Weekly Market Summary

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Major Market Themes For This Week
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This week has/will witness major market developments that could have profound and long-lasting impact on financial markets & instruments. Below is a short summary of 3 main stories we are tracking closely at our end (and will continue to do so for the coming days/weeks):

- US President Donald Trump's top economic team unveiled yesterday what they referred to as the biggest tax cut in US history, suggesting a sharp reduction in corporate taxes and a simplification of individual rates they said would lead to major economic growth. Steven Mnuchin, the Treasury secretary, said the proposal would slash corporate taxes from 35% to 15% and include a "one-time" cut-rate tax to induce companies to repatriate trillions of dollars of profits held overseas (US companies have an estimated US$ 1.2 trillion stranded in offshore cash piles, money they do not want to bring home because it would be taxed at 35% under current law!). "*This is going to be the biggest tax cut and largest tax reform in the history of our country*," Mr. Mnuchin stated. But Mr Trump's economic team conceded they had yet to nail down the details of their plans with lawmakers on Capitol Hill, where the Trump administration's aggressive push on the eve of the president's 100th in office has already rattled both Republicans and Democrats in the House and Senate. The package would be hugely costly if it ever saw the light of day - suggesting that it was more a mechanism for signalling the direction the administration wants to take, rather than a detailed set of proposals. Estimates from the Committee for a Responsible Federal Budget suggest the measures would cost US$ 5.5 trillion over a 10-year period, with the corporate tax cut the most expensive measure. Promising the most radical reforms in 30 years, Gary Cohn, the former Goldman Sachs executive who is now chief White House economic adviser, said: "*We have a once in a generation opportunity to do something really big*". Despite the ambitious headline measures, both Mr. Cohn and Mr. Mnuchin acknowledged there were few details of how many of the new measures would be implemented, including what incomes would be subject to the new individual rates. The discounted tax rate for repatriating corporate taxes was left similarly vague. Also among the biggest holes: How the tax cuts would be paid for. The S&P 500 had been heading towards its highest ever closing level but deflated quickly after the presentation, ending the day down 0.1%. Similarly for the USD which retraced most of its gains after a brief initial rally. Treasury bonds rallied (higher prices, lower yields) after the plan was unveiled, highlighting how investors think there is little chance of it being enacted.

- The Bank of Japan (BOJ) met earlier this morning and opted to keep its stimulus policies unchanged (the decision was voted by a majority of 7-2), while lowering its inflation forecast. Japan's central bank said on Thursday it would keep overnight interest rates at -0.1%, cap 10-year bond yields at about 0%, and continue to purchase government bonds at a pace of ¥ 80 trillion (US$ 720 billion) a year. The steady-as-she-goes message signals the BOJ's determination to sustain its monetary stimulus and suggests that any exit from its unprecedented monetary easing remains far away. The central bank will continue to use its two policy rates and asset purchases to spur prices higher, it said in a statement today. The decision was expected by almost all economists surveyed by Bloomberg. The BOJ made a small increase to its growth forecasts for this fiscal year and next (reference made to Japan's economy turning towards a moderate "expansion"). Whilst global demand is supporting exports and contributing to modest economic growth, four years of extraordinary monetary stimulus is generating only the smallest of increases in prices. Still, analysts surveyed by Bloomberg do expect that the BOJ's next step will be tightening, rather than further easing of its policy. This is because many expect consumer prices to pick up somewhat later this year, thanks to rising oil costs and the relatively weak Japanese yen. The yen was trading little changed at ¥111.1 against the dollar following the BOJ decision. The Topix share index was down two points at 1,535.

- The European Central Bank (ECB)* risks opening up old divisions later today when its governing council meets to decide on changes to monetary policy in the Eurozone. ECB governors will also assess the consequences of Emmanuel Macron's performance in France's presidential election and the increasing health of the Eurozone economy. A projected win for Mr. Macron in the run-off May 7th could also encourage the council's hawks — led by German officials - to call on ECB President Mario Draghi and his chief economist Peter Praet to start talking seriously about reining in the Bank's record-breaking monetary stimulus. The rate announcement (benchmark refinancing rate kept unchanged at a historic low of zero) will be at 14:45 pm Bahrain time, but more importantly Mr. Draghi's opening statement and responses to journalists' questions will come 45 minutes later (15:30 pm Bahrain time). A big question is to what degree the council thinks a win for Mr. Macron will change the economic outlook. At stake is whether Mr. Draghi now adjusts the customary reference in his opening statement about risks tilted to the downside and declares instead that such risks are now "*balanced*". Until now the council has resisted dropping this note of caution despite signs that the recovery is becoming stronger and broader. Instead, it has shown a strong commitment to low rates and a possible further expansion in its quantitative easing programme from the current level of € 60 billion of purchases each month should those risks to the recovery become reality. If Mr. Draghi did indeed ditch his talk of the downside, it would mark an important step towards a real debate on tapering, or even phasing out, Quantitative Easing (QE). European growth has exceeded expectations despite the political uncertainty - especially in the Eurozone. Surveys of business confidence are at multi-year highs, unemployment is falling - though it remains much too high for the region's youth and in parts of the region's periphery, while inflation has picked up. Headline inflation is expected to come in at 1.8% cent this month - just shy of the ECB's target of below but close to 2%. EUR/USD last at 1.0905.

*****_As widely expected by markets, the European Central Bank met this afternoon and kept interest rates unchanged at record lows. It also maintained its quantitative-easing program as officials monitor the economic recovery and the risk of political turbulence in the region. Overall, the tone from the ECB seems a little more optimistic on the economic recovery but still dovish to neutral on monetary policy_

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