

# GLOBAL MARKET UPDATE

## The IMF foresees downside risks to global growth

The International Monetary Fund (IMF) released its latest *World Economic Outlook* last week, in which the **IMF marginally reduced its world GDP growth forecast to 3.2% for 2019**, whilst foresaw the rate of economic growth at 3.5% for 2020. The IMF pointed out that world trade growth was 0.5% YoY in 1Q19 and claimed that the rate of world trade volume growth had been slow relative to the pace seen in the previous years. Whilst the IMF's comment on the evolution of world trade was factually correct, the organisation did not put the figure into context, i.e. that trade growth was very strong between 3Q16 and 4Q18. In this context, **the slowdown in world trade growth is nothing unusual, but a recurring cyclical phenomenon**. Consequently, we believe that the tone of the IMF's assessment and conclusion is very downbeat, as it put much emphasis on downside risks to global growth and refrained from pointing out potential positives, such as the oversight of central banks globally. In our opinion, **the world is a happier place than stipulated by the IMF**.

## THIS WEEK'S GLOBAL EQUITY MARKET MOVERS

DEVELOPED	
<b>Top 3</b>	Luxembourg <b>3.89%</b> Austria <b>1.85%</b> United States <b>1.65%</b>
<b>Bottom 3</b>	Portugal <b>-2.11%</b> New Zealand <b>-1.63%</b> Norway <b>-1.53%</b>
EMERGING	
<b>Top 3</b>	Abu Dhabi <b>3.26%</b> Dubai <b>3.18%</b> Greece <b>1.66%</b>
<b>Bottom 3</b>	South Africa <b>-3.93%</b> Colombia <b>-3.34%</b> Hungary <b>-3.28%</b>
FRONTIER	
<b>Top 3</b>	Sri Lanka <b>2.50%</b> Argentina <b>2.43%</b> Vietnam <b>1.25%</b>
<b>Bottom 3</b>	Romania <b>-2.33%</b> Kenya <b>-2.16%</b> Serbia <b>-2.15%</b>

## UNITED STATES

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S&P 3,026 +1.65%, 10yr Treasury 2.06% +1.51bps, HY Credit Index 312 -23bps, Vix 12.16 -2.29Vol

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**Investor sentiment in the US stock markets was positive**, as the majority of the stock indices rose during the week: the S&P500 increased 1.7%, whilst the Nasdaq Composite gained 2.3%. The trade-weighted USD index (DXY) strengthened significantly, by 0.9% by the end of the week. Meanwhile, Treasury yields were relatively stable, as by the end of the week the 10-year Treasury yield was up 2bp to 2.07%.

**Real GDP growth in the US was 2.1% in annualised terms in 2Q19.** Unlike in the previous quarter, when annualised real GDP growth was 3.1%, household spending was the primary driver of growth rising 4.3%. In contrast, business investment fell 0.6%.

*The 2Q19 GDP print underpins our longstanding view that the underlying economic growth momentum in the US remains unhurt and strong. We expect above-2% real GDP growth to be sustained in the quarters ahead.*

## EUROPE

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Eurostoxx 3,517 +0.31%, German Bund -0.39% -5.20bps, Xover Credit Index 243 -11bps, USDEUR .899 +0.95%

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**Mario Draghi, the President of the European Central Bank delivered a fairly dovish statement** on Thursday, which confirmed expectations that the ECB stands ready to embark on an easing cycle very soon. Despite President Draghi's efforts, the stock market was left unfazed, as the majority of the broad indices in the Eurozone stagnated or declined in USD terms. Meanwhile, in the sovereign bond market, government bond yields further slipped in response to the Mr Draghi's remarks, and consequently, the **10-year German Bund yield declined by 5bp to -0.38%**.

## ASIA PACIFIC

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HSCEI 10,732 -0.67%, Nikkei 21,616.80 -0.02%, 10yr JGB-0.14% 0bps, USDJPY 108.660 +0.91%

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**Investors were rather risk-averse in Asian stock markets**, which drove the majority of the stock indices south. The Indonesian market was among the poorest performers during the week (-2.5% in USD), followed by the Pakistani (-1.8% in USD) and the Thai market (-1.2% in USD). In contrast, the Vietnamese market and Chinese "A" shares rose, by 1.3% and 0.7% (all in USD), respectively.

**The Chinese government has approved several domestic companies to buy cotton, corn, sorghum and pork from**

**the US without being subject to tariffs**, according to Bloomberg. There could be a second round of exemptions depending on how the trade talks progress. The news reported by Bloomberg was not confirmed nor denied by the Chinese commerce ministry.

