

Investment Weekly

This week in detail

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The week ahead

In the coming week, the first estimate of US Q2 GDP will be in focus, which is expected to show the economy grew at a solid pace, as well as the European Central Bank monetary policy decision

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Market moves

[Read more>](#)

Equities

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Bonds

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Currencies

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Commodities

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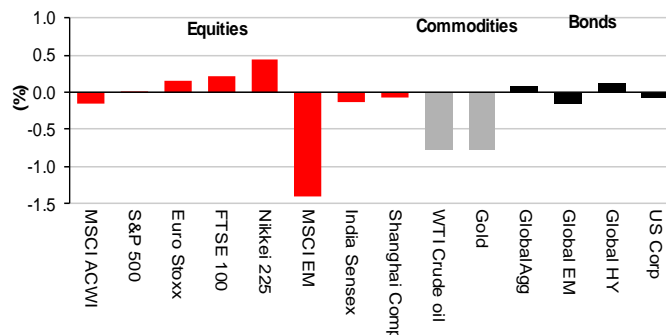
Market data

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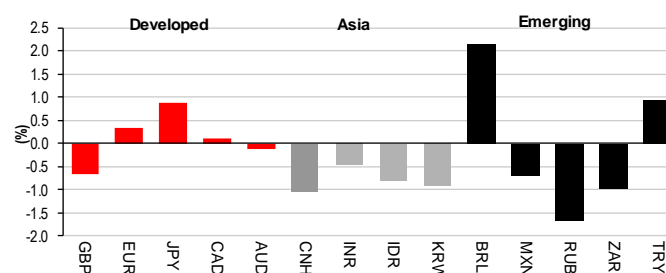
Market trends



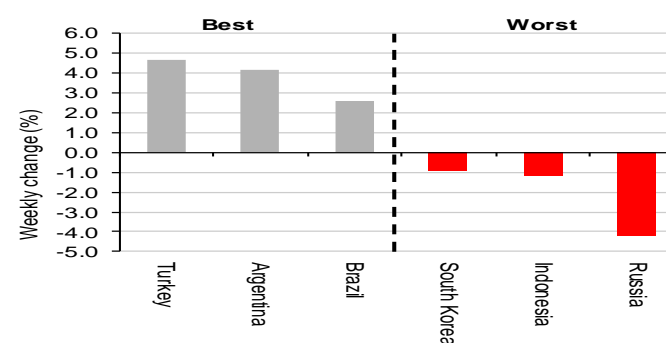
Movers and shakers



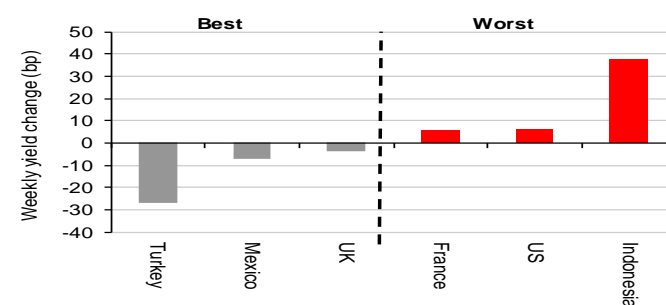
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 20 July 2018. All the above charts relate to 13/07/2018 – 20/07/2018. **Past performance is not an indication of future returns.**

This week in detail

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Monday 16 July	China	Retail Sales (yoy)	Jun	8.8%	9.0%	8.5%
	China	GDP (yoy)	Q2	6.7%	6.7%	6.8%
	China	Industrial Production (yoy)	Jun	6.5%	6.0%	6.8%
	US	Retail Sales Advance (mom)	Jun	0.5%	0.5%	1.3%
Tuesday 17 July	US	Industrial Production (mom)	Jun	0.5%	0.6%	-0.5%
	US	NAHB/Wells Fargo Housing Market Index	Jul	68	68	68
	US	Fed Chair Powell Delivered the Semi-annual Testimony to the Senate				
Wednesday 18 July	UK	CPI (yoy)	Jun	2.6%	2.4%	2.4%
	Eurozone	CPI (yoy)	Jun F	2.0%	2.0%	2.0% P
	US	Housing Starts (mom)	Jun	-2.2%	-12.3%	5.0%
Friday 20 July	Japan	National CPI ex Fresh Food and Energy (yoy)	Jun	0.4%	0.2%	0.3%

P – Preliminary, Q – Quarter, F – Final

In his testimony to the Senate Banking Committee, Fed Chair Powell retained an optimistic tone on the outlook for the US economy and said “for now, the best way forward is to keep gradually raising the federal funds rate.”

