Market Recap 04/03/2018

US

This week, the main events were the inaugural testimony by new Federal Reserve chair Jay Powell to the House Financial Services and Senate Banking Committees on Tuesday and Thursday, respectively, and the announcement that President Trump is planning to impose tariffs on steel (10%) and aluminium (25%) imports.

Mr. Powell told lawmakers on Tuesday that his outlook on the US economy had strengthened since December and that he saw inflation moving towards the US central bank's 2 per cent target. Although he didn't explicitly comment on whether the Fed's projection of three rate hikes this year would be reconsidered at the next FOMC meeting and the contents of his comments were 'gradualist', the market perceived them as having hawkish undertones, helping prop up the dollar, while pushing Treasuries and US stocks lower. The Fed fund futures also priced in higher chances of both three and four rate hikes this year.

On Thursday, the US government's announcement of imposing heavy tariffs on imports of steel and aluminium lead to concerns over trade wars with China and Europe. Earlier on the same day, Mr Powell's stress on gradual rate hikes and on there being no evidence of overheating in the economy eased some of the market's worst fears. However, there were mixed signals from US economic data releases on Friday, with an eye-catching reading from the ISM Manufacturing index, but fresh inflation data coming in as forecast. Overall, the end of the week was dominated by the tariff announcement and it exacerbated a sell-off in stocks that started earlier during the week and led to the dollar reversing its initial up-move. Trump's comments had an immediate impact on shares of affected companies, and on overall sentiment – causing sell-offs on Thursday and Friday, while the VIX briefly spiked to 26.

Key moves for the week were:

- SPX down -2.4%
- DXY up 0.09%
- 10Y UST up 2.4bps

Europe

Continental Europe closed the week in red on most of the biggest trading boards. Disturbing informations following President Trump's views on trade wars began to feed uncertainty on the market. Car manufacturers and steel producers alike suffered from the implied tariff on imported steel in the US. Although markets started the week with some gains, the upcoming news about inflation and business confidence in Europe failed to deliver good incentive for buying. On the last day of February, we received data on EU inflation rate in February equal to 1.2%, once again lower than expected at 1.3% and far from ideal 2.0% rate pursued by the ECB. Apart from this, week was relatively calm fuelled by additional information on unemployment and monthly GDP growths in line with predictions coming from all directions. Big indexes were very consistent. Eurostoxx50 lost 3.4% WoW and Friday's closing quotes were oscillating around 3,324.75 points. For German shareholders week was particularly pessimistic as DAX decreased by 4.6% WoW (traded at 11,913.71) with gloomy anticipations of Trump's next move, so important for industrial powerhouse like Germany. CAC40 was mirroring FTSE MIB, both indexes closed the week with 3.4% losses (respectively at 5,136.58 and 21,912.14 levels). Loss may be additionally attributed to manufacturing strength from China below the expectations.

Bonds market was less unequivocal this week. German 10Y Bund remained constant at 0.65% Yield, French 10Y Treasury Bonds Yield was equal to 0.92%, slightly lover then previous week 0.933%, and Italian Equivalent decreased by 4.7% WoW and was eventually supplying investors with 1.97% Yield. Mixed feelings about ECB performance in pushing inflation close to its target 2% level can be associated with this situation.

Interestingly enough, USD eventually strengthened gently with respect to EUR and at Friday 1 Euro was worth 1.23 USD. For the CHFUSD pair week was still with slight decrease leading to exchange rate equal 1.06.

Politics would be a dominant topic for the next market opening. Sunday, 4th of March will held the general election in Italy, although no majority is expected to emerge with no political option having a clear idea on how to boost GDP (+1.6% YoY in 2017). Also, German people will watch closely if the members of German Social Democrat party say "yes" to continue their current partnership with Angela Merkel's Christian Democrats. European markets at Monday may be very interesting place to observe.

UK

On Friday, Theresa May outlined her anticipated vision for the UK's post-Brexit relationship with the EU. The prime minister remarked that Britain will leave the single market and they will not look for passporting arrangements. However, May signalled that the government will try to find a new deal that would allow UK companies to still sell services across EU. On the other hand, UK will aim to remain part of several EU agencies that are essential for aerospace, chemicals and medicine industries. Moreover, it was made clear that the UK would not strike a trade deal similar the one the EU has with Norway or Canada.

Trump's vow to impose steel tariffs sparked fears of a global trade war, it caused losses in UK equities and mainly drove UK blue chips stocks to close at a lower level.

From the macroeconomic point of view, data released this week showed a worsening of Consumer Confidence during the month of February, the index lost 1 point to -10, in line with the consensus. It was mainly due to increasing concerns regarding household finances and UK economy. Moreover, it has been seen a 0.3% fall in the average price of a home during the month of February, lower than the expected increase of 0.2%. The manufacturing PMI also was weaker than expected, it edged down to 55.2 when expected was 55.3.

The FTSE 100 closed on Friday at 7,070, it fell 2.41% during the week, marking a second straight weekly decline. The Pound depreciated against both the US Dollar and the Euro, respectively by 1.22% and 1.50%. It closed at 1.3794 USD and at 1.1185 EUR. The benchmark 10-year gilt yield closed the week lower at 1.47%, down 5 basis point from the previous Friday rate of 1.52%.

Next week, on Monday it will be realised the UK Services PMI for the February month, expected to be 53.3. Moreover, on Friday will be announced the Manufacturing Production data for the January month, expected to be 0.2% MoM. Finally, on the same day, it will be released the Balance of Trade data for the month of January, that is expected to be £-4.1B.

RoW

Representatives from the U.S., Mexico and Canada opened the seventh round of NAFTA negotiations in Mexico City on last Sunday.

China's Communist Party has proposed eliminating a two-term constitutional cap on presidential terms that Deng Xiaoping had established. Such measure would allow Xi Jinping to stay in power indefinitely.

Posting its largest drop in more than six years, China's manufacturing PMI fell to 50.3 this month. It is very close to a 50-point mark that separates growth from contraction. China's statistics bureau attributed the slowdown to the Lunar New Year, when output typically dips. Hang Seng Index and Shanghai Composite fell 2.19% and 1.05% respectively.

Stocks reacted around the globe in the wake of President Trump's planned tariffs on steel and aluminium - which are raising fears of a potential trade war. Japan's stock market index Nikkei 225 fell 3.25%, while Topix decreased 2.96%.

Canada and Brazil - not China - likely would suffer the biggest impact of any U.S. tariffs on steel, according to a 2017 report from the U.S. Department of Commerce. Canadian and Brazilian steel comprised a respective 16% and 13% of U.S. steel imports as of September 2017, while China, frequently criticized politically for dumping cheap steel on trade partners, is not one of the top 10 exporters of steel to the U.S., the report said.

India overtook China as the world's fastest-growing major economy after data showed that India grew 7.2% on an annualized basis in the fourth quarter of 2017, whereas China grew 6.8% for the same period. Sensex 30 index declined only 0.28%.

MSCI emerging market index and MSCI Asia Pacific index fell 2.88% and 2.07% respectively.

U.S. WTI crude oil fell 3.6% this week and settled at $61.25/bbl.