufacture flashes which decreased slightly for the EA, France and Germany.

Furthermore, the final inflation figures for January for the EA were published and did not offer clear hints as to where the ECB's monetary policy might be heading. The year on year Euro-Area inflation for January fell slightly to 1.3% from 1.4% before, however the core inflation increased analogously from 0.9% to 1%.

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German 10 year bund yields fell slightly to 0.65%, as did the French 10 year government bond yields which fell to 0.93%. Italian government bond yields on the other hand ended the week yielding slightly more at 2.06%. Overall, however, no major shifts could be observed throughout the week.

In line with the strengthening signs for a FED rate hike and rising US indices, the euro depreciated slightly against the dollar ending the week at $1.2295.

Relevant events to follow in the coming days are various February sentiment and production indicators that will be published throughout the week, but most importantly several speeches by high ranking ECB officials, such as Coeuré, Mersch and Draghi himself in preparation for their next Governing Council meeting on 8 March.

### *UK*

Over the course of last week, the most important data concerning the United Kingdom came out on Wednesday 21st, when the Unemployment Rate was released, and on Thursday 22nd, when the GDP Annual Growth Rate (both YoY and QoQ) for Q4 of 2017 was released. The Unemployment Rate was 4.4%, above the expected 4.3%. The actual GDP Annual Growth Rate YoY was 1.4%, lower than the previous 1.8% and also below the consensus which expected the figure to be 1.5%. It was the weakest pace of expansion since Q2 of 2012. The actual QoQ number of the same statistic was 0.4%, below consensus and previous figure (both 0.5%). In a nutshell, the last-week-data suggests a slight worsening of the UK economy.

On the equity side, the UK market experienced little volatility. Particularly, the FTSE100 closed on Friday 16th at 7,294.70 and over the course of last week it registered a WoW return of –0.8%, with a closing value on Friday 23rd of 7,236.21.

On the fixed-income side, the yield on the 10-year government bond, aka the 10-year Gilt, showed a downward trend for the week, closing on Friday at 1.521%, down 6 basis points from the previous Friday rate of 1.581%.

On the currencies side, the Pound slightly appreciated with respect to the Euro and slightly depreciated with respect to the US Dollar. Indeed, the EURGBP decreased from 0.8840 (previous Friday) to 0.8795 (this Friday) and GBPUSD decreased from 1.4026 (previous Friday) to 1.3984 (this Friday).

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 the GfK Consumer Confidence Index, whose release is scheduled on Wednesday 28th.

### *RoW*

Singapore has announced a range of tax increases as it seeks to boost savings to pay for a rapidly aging population, tax hikes were already expected, but also a surprise hike in property levies. GST will be raised from 7% to 9%, but that will not be until 2021 and 2025, the government will decide depending on the revenue it needs. Despite the rise in GST it will still be among the lowers in Asia. There will be other taxes as well, a tax on imported services like online videos, music streaming websites and the stamp duty on residential properties bigger than S$ 1million increased from 3 to 4%.

India's sovereign bonds had their worst sell off in nearly two decades. The cap on foreign investments in rupee notes, which is set at 5 percent is scheduled to be reviewed by the RBI in March or April. This comes as the 10-

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year yields had risen to a two-year high, India's state-run banks have been getting rid of debt and India's budget deficit widens.

Whereas in Japan, companies are selling super-long bonds as expectations that Haruhiko Kuroda will be reappointed as central bank governor grows, which means even though overseas yields rise, Japan will proceed with its easy monetary policy. Toyota Tsusho Corp. intends to price 20-year notes and Sumitomo Forestry Co. will trade their first 15-year securities.

China's stock market is quite unstable as the rally was due to only a few dominant players which were favoured by investors who were worried that the smaller companies would be compressed by a slowing economy and higher funding costs. Thus, when sentiment turns, the market source of rising momentum disappears, and everyone rushes to exit the same stocks at once. Analysts think that investor's strategies might have turned the market into an ETF and if this continues we will see sharp gains followed by sharp declines. Thus, more volatility will be observed in the already wild Chinese stock market due to this structural imbalance. In addition, President Xi Jinping will have a Communist Party meeting in the next days in order to appoint China's next government, which included monetary and financial regulators.

Commodities finished the week quite strong as gold is at $1329.50, it is up 2.1% in the year. WTI is up 1.47% at $63.57 a barrel.

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