China’s Q2 real GDP growth was as expected; but activity data was weaker than expected in June

In the **US, Federal Reserve (Fed) Chair Jerome Powell** reaffirmed a gradual approach to monetary policy tightening in his semi-annual testimony to the Senate Banking Committee. There was little new information in his testimony relative to recent Federal Open Market Committee (FOMC) communication during and after the June FOMC meeting. However, Powell retained an optimistic tone on the outlook for the US economy and said that the “best way forward” for now was to “keep gradually raising the federal funds rate.” The Fed sees current unemployment as low, and likely to fall further, and expects inflation to be near the symmetrical 2.0% target over the next several years.

In terms of **US** data releases this week, **retail sales** rose 0.5% mom in June, as expected. This followed a solid release in May, which was revised up 0.5 percentage points to 1.3% mom. Meanwhile, the core retail sales (control group) remained broadly unchanged after the prior release was upwardly revised to 0.8% mom (previously +0.5% mom). The **NAHB/Wells Fargo Housing Market Index** held steady at 68 in July, in line with expectations. The details showed that the measure of prospective buyer traffic rose two points to 52, suggesting that buyer demand remains firm despite higher mortgage costs. However, **housing starts** tumbled 12.3% mom in June to 1,173,000 annualised, more than the expected decline of 2.2% mom. Data for April and May were also revised lower, by a cumulative 23,000. Both single and multi-home new construction declined in June, with all four regions contributing to the fall. **Building permit** applications also fell by 2.2% mom, missing an anticipated 2.2% rise. Nonetheless, despite a disappointing housing starts release, other recent housing data releases suggests demand remains high, with the average days on market for existing homes trending at recent lows and a recent homebuilder survey report showing relatively healthy traffic levels.

In Europe, **UK CPI inflation** held at 2.4% yoy in June, defying expectations of an increase to 2.6%. Although energy price inflation rose as anticipated, this was offset by weaker core inflation (unexpectedly declining to +1.9% yoy from +2.1%) amid weakness in the volatile clothing/footwear and recreation/culture categories.

In Asia, **China’s GDP** grew 6.7% yoy in Q2, in line with expectations and slightly slowing from 6.8% in Q1. However, economic momentum seemed to gather pace, as quarterly growth accelerated to 1.8% qoq, the highest in three quarters. Robust personal consumption continued to support the economy, while investment slowed further as Chinese authorities continued to reduce corporate leverage. **Retail sales** accelerated from 8.5% yoy in May to 9.0% yoy in June, beating expectations (+8.8%). **Fixed asset investment** (YTD cumulative) edged down slightly, from 6.1% yoy to 6.0%, but still remained more muted than the 7.5% seen on average in Q1. Slowing investment and concerns about the US-China trade war helped explain a significant deceleration in June **industrial production**, from 6.8% yoy in May to 6.0%.

The week ahead

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 23 July	US	Existing Home Sales (mom)	Jun	0.9%	-0.4%
Tuesday 24 July	Eurozone	Markit Composite PMI	Jul P	54.7	54.9
Wednesday 25 July	Germany	Ifo Business Climate Index	Jul	101.5	101.8
	US	New Home Sales (mom)	Jun	-2.8%	6.7%
Thursday 26 July	Eurozone	ECB Interest Rate Decision	Jul	-0.4%	-0.4%
	US	Durable Goods Orders (mom)	Jun P	2.8%	-0.4%
Friday 27 July	Russia	Central Bank of Russia Interest Rate Decision	Jul	7.25%	7.25%
	US	GDP Annualised (qoq, first estimate)	Q2	4.1%	2.0%
	US	University of Michigan Index of Consumer Sentiment	Jul F	97.2	97.1 P

P – Preliminary, Q – Quarter, F – Final

In the coming week, the first estimate of US Q2 GDP and durable goods orders will be in focus...

