Weekly Market Summary

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Top Market Themes - July 2018
Fadi Nasser - Deputy Chief Investment & Treasury Officer

Several themes have been driving markets in past weeks, despite the recent quiet and dull summer trading – that is going hand in hand this year with little traders' convictions! The most important and solid one seems to be **investors' renewed appetite for the USD** (US Dollar Index is last trading at 94.85, up 6.5% from lows seen 1Q 2018) on the back of solid US growth, rising inflation and growing rate hike expectations. Unless today's GDP release disappoints significantly on the downside (market consensus is for a very solid 4.2% 2Q18 number and President Trump commented yesterday that the data will be "*terrific*"!) or Donald Trump tweets something stupid over the coming days (highly likely ☹), the constructive USD view should most likely remain in place for now. Next week's data (US personal income/spending, ISM manufacturing and the all-important Non-Farm Payroll) should further confirm that the domestic economy is in a very good shape, whilst the upcoming Fed meeting (August 1st) should point at broad support for one or two more rate hike(s) later this year. Markets will also surely focus on Trump's future stance towards the US Federal Reserve - after his latest harsh criticism with regards to the US central bank choking-off growth by setting rates too high - for more clues as to the near-term outlook for policy.

Other important themes that are closely tracked by fund managers and traders include:

- ***Tensions Burst at the WTO:*** At a World Trade Organization meeting yesterday, the US and China clashed - with Washington demanding reforms to make the Chinese economy more responsive to market forces. Beijing's response was defiant, rejecting heavy-handed US tactics. "*Extortion, distortion or demonization does no good to resolve the issues*," Ambassador Zhang Xiangchen said Thursday in Geneva. "*Holding our feet to the fire has never worked.*" The Chinese government has drawn up plans to retaliate against any additional U.S. tariffs, regardless of the volume of goods targeted, another Chinese official said at an event in Beijing. From his part, U.S. Trade Representative Robert Lighthizer noted in a Senate testimony that "*we clearly have a chronic problem with China*," estimating that trade issues with Beijing will take years to resolve. And whilst the Trump administration and European Union (EU) negotiators have agreed Wednesday evening on a temporary truce to prevent further escalations in their trade war, the relief on that front could at best be seen as short-lived with numerous institutional and regulatory hurdles standing in the way, not to mention Trump's never-ending changes of heart!

- ***The ECB's Latest Policy Settings***: The European Central Bank stuck to its plan to end bond purchases as the Euro currency bloc's economic expansion remained solid and the European Union and U.S. stepped back from a trade war. The Frankfurt-based institution reiterated it will continue buying 30 billion euros ($35 billion) of assets a month until the end of September, reduce the pace to 15 billion euros from October to December, and stop additional purchases by year-end. The ECB also pledged to keep interest rates unchanged "*at least through the summer of 2019*" (one has to envy those guys for such a long & confident visibility on inflation and other EU economic parameters!☺) and repeated that additional support will come from its policy of reinvesting maturing debt, without going into much detail. While risks from an emerging-market crisis to Italian politics - or a late idiotic night tweet by U.S. President Donald Trump - could still unsettle the Euro region, the ECB chief appears quite comfortable with the Governing Council's decision to continue on the path to ending extraordinary stimulus given high levels of business and consumer confidence, expanding credit, falling unemployment and improving inflation.

- ***UK May's Brexit Options Narrow:*** UK Prime Minister Theresa May's Brexit options narrowed in the past 24 hours after the European Union teared up her customs plans. The EU rejected a key part of May's proposal for a trade deal with the bloc, sending her back to the drawing board with just 12 weeks to go until a divorce deal is meant to be signed (late October's planned vote by the UK Commons and Lords on the final withdrawal treaty. Not to be confused with the March 29th, 2019 deadline for the UK to officially leave the EU). May thought her customs proposal was the best hope of getting a Brexit deal she could also sell to a divided Parliament in London. But in a blunt and public critique, chief EU negotiator Michel Barnier said he will never accept her plan. Now, she is boxed in, with all options bringing the risk of her being ousted, and increasing the chances of Britain tumbling out of the bloc with no deal at all. Barnier even suggested one way out of the impasse would be for the U.K. to stay inside the EU customs union, though that would enrage parts of her Conservative Party and mean May having to renege on her repeated promises to leave it. "*I have always said the EU is open to a customs union*," Barnier told reporters as he stood next to U.K. Brexit Secretary Dominic Raab in Brussels in the first full news conference the two have held since the new UK minister took over from David Davis on July 9th.

- ***G-20 & IMF Recent Warnings:*** The world's top finance chiefs – meeting last Sunday in Buenos Aires, Argentina – noted that trade tensions threaten global growth as the engines of leading economies fall out of sync. Global growth remains robust and many emerging-market countries are better prepared to face crisis, but risks to the world economy have increased, finance ministers and central bankers from the Group of 20 nations said at the end of their summit. Trade dominated discussions over the weekend after U.S. President Donald Trump threatened on Friday to levy tariffs on additional imports from China worth billions of dollars. French Finance Minister Bruno Le Maire urged the U.S. to return to reason and said the EU would not negotiate trade issues "*with a gun to the head*." That message was very much in line with a an assessment by the International Monetary Fund (IMF) the next day, which warned that escalating trade tensions are threatening to derail a global upswing. The IMF report added that the latest growth pickup is already losing momentum amid weaker-than-expected growth in Europe and Japan, as financial markets seem complacent about the mounting risks (however the IMF kept its global forecast unchanged in the latest update to its Global Economic Outlook). The world economy will grow 3.9% this year and next, the Washington-based group said. While the pace this year would be the fastest since 2011, cracks are forming in the growth picture with GDP appearing to have peaked in some major economies. Also the boost from U.S. tax cuts and spending increases is expected to fade soon according to the same report.

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