Market Recap 19-02-2017

United States

On the week ended February 17, 2017, US stocks closed at record highs as investor sentiment remains positive given the possibility of changes to US corporate tax structure, as well as the likely loosening of regulations. The Dow Jones Industrial Average increased by 1.4% to 20,624, while the S&P500 increased by 1.2% to 2,351. The NASDAQ closed at 5,838, gaining 1.4% over the week. The VIX volatility index surged on Thursday, but ended the week unchanged at around 11.5. The Fed Chair Janet Yellen said, in a congressional testimony, that it would be risky to wait too long to raise rates, sending the US 10yr Treasury yield to 2.52% on Wednesday, but ending the week steady at 2.42%. US bonds, represented by the iShares Core US Aggregate Bond ETF, remained practically unchanged.

US sales data were released this week. January retail sales rose 0.4%, while December sales were revised up to 1% from a previously reported 0.6% advance. Consumer prices became firmer, while the Philadelphia Fed's manufacturing index soared to a 33-year high, further pushing investor optimism.

Next week – a shortened one given the President's Day holiday in the US – data on the Purchasing Managers' Index (PMI) will be reported on Tuesday. The Fed's January meeting minutes will be released on Wednesday.

Eurozone

This week's major talks in the Eurozone again concerned the Greek bailout and French election uncertainty. Greece's sluggish Q4 growth estimate of only 0.2% YoY underscores the debt relief problem, whilst French politics was reflected in the CAC 40 decreasing by 32 points, or 0.7% on Friday.

The Eurostoxx 600 seemed largely indifferent to this week's events and reports, ending only 0.03% up on Friday, at 370,22.

The stagnant development may derive partly from a drop in Eurozone industrial production by 1.6% in December MoM. It reflected a contraction of capital goods production, energy output and non-durable consumer goods production. Ireland and Germany were the drivers of the contraction, whilst Malta, Greece and Italy recorded the strongest positive figures.

GDP Growth for Q4 in Germany is estimated at 0.4% QoQ only, which alongside the industrial production drop and slower growth in Italy and Portugal for Q4 contributed to a downward revision of the Eurozone growth estimate for Q4. The QoQ estimate was lowered to 0.4% from 0.5% and the YoY estimate to 1.7% from 1.8%.

More positive news came in from the Eurozone Balance of Trade and Current Account of December, which rose to surpluses of €28.1 billion and €47 billion, respectively. Despite an increase in the Current Account surplus, the Euro depreciated a further 0.54% to no more than 1.0616 USD.

Headwinds and deceleration are apparently expected in the Eurozone, as the overall and German ZEW Economic Sentiment Index for February came in at 17.1 and 10.4 respectively, both significantly below the previous results.

In the fixed income market the German 10y bund remained stable at 0.3%, whilst France's 10 year bond returns 1.03%, Italy' respective bond 2.17% and Greece's 7.58%, all slightly up from last week's figures. Again the reason may be found in French elections nearing, Italy's unstable banking sector and the approaching deadline for Greece's bailout agreement with its creditors.

Next week's relevant news will regard consumer confidence and PMI for the Eurozone, Germany and France, alongside the January inflation figures for the Euro area.

UK

UK CPI Inflation hit 1.8% in January, up from December's 1.6% but short of analyst expectations. It is expected to reach 2.8% by next year as the effects of the weaker pound feed through to consumers. On a positive note, Wednesday's employment statistics show that in Q4 2016, UK employment hit 74.6%, its highest level in recorded history. The unemployment rate stuck at 4.8%, its lowest since 2004.

British equity had a relatively positive week with FTSE 100 growing 0.6% to 7299.96.

Data released on Friday shows that British retail sales unexpectedly fell 0.2% in January, far short of analysts' expectations of a 0.7% increase. Pound Sterling suffered from this news, with GBP/EUR falling 0.46% over the week to 1.1697 and GBP/USD falling 0.66% to 1.2414, after reaching a high of 1.2585 on Thursday. 10y Gilt yields also declined, falling to 1.21% from 1.26%.

Rest of the World

Due to supply disturbances caused by a strike that erupted at the world's largest copper mine and an aggressive demand from China, Copper has been rallying recently. Rio Tinto Group also seems very optimistic regarding iron ore prices, which rose to its highest level since mid-2014, and are said to not come down any time soon. There is also great talk about governments spending in infrastructure projects especially in the US, which also aids the strengthening for the demand of iron ore. On the other hand, sugar traders might have to fasten their seat belts, as their prices are heavily based on the weather this year, since global stockpiles are believed to drop to their shortest level since 2011. In a more positive note, as cocoa supplies experience a boom, couples must have taken advantage of cheaper chocolates at Valentine's Day.

In the attempt to help strengthen the Yuan, monthly data showed China's holding of US treasuries, notes and bills have fallen to a record low. According to TIC data, China held 1.06 trillion dollars in US government debt in December, which is up 9.1 billion dollars from November, however down 188 billion dollars from 2015.

The MSCI Asia Pacific Index lost 0.30 percent on Friday and as the yen strengthened, Japan's Topix index fell 0.40 percent. MSCI Emerging Market Index is down 0.70 percent.

Crude oil is currently 53.36 dollars a barrel, up 0.47 percent, while WTI crude oil futures was 53.37 dollars on Friday.