Although 2Q19 real GDP growth in South Korea beat the median market expectation, **the rate of economic growth was not convincingly strong**, at 2.1% YoY (or 1.1% QoQ SA). In addition, the structure of growth was uneven, as government spending lifted headline growth to a great extent.

*In our opinion, the large contribution to growth by the public sector and the weakness in private investments imply that the above-2% rate of growth may not be sustainable for too long.*

**Consumer price inflation in Malaysia accelerated to 1.5% YoY in June**, whilst the core inflation gauge rose to 1.9% YoY. The increase in both measures were primarily driven by the 'base effect,' i.e. the transitory price depressing impact of phasing out Goods and Services Tax have faded by June.

## LATIN AMERICA

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MSCI Lat Am 2,860 -1.85%

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**The majority of stock indices in Latin America declined during the week.** The Colombian stock market performed poorly, as the country's benchmark index decreased 3.3% in USD. The Colombian index was followed by the Chilean and Mexican indices, which decreased 2.8% and 2.7% (all in USD), respectively.

**Retail sales growth in Mexico rose to 2.8% YoY in May**, the strongest since last November. According to the details, household goods sales growth moderately accelerated, whilst sales volume in the services sector dropped 2% YoY.

*Although the improvement in the headline retail sales figure looks promising at first sight, we sustain our view that the Mexico economic cycle has not bottomed out yet. In our opinion, the weakness in sales in the services sector imply that further weakness in domestic demand may be ahead.*

**The federal government in Brazil announced a plan to liberalise the natural gas sector, with the aim of reducing the cost of energy.** On the federal level, the government seeks to lower gas prices by increasing competition in the market as well as by overhauling the regulatory framework to facilitate the entry of new companies in the market. The government has also announced that it will encourage regional states to adopt additional measures to lower gas prices, including better regulatory practices, creation of autonomous regulatory agencies, privatization of existing state companies, as well as tax changes.

The Colombian central bank kept the policy rate stable at 4.25% and remained on a wait-and-see policy stance. Based on the incoming macroeconomic data, the MPC will decide whether the current monetary policy stance is appropriate.

## AFRICA

MSCI Africa 804 -3.46%

Increasing degree of risk-aversion drove the majority of African stock indices lower during the week. The South African stock index delivered one of the poorest performances, as the country's benchmark declined 3.9% in USD. The South African market was followed by the Kenyan one, which lost 2.2% of its value (in USD) by the end of the week. In contrast, the Moroccan market did well, as the index rose 0.5% in USD.

Credit rating agency Moody's warned that South Africa's classification as investment grade was at risk. According to Moody's, the South African government has not revealed a coherent strategy to return Eskom (the country's financially strained electricity company) to a more stable financial situation. The agency emphasised that the Ramaphosa-led government has 'extremely constrained' room to manoeuvre.

Consumer price inflation in South Africa was 4.5% YoY in June, unchanged from May. Details reveal that domestic demand remains weak, as goods inflation slowed to 4% YoY.

*In the context of weak inflationary pressures, the central bank of South Africa will likely further cut the policy rate in the coming months.*

The Nigerian central bank held the policy rate at 13.50%. The MPC noted that the Nigerian domestic economy needs impetus. However, the MPC sees no room for interest rate cuts as long as inflation remains persistently high, well-above the central bank's inflation target.

As inflation expectations were within the target range and the economy was operating close to its potential, the central bank of Kenya kept the policy rate at 9%. According to the central bank, there were increased uncertainties in the external environment that called for monitoring going forward.

## THE WEEK A HEAD

UNITED STATES	DATE	CONSENSUS
PCE inflation (Jun) YoY	Tue/30	1.5%
Fed monetary policy meeting	Wed/31	2.00-2.25%
ISM manufacturing (Jul)	Thu/01	52.0
Non-farm payrolls (Jul)	Fri/02	169,000

EUROPE	DATE	CONSENSUS
Eurozone: GDP growth (2Q19) YoY	Wed/31	1.0%
UK: monetary policy meeting	Thu/01	0.75%

ASIA PACIFIC	DATE	CONSENSUS
Japan: monetary policy meeting	Tue/30	-0.10%
China: official manufacturing PMI (Jul)	Wed/31	49.6
China: Caixin manufacturing PMI (Jul)	Wed/31	49.5

LATIN AMERICA	DATE	CONSENSUS
Mexico: GDP growth (2Q19) YOY	Wed/31	-0.4%
Brazil: monetary policy meeting	Wed/31	6.25%

AFRICA	DATE	CONSENSUS
Kenya: CPI inflation (Jul) YoY	Mon/29	
South Africa: manufacturing PMI (Jul)	Thu/01	46.5

