Market Recap 07-05-2017

United States

The S&P 500 closed the week at $2,399.29, a record high and up 0.63% when compared with the close of the previous week. During the week several important announcements have been released; first of all the Federal Reserve decided to leave interest rate unchanged at 0.75%-1.00% following the slowdown in growth experienced by U.S. economy during the first quarter.

This slowdown has been described as "temporary" and thus leaves much space for a possible hike next month even though the severity of this slowdown may affect the total number of hikes expected during this year (which is currently between 1 and 2). Indeed, the probability of a hike in June implied in the Federal Funds Futures contracts jumped from about 67% to 80% during the week, also pushed by the U.S. non-farm payrolls report that reported greater than expected creation of jobs during April. The other major U.S. equity index, the Dow Jones Industrial Average closed the week at $21,006.94, just 163 points under its all-time high of $21,169.11. In general, U.S. equity indices rallied on Friday after an almost flat week, due to the rebound in Oil price which has fallen to $48.38 (a 5-months low) before closing at $49.10.

On Tuesday, after the close of the trades, Apple released its quarterly results. The company reported an unexpected drop in iPhone sales but overall earnings per share greater than expected. Analysts interpreted these results with disappointment and all the technology sector was put under pressure. Apple shares lost 2.2% before closing the trading day just 0.3% lower than the opening.

The 10-year US treasury yield opened the week 4 basis points down at 2.29%. The yield closed the week higher 6 basis points at 2.35% thanks to the expectation of an increase in target Federal Funds Rate next month. Overall, economic data recently released suggest an improving in fundamentals and the catch up of inflation toward its 2% target level. This is why the above mentioned slowdown is seen as just temporary.

Regarding the Forex, the dollar index opened the week 0.1% down at 98.99 and closed at 98.65, almost flat and insensitive to all the monetary policy and job creation news of the week. This is viewed as a consequence of the uncertainty about the long-term path of U.S. interest rates. The Euro/USD closed the week at 1.0998 USD, slightly up thanks to the relief of the uncertainty linked to French presidential elections.

Next week other important data will be released; on Monday the Consumer Inflation Expectations and on Friday other inflation related data such as the United States Core Inflation Rate.

Eurozone

This week, Europe saw the final debate between Marine Le Pen and Emmanuel Macron before the 2nd round of the French election on Sunday. Macron is believed to have won the debate and opinion polls are now evaluating his chances at 68:32. This, together with slower economic growth from across the Atlantic that now makes the investors question the three Fed rate hikes in 2017, raised euro to just below 1.10 USD on Friday, highest in almost six months.

German and French 10-year government bonds rose 2 basis points on Friday to reach 0.42% and 0.82%, respectively, while Italy's yield fell by 9 points to 2.17%. Greek 10-year bonds closed at 5.84% to report a weekly percentage change of -1.99% after the preliminary agreement on a set of reforms was achieved by parties including

ECB, IMF and the European Commission. The revised expectations of Greek GDP growth for 2017 had the number falling from 2.7% to 2%.

Greater confidence in Macron's win following the debate had been driving the European markets up, all of which continued the upward trend from the week before. French CAC 40 and Italian FTSE MIB saw the largest increase over the week by 4.24% and 3.13%, closing at 5469 and 21484, respectively. German DAX ended the week at 12817, resulting in a 2.24% gain.

On Tuesday and Wednesday, unemployment rate data was released. This figure for the EU in March was equal to 9.5% more than the consensus of 9.4%, while the German unemployment rate in April turned out to be the expected 5.8%, unchanged from the previous value. The March unemployment rate in Italy increased 20 basis points from the previously expected 11.5%. The first quarter GDP growth rate in the EU was 1.7% YoY and 0.5% QoQ, both living up to the analysts' expectations.

Next week's major announcements include, on Tuesday, Germany's Balance of Trade data for March (previous €19.9 billion, forecast €24.5 billion); on Friday, Germany's GDP growth rate YoY (previous 1.2%, consensus 1.7%) and QoQ (previous 0.4%, consensus 0.7%), flash data for the 1st quarter; European Industrial Production MoM (previous -0.3%, consensus 0.3%) and YoY (previous 1.2%, consensus 2.3%) for March.

