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Smart[im]: Weekly Market Review

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Smart Investment Management

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

Markets and key events

World equity markets remained subdued amidst continued uncertainty over the potential for an escalating global trade war. Matters escalated further overnight, as the US imposed tariffs on $34bn of imports from China. The 25% tariffs target a range of industrial products, and China have vowed to retaliate. This worrying trade stance from the US has weighed heavily on Asian and Emerging equity markets, with the Chinese Shanghai composite falling 3.52%, whilst the MSCI Emerging market index fell 1.42%.

The Chinese currency, the Renminbi, also faced pressure given the trade dispute, and reached approximately CNY 6.70 against the US dollar, having already fallen 3.3% in June. The speed and size of the currency's move prompted the country's central bank to publicly issue a statement in order to calm currency markets.

In other news this week, in the United States (US), investors wait in anticipation for non-farm payrolls data due later on Friday. Market participants continue to scrutinise the US economy for any build up in inflationary pressures and the consequent impact this may have on the pace of monetary tightening ahead. Data is expected to show the creation of 195,000 jobs in June, whilst the unemployment rate is expected to hold at its 18-year low of 3.8%.

As of 12pm London time, elsewhere, the FTSE All Share declined 0.69%, whilst the Eurostoxx 600 and S&P 500 finished the week in positive territory, up 0.41% and 0.67% respectively.

Europe and the United Kingdom (UK)

A raft of economic data was released for the Eurozone this week. Amongst the most notable data, optimism for the Eurozone economy rebounded, highlighted by the improvement of the services sector. The service PMI (purchasing managers' index) rose to a four-month high of 55.2, up from May's reading of 53.8. Any reading above 50 indicates an expansion in economic activity. Moreover, German factory orders also expanded for the first time in 5 months, up 2.6% for May.

Meanwhile, in the UK, Sterling rose significantly to hit a peak of $1.3267 on Thursday, after the Bank of England Governor, Mark Carney, remarked that the UK economy could bounce back after a slow start to 2018. According to the Governor, weak Q1 GDP data was suggested to be influenced more by poor weather, rather than economic weakness.

Asia and Australia

The Japanese Topix fell 2.27% given trade worries in the region. The second quarter Tankan survey which monitors business sentiment, also edged lower according to the Bank of Japan. The large manufacturers' index was plus 21, down from plus 24 in the previous quarter. Higher readings suggest more robust economic growth.

Although the broader Asian Pacific equity market declined this week, by 1.73%, one area to buck the trend was Australian equities. Over the course of the week the Australian S&P/ASX 200 rose 1.25%, aided by the finance sector, which gained 2% off the back of positive performances from Australia's four big banks. Meanwhile in economic news, the Reserve Bank of Australia left its main interest rate unchanged at 1.50%. The reference rate has now stayed the same for the 23rd straight month, with the central bank citing that until it is confident that unemployment is falling enough and inflation rising, policy rates will remain unchanged for the foreseeable future.

Fixed Income

Core government bonds were largely unmoved this week. US 10-year treasury yields, which move inversely to their bond price, declined just 3 basis points over the period. 10-year equivalent UK Gilts and German Bunds moved even less overall, with yields for the bonds declining only by 2 basis points and 1 basis point respectively.

Commodities

Oil prices ended a volatile week trading lower, as Brent Crude declined 3.54% over the period to $76.63 per barrel. Part of the decline was attributed to data that showed an unexpected rise in US oil inventories. According to the Energy Information Administration, US crude stockpiles, had risen by 1.2 million barrels in the week ending June 29th.