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MARKET DATA



# GLOBAL MARKET DATA

15 - 21 JULY

FX (vs USD)			Return +ive=USD Stronger			
Name	BBG Code	Price	1 Week	MTD	YTD	1Y
DOLLAR INDEX SPOT	DX Index	98.05	0.88%	1.96%	1.91%	3.40%
USD-EUR X-RATE	USDEUR Curncy	0.90	0.95%	2.12%	2.93%	4.86%
Russian Ruble SPOT (TOM)	USDRUB Curncy	63.51	0.70%	0.48%	-8.53%	0.93%
USD-TRY X-RATE	USDTRY Curncy	5.65	0.60%	-2.00%	7.24%	16.81%
USD-GBP X-RATE	USDGBP Curncy	0.81	0.98%	2.53%	2.93%	6.01%
Bloomberg JPMorgan Asia Dollar	ADXY Index	104.83	-0.21%	-0.45%	-0.46%	-0.52%
USD-AUD X-RATE	USDAUD Curncy	1.45	2.09%	1.50%	1.96%	7.00%
USD-CNY X-RATE	USDCNY Curncy	6.89	-0.03%	0.18%	0.01%	1.27%
USD-INR X-RATE	USDINR Curncy	68.88	-0.01%	-0.08%	-1.18%	0.27%
USD-JPY X-RATE	USDJPY Curncy	108.66	0.91%	0.77%	-0.87%	-2.15%
USD-KRW X-RATE	USDKRW Curncy	1,184.39	0.74%	2.12%	6.25%	5.50%
USD-TWD X-RATE	USDTWD Curncy	3110	0.08%	0.24%	1.49%	1.62%
USD-ARS X-RATE	USDARS Curncy	43.28	2.05%	1.83%	15.10%	57.98%
USD-BRL X-RATE	USDBRL Curncy	3.78	0.74%	-1.74%	-2.95%	1.02%
USD-CLP X-RATE	USDCLP Curncy	696.30	1.37%	2.51%	0.22%	7.53%
USD-MXN X-RATE	USDMXN Curncy	19.06	0.47%	-0.50%	-2.97%	2.39%
USD-EGP X-RATE	USDEGP Curncy	16.60	-0.20%	-0.49%	-7.38%	-7.19%
USD-NGN X-RATE	USDNGN Curncy	361.30	0.00%	0.36%	-0.61%	-0.19%
USD-ZAR X-RATE	USDZAR Curncy	14.31	2.92%	1.36%	-0.57%	8.22%
Commodities			Return (USD)			
WTI CRUDE FUTURE Sep19	CLA Comdty	56.03	0.79%	-3.96%	17.47%	-13.42%
BRENT CRUDE FUTR Sep19	COA Comdty	63.11	1.58%	-1.98%	15.55%	-14.09%
Baltic Dry Index	BDIY Comdty	1,937.00	-10.74%	43.06%	52.40%	13.41%
Natural Gas Futures	NG1 Comdty	2.18	-3.64%	-6.02%	-26.22%	-21.98%
Gold Spot \$/Oz	XAU Curncy	1,418.04	-0.51%	0.64%	10.70%	15.63%
Silver Spot \$/Oz	XAG Curncy	16.38	1.24%	7.15%	5.84%	5.89%
LME COPPER 3MO (\$)	LMCADS03 Comdty	5,963.00	-1.68%	-0.50%	-0.03%	-5.21%
Government Bond Yields %			Change (percentage points)			
US Generic Govt 2 Year Yield	USGG2YR Index	1.85	0.03	0.10	-0.64	-0.83
US Generic Govt 5 Year Yield	USGG5YR Index	1.84	0.03	0.08	-0.66	-1.01
US Generic Govt 10 Year Yield	USGG10YR Index	2.06	0.02	0.07	-0.61	-0.91
Canadian Govt Bonds 10 Year No	GCAN10YR Index	1.47	-0.04	0.00	-0.50	-0.83
Mexico Generic 10 Year	GMXN10YR Index	7.54	0.02	-0.05	-1.12	-0.19
UK Govt Bonds 10 Year Note Gen	GUKG10 Index	0.67	-0.05	-0.15	-0.59	-0.59
Switzerland Govt Bonds 10 Year	GSWISS10 Index	-0.68	-0.06	-0.15	-0.42	-0.63
German Government Bonds 2 Yr B	GDBR2 Index	-0.76	0.02	0.00	-0.14	-0.15
German Government Bonds 5 Yr O	GDBR5 Index	-0.68	-0.01	-0.01	-0.36	-0.51
German Government Bonds 10 Yr	GDBR10 Index	-0.39	-0.05	-0.05	-0.62	-0.78
French Generic Govt 10Y Yield	GTFRF10Y Govt	-0.14	-0.05	-0.12	-0.83	-0.82
Greece Generic Govt 10Y Yield	GTGRD10Y Govt	2.04	-0.09	-0.38	-2.30	-1.77