UK

Over the course of last week, the most important data concerning the United Kingdom was the Purchasing Managers' Index surveys results. The Manufacturing PMI came out on Tuesday, Construction PMI on Wednesday and Service PMI on Thursday; the data respectively shown 57.3, 53.1 and 55.8, well above estimates. Previous data (54.2, 52.2 and 55) had lower figures in all of the above-mentioned sectors.

The data was bullish and as oil prices came fighting back from heavy losses, the FTSE 100 index, a commodity-sensitive benchmark, closed up 0.7% at 7,297.43, its highest finish since April 13. On the fixed-income side, the yield on the 10-year government bond, i.e. the 10-year Gilt, continued the upward trend during this week, closing on Friday at 1.117% and up 11 basis points from the previous Friday rate of 1.097 %. The sterling closed at 1.1801 EUR and, with respect to the dollar, 1.2983 USD.

To conclude, let's look at the data planned to be published in the near future. Next week is going to be very important. The BOE is going to deliver the decision about QE and interest rate, scheduled for Thursday 11. No major changes are expected, but the inflation report might deliver interesting information about the health of the British economy. The trade balance with non-EU countries is expected to be £-11.56bn and Manufacturing production data is expected to be disappointing.

Rest of the World

Most markets in Asia joined the widespread euphoria this week and continued the climbing. The Nikkei was up by 1.9% at the end of the week, reaching 19,445.70, being accompanied by a continuing depreciation of the yen with respect to the dollar, with the yen buying 112.71 USD as of markets close on Friday. Furthermore, Japan's Prime Minister Shinzo Abe, South Korea's former president Park Geun-hye and China's President of the State Council Le Keqiang reassured their combined efforts in favor of free trade on Friday and promised to secure the stability of the financial markets. But while East Asian markets profited from the victory of Europe-friendly Emmanuel Macron in the first round of the French presidential election and the general elation, China's markets are still held back, due to further domestic struggles.

The Shanghai Composite Index reached 3,103.04, down 1.3% compared to its opening on Monday, as the fear of increased financial market regulation continues to hover in the air.

Due to lower commodities prices, China's official factory gauge fell from its almost 5 year high, its purchasing managers index fell to 51.2 in April, and missed the estimate of 51.7 according to a Bloomberg survey. The services PMI also did not escape and fell to a 6 month low of 54 from 55.1. However as both measures' readings are over 50, they still show momentum and improving conditions.

Iron ore futures also fell in China as there was quite a lot of concern over Australian supply, which weighed on prices and Chinese demand, and it ended the session limit down. Base metals were also failing, copper dropped 3.5% on Thursday and nickel dropped 2%.

On the other side of the pacific, Canada released its April figures on employment, adding 3,200 jobs, undershooting estimates of economists, who predicted an addition of 10,000 jobs. Nevertheless, the unemployment rate decreased to 6.5%, which is well below the 7.1% a year ago.

Indonesia saw a further rise in year-on-year growth in its first quarter as gross domestic product grew 5.01%. The rise has been supported by recent indicators, such as the manufacturing PMI reaching a ten-month high in April, suggesting a continuing improvement of Indonesia's economy.

Oil traders have had a volatile week, as oil prices reached a 6-months low on Friday morning and continued to move up and down thereafter. Oil prices have suffered this week, due to slower declines in US inventories and indications that OPEC producers continue to export at higher levels, despite their plan to limit production. West Texas Intermediate for June delivery fell $1.76 to $43.76 a barrel, before getting back to $45.63. However, it is still a 7.5% fall this week. This decrease was not only due to technical factors, traders are also not as encouraged by OPEC-led efforts to protect the price from shale production through supply cuts.

The MSCI Asia Pacific excluding Japan index fell 0.7% as the fall in crude made energy companies drop the most in 4 months.