...as well as the European Central Bank monetary policy decision

US

The **first estimate of Q2 GDP** is expected to show the economy grew at a solid pace of 4.1% qoq annualised in Q2, after a lacklustre start to the year. A rebound in consumer spending and a surprise narrowing of the trade balance are likely to be key drivers of this pickup. Alongside this release, the U.S. Bureau of Economic Analysis will also publish a comprehensive update to the national income and product accounts (last conducted in 2013), which will incorporate methodological improvements, definitional changes and updated source data.

New home sales are expected to decline 2.8% mom in June, from 6.7% mom in May. While consumer demand has remained steady, supply-related factors may have continued to weigh on sales. In particular, much of the newly built housing stock has been concentrated on more expensive units, exacerbating the supply shortage in the lower-end segment of the market.

Durable goods orders are expected to rebound in June, rising 2.8% mom from a decline of 0.4% in May. The ISM new orders index edged down slightly but remained high at 63.5 in June. The industrial production report for June indicated healthy growth in ex-transportation durable goods output. Overall, these data releases appear consistent with the solid momentum in the industrial sector and a pickup in business equipment investment in Q2.

Europe

The preliminary estimate of the **eurozone Markit Composite PMI** for July is expected to edge 0.2 points lower to 54.7. This would still be above the recent low reached in May (54.1). Despite the decline in the region's PMI prints since the beginning of the year, they remain consistent with above-trend growth, and the employment component of the services index is hovering at levels last seen in 2007.

Following large declines in early 2018, **Germany's Ifo Business Climate Index** has more recently stabilised at around 102, which remains a historically elevated level. There could be a slight deterioration in July's print amid continuing concerns over global trade protectionism.

At its last policy meeting in June, the **European Central Bank** announced its intention to stop its net bond-buying programme by the end of this year, and to keep interest rates unchanged at least through the summer of 2019 or "for as long as necessary" to allow inflation to return to target on a sustained basis. Recent data releases have shown a stabilisation in eurozone activity, and underlying inflation remains subdued, making it unlikely the bank will announce any change to its policy at the July meeting.

Market moves

Equities

Global equities were pressured by mixed corporate earnings results and renewed global trade concerns

Bonds

US Treasuries closed lower following Powell testimony; UK gilts outperformed as disappointing data weighed on rate hike expectations

Currencies

US dollar rose against most developed market currencies this week

Commodities

Oil prices fell on concerns over China's economy and Saudi supply

Equities

US equities were little changed this week, with early-week gains on the back of some upbeat earnings reports and Fed Chair Jerome Powell's upbeat assessment of the US economy pared back later in the week by some softer results and fresh concerns about global trade tensions. On Thursday, US President Donald Trump announced he is "ready" to impose tariffs on all Chinese goods imported by the US (a total of USD505 billion in 2017). Overall, the S&P 500 Index finished flat.

European equities also ended the week little changed, pressured by mixed economic data from China, lower commodity prices, global trade concerns and mixed corporate earnings results. Overall, the EURO STOXX 50 Index was 0.2%, with energy stocks underperforming amid lower oil prices. France's CAC 40 underperformed (-0.6%).

In **Asia, stock markets** were mixed as tensions between the US and China on import tariffs continued while most Chinese economic indicators came in weaker than expected as the country continued to rein in corporate leverage. Meanwhile, market sentiment was supported by an upbeat start to the corporate earnings season. Hong Kong shares retreated the most (the Hong Kong Hang Seng Index was down -1.1%) followed by Korea's KOSPI (-0.9%). Other markets gained over the week. In Japan, the Nikkei 225 Index closed up modestly (+0.4%) and the Singapore Straits Times Index advanced 1.1%. China's Shanghai Stock Exchange Composite Index and India's SENSEX 30 Index were little changed.

Bonds

US Treasuries sold off slightly over the week following Fed Chair Jerome Powell's congressional testimony, which kept the Fed on track to deliver its gradual policy rate hiking path for this year. Dampened demand for fixed income assets also came amid upbeat economic data, including upward revisions to US retail sales and a fall in initial jobless claims to their lowest levels since December 1969. However, there was some paring of these losses as risk appetite was hit by concerns over renminbi weakness and additional Chinese easing measures to support a slowing economy. Overall, 10-year Treasury yields closed up 7 bps to 2.89% and policy-sensitive two-year yields rose 2 bps to 2.59%.

