

## Smart<sup>im</sup>: Weekly Market Review

13 April 2018

Smart Investment Management

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

### Markets and key events

Markets recovered this week as investors appeared to take a more optimistic view over fears of a potential trade war between China and the US. The Chinese President, Xi Jinping, delivered a broadly conciliatory tone in a speech at the Bo'ao Forum for Asia, promising to open China's economy further by reducing barriers to trade and investment. Investors' concerns over rising tensions in the Middle East and Syria also subsided by the end of the week, after President Trump toned down his rhetoric over a proposed missile attack in Syria, in response to alleged chemical attacks. The de-escalation in tone, helped global equity markets finish on a positive note.

Elsewhere, US markets' attention has turned to first quarter earnings season, with commentators expecting an upgrade in results off the back of corporate tax cuts agreed at the end of last year. As of 12pm London time, the majority of markets finished higher this week, with the S&P 500 up by 2.29 % over the week. The EuroStoxx 600 index is also higher by 1.49%, United Kingdom's FTSE All Share gained 1.20% and the Japanese Topix index rose 0.59%. Asian and Emerging markets also rebounded from last week, with the MSCI Emerging markets up 1.28% and the Chinese Shanghai Composite index rising 0.89%.

### Europe and the United Kingdom (UK)

This week saw the release of trade data and industrial production figures amongst the Eurozone and the UK. Europe is beginning to see an extended decline in industrial output given that Eurozone industrial production has now fallen for a third straight month, with output falling 0.8% for February following a 0.6% drop in the prior month. The UK also surprised economists as industrial output fell 0.2%, rather than economists' prediction of a 0.2% rise. This month's decline in the UK is the first in almost a year, and has been attributed to weaker manufacturing and mining production.

Regarding trade data, notably, Germany's February exports declined the most in more than two years amid fears of trade wars. Exports fell 3.2% month on month, whilst imports also declined 1.3%. The German trade surplus has now decreased on a seasonally adjusted basis from €21.5 billion a month ago to €19.2 billion. Elsewhere, the UK trade deficit narrowed to a 5-month low. The goods shortfall was £10.2 billion after a £12.2 billion deficit in January.

### Asia and Australia

China's inflation figures cooled in March with Consumer Price Index (CPI) reading at an increase of 2.1% year on year, down from February's gain of 2.9% annually. The decline however, is most likely because of the abnormally high February figures, which saw a spike in tourism and transports costs during the Lunar New Year holidays. Producer prices gained an annual 3.1% which was also down from 3.7% in the previous month.

Amongst the back drop of growing US-China trade tensions, China also posted its first trade deficit in over a year, of \$4.98 billion. In dollar terms, exports fell 2.7% year on year for March whilst imports rose 14.4%. The figures were wildly different from analysts' forecasts of a \$27.21 billion trade surplus.

The Australian S&P/ASX 200 posted its second consecutive weekly improvement to finish higher by 0.7%. Miners lead the market as trade tensions eased between China and the US. In other news, the RBA (Reserve Bank of Australia) released its

financial stability review. The central bank noted that the Australian financial system remains 'favourable', and in particular highlighted the strength of Australian banks given their rising capital ratios.

## Fixed Interest

As investors shrugged off geopolitical risk this week, the demand for perceived safe havens fell as benchmark US treasuries sold off. The 10 US Treasury yield, which moves inversely to its price, rose by 6 basis points over the week. Equivalent 10 Year German Bund yields and UK Gilt yields also rose 3bps and 6 bps respectively.

## Commodities

Oil prices were in focus this week, given tensions in the Middle East. The oil price faced a volatile period after Trump declared he would fire missiles "soon" into Syria, before backtracking on his statement. Brent crude oil reached its highest price in nearly four years, trading above \$73 a barrel.

Oil prices were also supported by news from the International Energy Agency that oil stockpiles amongst industrial nations had shrunk dramatically over the past year to 2.8 billion barrels as of February. According to the IEA, this only 30 million barrels above the five-year average.

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