Italy Generic Govt 10Y Yield	GBTGPR10 Index	1.53	-0.04	-0.54	-1.18	-1.14
Spain Generic Govt 10Y Yield	GSPG10YR Index	0.34	-0.02	-0.02	-1.04	-0.99
Portugal Generic Govt 10Y Yield	GSPT10YR Index	0.42	-0.02	-0.04	-1.28	-1.29
Australia Govt Bonds Generic Y	GACGB10 Index	1.21	-0.12	-0.09	-1.09	-1.46
India Govt Bond Generic Bid Yi	GIND10YR Index	6.45	0.16	-0.36	-0.85	-1.24
KCMP South Korea Treasury Bond	GVS10YR Index	1.42	-0.05	-0.18	-0.54	-1.13
Japan Generic Govt 10Y Yield	GJGB10 Index	-0.14	-0.02	0.01	-0.15	-0.24
South Africa Govt Bonds 10 Yea	GSAB10YR Index	9.03	0.39	0.21		
Corporate Credit Indices			Change (Bps) +ive = Widening			
MARKIT ITRX EUR XOVER 06/24	ITRXEXE CBIL Curncy	243.18	-11.00	-12.35	-112.09	-37.31
MARKIT ITRX EUROPE 06/24*	ITRXEBE CBIL Curncy	47.82	-2.07	-5.36	-41.22	-13.33
MARKIT ITRX EUR SNR FIN 06/24*	ITRXESE CBIL Curncy	58.84	-3.67	-6.99	-52.79	-15.44
MARKIT ITRX EUR SUB FIN 06/24	ITRXEUE CBIL Curncy	126.97	-4.61	-7.41	-99.65	-27.62
MARKIT CDX.NA.IG.32 06/24	IBOXUMAE CBIL Curncy	51.16	-2.14	-3.64	-36.97	-7.56
MARKIT CDX.NA.HY.32 06/24*	IBOXHYSE CBIL Curncy	311.60	-23.07	-13.60	-140.37	-18.40
Implied Volatility (Equity Index)			Change (Volatility Points) +ive = Volatility Rising			
Eurostoxx 3month ATM	SX5E Index	12.35	-0.46	-0.46	-7.93	0.79
FTSE 100 500 3month ATM	UKX Index	10.32	-0.24	-0.32	-9.47	-0.13
Hang Seng 3month ATM	HSI Index	15.83	1.09	-0.72	-7.50	-0.24
Nikkei 3month ATM	NKY Index	13.53	0.64	-1.46	-11.21	-0.49
S&P 500 3month ATM	SPX Index	12.15	-1.17	-1.45	-9.04	1.47
Volatility (VIX)	VIX Index	12.16	-2.29	-2.92	-13.26	0.02
Inflation (Long term inflation expectation proxy) %			Change (percentage points)			
US 5Y5YF Inflation Swap		2.10	0.00	0.07	-0.04	-0.32
UK 5Y5YF Inflation Swap		3.63	0.01	0.01	0.01	0.20
JPY 5Y5YF Inflation Swap		0.11	0.00	0.00	0.04	-0.29
EUR 5Y5YF Inflation Swap		1.35	0.04	0.14	-0.21	-0.36
Economic Data Surprise (+ive/-ive = above/below expectations)						
Citi Economic Surprise Index	CESIAPAC Index	-5.30				
Citi Economic Surprise Index -	CESICNY Index	-19.00				
Citi Economic Surprise Index -	CESIEM Index	-20.40				
Citi Economic Surprise Index -	CESIEUR Index	-37.50				
Citi Economic Surprise Index -	CESIG10 Index	-23.90				
Citi Economic Surprise - Japan	CESIJPY Index	23.70				
Citi Economic Surprise Index -	CESILTAM Index	-59.10				
Citi Economic Surprise - Unite	CESIUSD Index	-37.20				

## EUROPE & UK

Benoit Ribaud  
+44 207 5577 862  
benoit.ribaud@alquity.com

## MIDDLE EAST, ASIA & UK

Suresh Mistry  
+44 207 5577 854  
suresh.mistry@alquity.com

## LATIN AMERICA

Cyn Cano  
+44 207 5577 871  
cyn.cano@alquity.com

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*Swiss Paying Agent: Neue Helvetische Bank AG, Seefeldstrasse 215, CH-8008 Zurich.*