European government bonds traded mixed over the week with benchmark German 10-year bund yields ending little changed at 0.37% and their UK equivalents outperforming (yields fell 4 bps to +1.23%) as weak inflation and retail sales data weighed on expectations of a Bank of England rate hike in August. In the periphery, Italian 10-year bond yields erased earlier week gains to close at 2.59% following a sell-off on Friday amid political concerns on reports that the country's finance minister Giovanni Tria, whose appointment brought a relative calm to the nation's markets, may be forced to step down.

Currencies

The **British pound** retreated against the US dollar for a second consecutive week (-0.7%), hitting a 10-month low, as softer CPI inflation and disappointing retail sales data for June weighed on investor expectations of a Bank of England interest rate hike at its upcoming meeting in August. Meanwhile, the euro fell for most of the week but pared back its losses on Thursday, after US President Donald Trump expressed his unhappiness with the recent dollar strength. The euro ended the week up 0.3% against the US dollar.

Most **Asian currencies** depreciated against the US dollar over the week. The Chinese yuan saw the biggest depreciation (-1.2%) as mixed activity data for June fuelled expectations of some monetary policy easing in the second half of the year. The South Korean won fell 0.9% and the Indian rupee depreciated slightly less (-0.5%), but fell to an all-time low against the US dollar on Thursday.

Commodities

Crude oil prices fell again this week, with the bulk of the decline occurring on Monday amid concerns over mounting supply from Saudi Arabia, as well as an economic slowdown in China. Some losses were pared back later in the week as the U.S. Energy Information Administration weekly report showed that US gasoline stockpiles fell and fuel demand increased last week. Overall, Brent crude fell 3.1% to close at USD73 a barrel.

Gold prices also fell this week (-0.8% to USD1,232 per troy ounce), with most losses occurring on Tuesday as Fed Chair Jerome Powell said the central bank will continue to gradually raise interest rates.

Market data

	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
Equity Indices									
World									
MSCI AC World Index (USD)	514	-0.1	0.4	0.3	7.7	0.3	551	470	15.6
North America									
US Dow Jones Industrial Average	25,058	0.2	1.6	2.4	15.9	1.4	26,617	21,496	16.1
US S&P 500 Index	2,802	0.0	1.2	4.9	13.3	4.8	2,873	2,417	17.5
US NASDAQ Composite Index	7,820	-0.1	0.5	9.4	22.4	13.3	7,867	6,177	23.6
Canada S&P/TSX Composite Index	16,435	-0.8	0.1	6.1	7.7	1.4	16,586	14,786	15.8
Europe									
MSCI AC Europe (USD)	466	-0.3	0.9	-4.6	0.1	-4.4	524	452	14.1
Euro STOXX 50 Index	3,460	0.2	0.6	-1.0	-1.1	-1.3	3,709	3,262	14.0
UK FTSE 100 Index	7,679	0.2	0.7	4.2	2.5	-0.1	7,904	6,867	13.7
Germany DAX Index*	12,561	0.2	-1.1	0.2	0.9	-2.8	13,597	11,727	13.1
France CAC-40 Index	5,398	-0.6	0.5	-0.3	3.8	1.6	5,657	4,995	14.6
Spain IBEX 35 Index	9,725	-0.1	-0.7	-1.6	-8.0	-3.2	10,758	9,328	12.6
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	533	-1.3	-3.5	-6.0	1.5	-6.4	617	515	13.1
Japan Nikkei-225 Stock Average	22,698	0.4	0.6	2.4	12.7	-0.3	24,129	19,240	16.4
Australian Stock Exchange 200	6,286	0.3	1.8	7.1	9.1	3.6	6,306	5,639	16.0
Hong Kong Hang Seng Index	28,224	-1.1	-5.0	-7.2	5.6	-5.7	33,484	26,663	11.4
Shanghai Stock Exchange Composite Index	2,829	-0.1	-3.0	-7.9	-12.8	-14.5	3,587	2,691	11.3
Hang Seng China Enterprises Index	10,683	-0.6	-7.2	-11.4	-1.5	-8.8	13,963	10,405	7.6
Taiwan TAIEX Index	10,932	0.6	0.0	1.4	4.1	2.7	11,270	10,189	13.9
Korea KOSPI Index	2,289	-0.9	-3.2	-7.6	-6.3	-7.2	2,607	2,244	9.0
India SENSEX 30 Index	36,496	-0.1	2.7	6.0	14.4	7.2	36,748	31,082	19.0
Indonesia Jakarta Stock Price Index	5,873	-1.2	-0.2	-7.3	0.8	-7.6	6,693	5,558	15.0
Malaysia Kuala Lumpur Composite Index	1,755	1.9	2.6	-7.0	-0.1	-2.3	1,896	1,658	16.8
Philippines Stock Exchange PSE Index	7,400	0.0	1.9	-4.2	-6.4	-13.5	9,078	6,924	17.0
Singapore FTSE Straits Times Index	3,298	1.1	-0.5	-7.7	0.1	-3.1	3,642	3,176	13.2
Thailand SET Index	1,671	1.7	0.4	-7.2	6.1	-4.7	1,853	1,556	15.4
Latam									
Argentina Merval Index	27,625	4.2	-5.1	-11.3	28.7	-8.1	35,462	20,845	8.0
Brazil Bovespa Index*	78,571	2.6	8.9	-8.2	21.0	2.8	88,318	64,599	11.8
Chile IPSA Index	5,430	2.4	0.2	-4.6	7.8	-2.4	5,895	4,847	16.0
Colombia COLCAP Index	1,547	0.0	1.0	-0.9	5.4	2.2	1,598	1,415	15.5
Mexico S&P/BMV IPC Index	48,908	1.0	4.6	1.0	-4.4	-0.9	51,772	44,429	17.3
EEMEA									
Russia MOEX Index	2,248	-4.2	-0.4	0.7	15.5	6.5	2,379	1,904	5.7
South Africa JSE Index	56,990	1.1	0.6	-1.0	5.0	-4.2	61,777	53,027	14.1
Turkey ISE 100 Index*	94,082	4.7	-0.5	-15.2	-11.9	-18.4	121,532	88,169	6.8

