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Smart[im]: Weekly Market Review

03 August 2018
Smart Investment Management

The week to date as at 12 p.m. Friday (GMT).

Markets and key events

Global equities were unsettled at the end of the week, once again caused by fresh concerns of an escalating global trade war. On Thursday, Asian and European stocks came under pressure after reports that President Donald Trump is considering increasing proposed tariffs on $200 billion of Chinese imports to 25%, from 10%.

On the day, the Shanghai CSI 300 index dropped as much as 3.6% whilst the Hong Kong Hang Seng fell 2.6% to its weakest level in 10 months. The Eurostoxx 600 declined 0.8% on Thursday, but as of 12pm today, recovered, now higher by 0.7%. US equities were more resilient with the S&P 500 finishing up by 0.73% over the week. US indices were especially boosted by Apple, which became the first company to reach a market capitalisation of one trillion US dollars, boosted by robust iPhone sales as announced in the latest quarterly earnings.

In economic news in the US, Manufacturing growth moderated with the Purchasing manufacturing index slowing to 58.1 from 60.2 in the month prior. A reading above 50 still indicates an expansion in economic activity. Furthermore, investors are awaiting non-farm payroll figures released later this afternoon. The US economy is expected to add 193,000 jobs in July.

UK and Europe

In the UK, headlines were dominated by the Bank of England's decision to raise interest rates, to their highest level in over a decade. The main interest rate was increased by 0.25% to 0.75%, with all 9 members of the Monetary Policy Committee voting unanimously for the rise. Although the central bank cited higher employment with real wages picking up, Mark Carney the Governor of the Bank of England, sounded notably cautious in the press conference insisting that rates rises would still be gradual. Sterling immediately rose on the decision, but after the Governor's comments, declined 0.7% on the day against the US dollar to $1.3034.

This week also saw a raft of economic data releases for the Eurozone. Notably, the Eurozone economy grew at its weakest rate in almost 2 years. Initial readings showed that GDP expanded 0.3% below expectations for the second quarter. Meanwhile, the Eurozone headline inflation rose above target to 2.1% year on year to July. However, the European Central Bank expects rising prices pressures to weaken in the coming months as the sharp rise in oil prices falls out of the yearly calculations.

Asia Pacific

Given the deepening rift between Washington and Beijing, the Chinese Renminbi faced further pressure this week, with the currency falling to a fresh one year low. The onshore renminbi exchange rate is trading at Rmb6.8675. This came on the same day that China's services sector growth visibly slowed for July, as business confidence remains dented by the US-China trade war. The China Caixin-Markit services purchasing managers' index fell to 52.8, down from 53.9 in June and closer to the 50-point mark separating growth from contraction.

Elsewhere, in Japan, the central bank made a slight tweak to their ultra-loose monetary policy on Wednesday. The Bank of Japan (BoJ) remains committed to maintaining extremely low interest rates, however, they made changes to the level it will allow government bond yields to rise. In order to make the stimulus programme more sustainable, 10-year Japanese Government Bonds (JGB) yields will be allowed to rise up to 0.2%, doubling the previous range. On the announcement, 10-year JGB yields which move inversely to their bond price, jumped 6 basis points to 0.12%.

The Australian ASX/S&P 200 ended the week lower by 1%, posting its first loss in three weeks. Miners (Materials) was the worst detractor for the sector, due to continuing trade concerns between the US and China. Miners, a key exporting sector to China, declined 2.4% over the week.

Fixed Income

Following the jump in the 10-year JGB yield, global bonds followed suit. The 10-year German bund yield rose 2 basis points to 0.46% whilst the 10-year US Treasury yield rose above 3%, also on the news that the US government would increase its borrowing from the bond market in the next quarter. The yield on the 10-year Treasury is currently trading at 2.98%. Away from core government bonds, short term Italian government debt sold off sharply, over renewed political uncertainty. Ministers are expected to meet later today to discuss Italy's budget for next year, but the coalition government remains split about its spending plans. The yield on Italy's two-year bond is up 27 basis points to 1.224%, after already rising 17 basis points on Thursday.

Commodities

As of 12pm London time, Brent crude oil is trading at $73.38 per barrel. According to the Energy Information Administration U.S. crude oil inventories rose unexpectedly last week by 3.8 million barrels, ahead of an expected decrease.