

Market Commentary

Monday, 18 September 2017

The week ahead is dominated by the FOMC meeting (Wednesday) and BoJ meeting (Thursday). The market is expecting the FOMC to keep interest rates unchanged with the probability of a 25bp rate hike at the December meeting having recently increased. However, the market does expect the FOMC to announce the start of an unwinding of its USD4.5tr balance sheet which amounts to 23% of US GDP...the ECB's balance sheet is 38% of GDP and the BoJ's 92%... (for details see the FOMC's policy normalization plans [here](#)). The BoJ may start to consider a retreat from its own QE program given the recovery in the Japanese economy though CPI inflation remains some distance from its 2% target. Note that the BoJ now owns 75% of Japanese ETF's ! The BoE's Mark Carney speaks at the IMF on Monday and the ECB's Mario Draghi speaks on Friday.

The **German elections** take place next Sunday and Angela Merkel's coalition is ahead in the opinion polls and is expected to win. The far-right Afd may garner support from the EU migrant crisis but is unlikely to gain any significant seat advantage in the Bundestag. On the 1 October, the [Catalan independence referendum](#) deemed "illegal" by the Spanish government is scheduled to take place. UK PM Theresa May makes an important speech on Brexit in Florence this Friday. The pro-EU camp want a "**soft Brexit**" and lengthy transition process. In actuality this is just a continuation of the status quo as a "soft Brexit" still leaves EU courts with primacy over UK law. Should Theresa May go down this route, she will be accused by the Brexiteers of back-sliding on the referendum result which could then result in a leadership challenge.

Japan core machinery orders increased 8.0% mom in July. UK ILO unemployment rate dipped to 4.3% in July from 4.4%. US initial jobless claims fell to 284k from 298k. Chinese M2 money supply growth slows to 8.9% in August from 9.2% (though total credit increased to CNY1480bn from CNY1220bn). Chinese retail sales growth eased to 10.1% in August and industrial production slowed to 6.0% from 6.4%.

UK CPI inflation increased to 2.9% in August from 2.6%. German WPI inflation increased to 3.2% in August from 2.2%. US CPI inflation increased 1.9% in August from 1.7%. US retail sales (down 0.2% mom) [and industrial production](#) (down 0.9% mom reflecting hurricane effects) came in below expectations. **The Atlanta Fed's forecast of US real GDP growth in the current quarter is now revised down to 2.25 from 3.0%.**

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Equity Markets

Index	Previous Close	Current	Change (%)
DOW	22203.48	22268.34	0.29%
S&P	2495.62	2500.23	0.18%
FTSE	7295.39	7215.47	-1.10%
EGYPT IDX	1235.286	1239.881	0.37%
JORDAN SE	2136.37	2135.58	-0.04%

Foreign Exchange

	Previous Close	Current	Change (%)
GBP/USD	1.3594	1.3583	-0.08%
GBP/JPY	150.689	150.992	0.20%
AUD/USD	0.8002	0.8026	0.30%
EUR/GBP	0.87889	0.87924	0.04%
EUR/USD	1.1945	1.1943	-0.02%
EUR/JPY	132.42	132.76	0.26%
USD/JPY	110.83	111.16	0.30%
USD/CHF	0.9603	0.9603	0.00%
USD/JOD	0.7086	0.709	0.06%

Commodities

	Previous Close	Current	Change (%)
GOLD	1320.18	1317.98	-0.17%
SILVER	17.5885	17.6004	0.07%
OIL	49.89	50	0.22%

The FT markets section on Saturday headlined “**US equities trade at record after week of improving risk appetite**”. The S&P500 index cleared the 2500 level. In the UK, the **BoE is turning hawkish** and the SONIA curve now prices 2 hikes before the end of next year...**this November is a reasonable shout for the first hike** (GBPUSD moves to highest level since Brexit referendum...**this weekend is the 25th anniversary of GBP’s exit from the ERM** which triggered a UK economic recovery and allowed UK interest rates to decline to growth-friendly levels)...a family with a £200k mortgage on a 25 year term will pay £25 a month extra if the rate goes up 25bp.

China cuts margin requirement for stock index futures to 15% from 18% effective 18 September...the 19th National Party Congress begins 18 October. Russia cuts the benchmark rate 50bps to 8.50%. **Brent oil** touched a 5 month high of USD55.85, up around 3% on the week as optimism increased about the demand outlook. **Copper** had its worst week since December on the back of disappointing Chinese economic data.

The [Basel Committee’s latest monitoring report](#) shows **banks’ compliance with Basel3 continues to improve** and the report for the first time provides a regional breakdown of key metrics.

The IMF estimates that relative to GDP over the period 2016-2022, [US gross general government debt](#) will rise by 10 percentage points to 117%

Nikkei reports that **Japanese PM Abe will call a snap election in the near future possibly next month.** UK Foreign Secretary Boris Johnson wrote in the Telegraph detailing his plans for a “**clean**” **Brexit** thus increasing speculation of a possible leadership bid . David Smith in the Sunday Times warns in regard to the BoE’s latest hawkish tilt that “mention of forward guidance is a reminder that we have been sold a pup by the Bank on interest rate warnings before” referring to the flip-flops on interest rates by the BoE in the past few years....**Smith concludes that “the Bank cannot afford to cry wolf again”.** ECB chief economist [Peter Praet](#) says **substantial monetary stimulus** is still needed to bring inflation in the Eurozone back to the official 2% target.

Today: UK Rightmove house price inflation August. China property prices August. US NAHB housing market index September. US TIC capital flows July. [BoE’s Mark Carney](#) delivers Camdessus Central Banking Lecture at the IMF in Washington (11am ET).

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