*Indices expressed as total returns. All others are price returns.

Equity Indices - Total Return	1-week Change (%)	1-month Change (%)	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	-0.1	0.5	1.0	1.5	9.8	26.5	52.0
US equities	0.1	1.4	5.5	5.9	15.1	37.1	78.2
Europe equities	-0.3	1.0	-3.4	-2.4	3.0	10.1	26.3
Asia Pacific ex Japan equities	-1.3	-3.0	-4.9	-4.9	4.2	25.1	39.7
Japan equities	1.3	-1.4	-3.2	-1.7	9.0	19.7	35.3
Latam equities	0.2	4.9	-14.2	-7.2	-3.2	15.0	-7.3
Emerging Markets equities	-1.3	-2.3	-8.2	-7.0	2.4	21.6	25.6

All total returns quoted in USD terms and subject to one-day lag.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Emerging Latin America Total Return Index, and MSCI Emerging Markets Total Return Index

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bond indices - Total Return	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	517	0.1	0.7	1.1	1.8	0.5
JPM EMBI Global	780	-0.2	2.3	-1.1	-1.4	-3.5
BarCap US Corporate Index (USD)	2,831	-0.1	1.1	0.8	-0.8	-2.4
BarCap Euro Corporate Index (Eur)	246	-0.2	0.0	0.1	0.8	-0.4
BarCap Global High Yield (Hedged in USD)	465	0.1	0.6	-0.6	1.4	-0.8
Markit iBoxx Asia ex-Japan Bond Index (USD)	192	0.3	0.2	-0.5	-0.9	-2.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	241	0.8	-1.1	-3.8	-1.5	-4.5

