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Smart[im]: Weekly Market Review

09 November 2018
Smart Investment Management

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

Markets and key events

This week, global stocks carried on recouping losses from October's brutal sell off. On Wednesday, US midterm elections went underway, determining control over Congress, the legislative branch of the US government. Results matched market expectations as control of the House of Representatives switched from Republican to Democrat control, whilst the Republicans maintained control of the Senate. With the House of Representatives no longer under Republican control, it is more likely that the President's further fiscal stimulus or tax agenda will blocked by the Democrats. US Stocks looked past the election results as the S&P 500 rose strongly by 3.08% over the week. However, the US dollar did weaken marginally to a two-week low. The US dollar index, a measure of the currency against a basket of global peers, fell from 96.05 to 95.68.

Besides the political news, the rebound in global markets did cool somewhat at the end of the week after the US Federal Reserve (Fed) remained on track to raise interest rates further. Though the Fed held rates steady this week, they pointed to a more bullish US economy, thus leaving the possibility of a further hike in borrowing costs in December. As of 9am London time, elsewhere in Europe, weekly gains moderated, with the FTSE All share lower by 0.05%, and the Eurostoxx 600 up 0.42%. Meanwhile, the Japanese Topix is higher by 0.86%, though the Chinese market continues to struggle as the Shanghai Composite returned -2.9% for the week.

Europe and the United Kingdom (UK)

The IHS Markit Service sector Purchasing Managers Index (PMI), a leading indicator of activity in the service sector, showed that for October, the UK's most dominant sector had slowed to a reading of 52.2 from 53.9 in the previous month. A survey reading of greater than 50 indicates expansion in activity. Respondents to the survey cited that uncertainty over Brexit negotiations, as well concerns over a slowdown in global growth, had reduced demand for business services.

Meanwhile, Sterling continues to be incredibly sensitive to any news regarding the Brexit outcome. This time, Sterling reached a peak of $1.3133 after reports suggested that a Brexit deal could be agreed by the end of the month, though the currency finished the week as of 9am London time at $1.3021.

In Europe, Italian debt remains under pressure given uncertainty over the country's proposed 2019 budget. Yields on the 10-year debt, which move inversely to their bond price, rose by 9 basis points to 3.41%. The European Commission continued to object to the budget proposals, as the Commission published their economic forecasts for the next year. The Italian coalition government have proposed an increase in the public deficit to 2.4% of GDP. However, considering all the new policies that Rome wants to put forward, the European Commission have forecast Italy's 2019 deficit to be 2.9%, followed by a potential breach of the EU's threshold of 3% in 2020.

Asia Pacific

Despite the trade disputes between the US and China, Chinese exports and imports grew strongly last month. Chinese exports to all countries grew 15.6% in October in US dollar terms from a year earlier, while imports rose 21.4% annually. The impact of tariffs are being counteracted by a weaker Renminbi, helping the attractiveness of Chinese exports, whilst a robust US economy has boosted demand for Chinese exports to the US, which rose by 13.2% year on year. This news

comes at a time where the US president has been far more conciliatory towards Beijing, in anticipation of potential discussions at the G20 summit later this month.

In Australia, the S&P/ASX 200 generated strong returns of 1.24% over the week. Financials and telecoms led the market, though the most significant news this week was the central bank once again leaving its main interest rate unchanged at 1.50%, now for the 27th consecutive month. The Reserve Bank of Australia (RBA) held the rate unchanged again, this time largely down to low household spending, citing uncertainty in the economy.

Fixed income

Major developed market government bond yields remained mostly unchanged over the week. In the US, 10-year treasury yields are trading at 3.207%, whilst equivalent German bund yields only rose by 3 basis points to 0.431%. 10-year Gilts yields are trading at 1.538% as of 9am London time.

Commodities

Crude oil prices struggled near an eight-month low as investors focused on growing global crude supply, which is increasing faster than many had expected, even with recent US sanctions on Iranian oil output. As well as supply from Iraq set to increase, after they are set to restart oil exports from the disputed territory of Kirkuk, US supply has also been increasing at faster rates. The US Energy Information Administration announced crude inventories rose by 5.8 million barrels for last week, up 3.2 million for the week prior. Overall, Brent Crude oil was down 3.23%, to $70.48 per barrel. West Texas Intermediate Crude was also trading lower at $60.4 as of 9am London time.