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Currencies (vs USD)	Latest	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.17	1.17	1.16	1.23	1.16	1.20	1.26	1.15	0.3
GBP/USD	1.31	1.32	1.32	1.40	1.30	1.35	1.44	1.28	-0.7
CHF/USD	1.01	1.00	1.00	1.03	1.05	1.03	1.09	0.99	0.9
CAD	1.31	1.32	1.33	1.28	1.26	1.26	1.34	1.21	0.1
JPY	111.41	112.38	110.36	107.66	111.91	112.69	114.73	104.56	0.9
AUD	1.35	1.35	1.36	1.30	1.26	1.28	1.37	1.23	0.0
NZD	1.47	1.48	1.46	1.39	1.35	1.41	1.50	1.32	0.7
Asia									
HKD	7.85	7.85	7.85	7.84	7.81	7.81	7.85	7.79	0.0
CNY	6.77	6.69	6.47	6.30	6.76	6.51	6.81	6.24	-1.2
INR	68.85	68.53	68.08	66.11	64.43	63.87	69.13	63.25	-0.5
MYR	4.06	4.05	4.01	3.90	4.29	4.05	4.30	3.85	-0.3
KRW	1,134	1,123	1,105	1,067	1,126	1,067	1,150	1,054	-0.9
TWD	30.71	30.60	30.15	29.41	30.46	29.73	30.74	28.96	-0.3
Latam									
BRL	3.77	3.85	3.77	3.41	3.12	3.31	3.97	3.08	2.1
COP	2,879	2,860	2,926	2,760	3,000	2,986	3,080	2,685	-0.7
MXN	19.02	18.89	20.36	18.53	17.49	19.66	20.96	17.48	-0.7
EEMEA									
RUB	63.51	62.45	63.54	61.38	58.90	57.69	65.04	55.56	-1.7
ZAR	13.40	13.27	13.66	12.11	13.03	12.38	14.57	11.51	-1.0
TRY	4.79	4.84	4.73	4.08	3.53	3.80	4.97	3.39	0.9

Bonds	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	1-week Basis Point Change *
US Treasury yields (%)							
3-Month	1.97	1.97	1.92	1.80	1.14	1.38	0
2-Year	2.59	2.58	2.57	2.46	1.35	1.88	2
5-Year	2.76	2.72	2.81	2.80	1.82	2.21	4
10-Year	2.89	2.83	2.94	2.96	2.26	2.41	7
30-Year	3.03	2.93	3.08	3.15	2.83	2.74	9
10-year bond yields (%)							
Japan	0.03	0.04	0.03	0.06	0.07	0.04	-1
UK	1.23	1.27	1.30	1.48	1.20	1.19	-4
Germany	0.37	0.34	0.38	0.59	0.53	0.42	3
France	0.68	0.62	0.71	0.81	0.77	0.78	6
Italy	2.59	2.55	2.54	1.77	2.11	2.01	4
Spain	1.31	1.26	1.24	1.27	1.47	1.56	5
China	3.52	3.50	3.62	3.55	3.58	3.90	2
Australia	2.62	2.63	2.65	2.81	2.74	2.63	-1
Canada	2.18	2.13	2.18	2.34	1.88	2.05	4

*Numbers may not add up due to rounding

Commodities	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,232	-0.8	-2.8	-7.8	-1.0	-5.5	1,366	1,211
Brent Oil	73.0	-3.1	-2.3	-1.4	48.1	9.2	81	48
WTI Crude Oil	70.5	-0.8	6.4	3.0	50.6	16.6	75	45
R/J CRB Futures Index	193	-0.6	-1.2	-4.6	8.0	-0.6	207	175
LME Copper	6,065	-2.8	-10.5	-13.3	1.8	-16.3	7,348	5,946

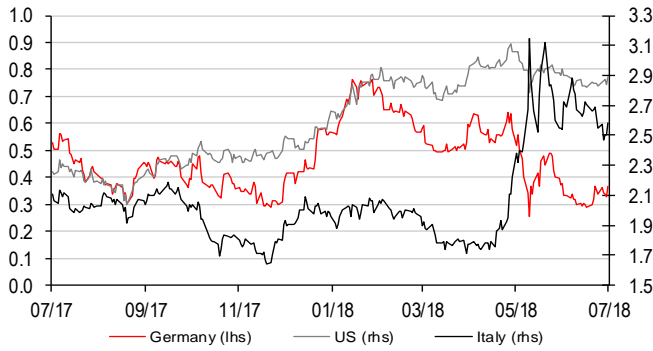
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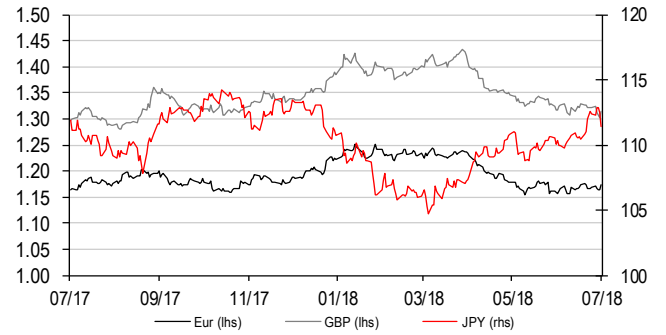
20/07/2018 Investment Weekly 6

Market trends

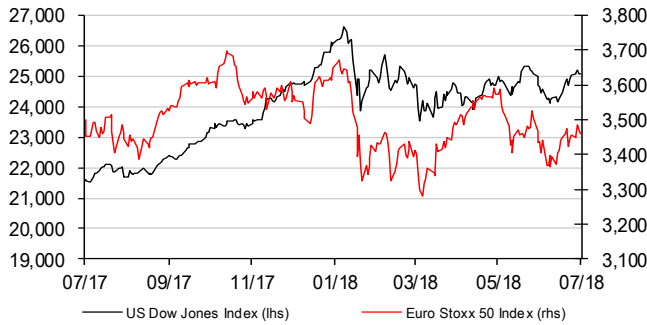
Government bond yields (%)



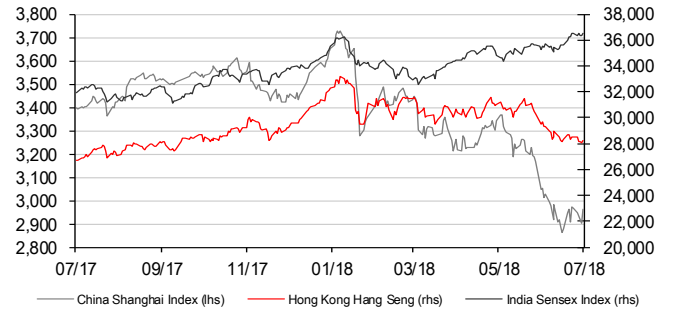
Major currencies (versus USD)



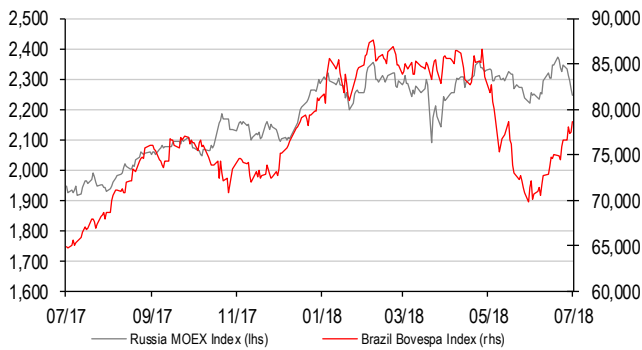
Global equities



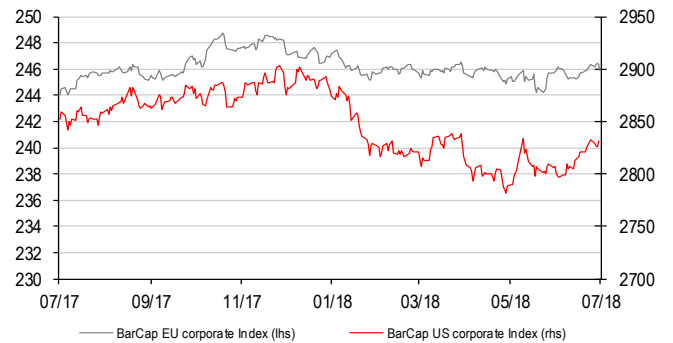
Emerging Asian equities



Other emerging equities



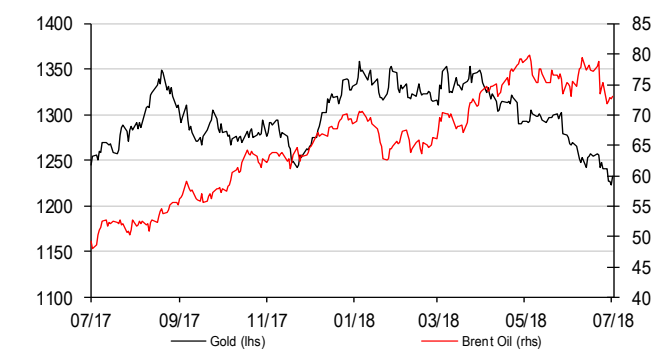
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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