

Investment Weekly

For Professional Client and Institutional Investor Use Only

This week in detail
 UK's Bank of England moved closer to an August rate hike

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The week ahead
 In the coming week, US and eurozone inflation prints will be in focus

[Read more >](#)

Market moves

Equities
 Global equities edged lower as escalating trade tensions weighed on investor sentiment

[Read more >](#)

Bonds.....
 US Treasury yields ended little changed this week, while core European bond yields fell

[Read more >](#)

Currencies.....
 Developed market currencies mostly rose against the US dollar

[Read more >](#)

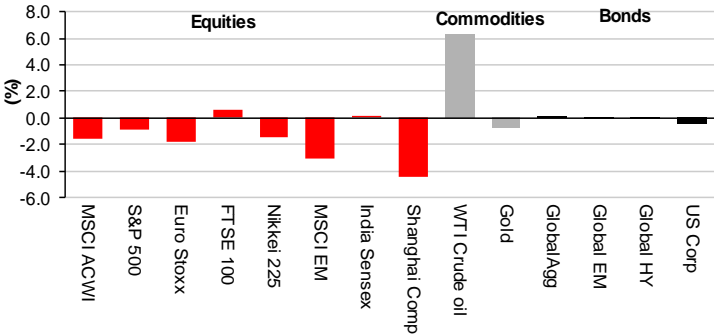
Commodities.....
 Oil prices rose as OPEC signalled its intention to boost oil output

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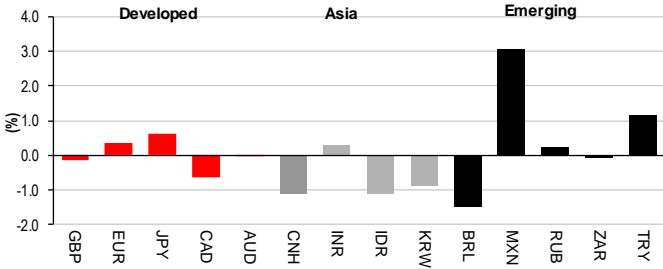
Market data.....

Market trends.....

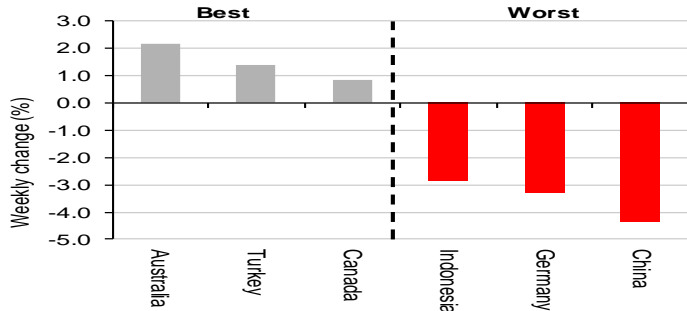
Movers and shakers



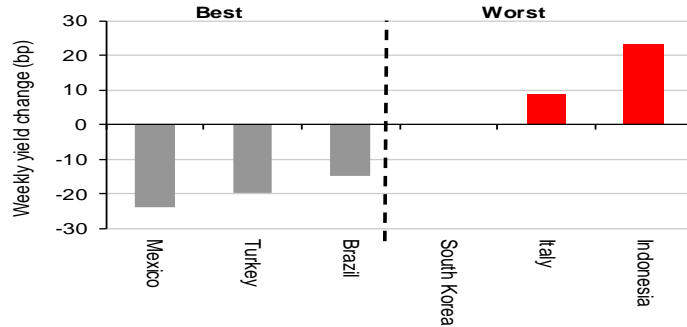
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 22 June 2018. All the above charts relate to 15/06/2018 – 22/06/2018. **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 18 June	US	NAHB/Wells Fargo Housing Market Index	Jun	70	68	70
Tuesday 19 June	US	Housing Starts (mom)	May	1.9%	5.0%	-3.1%
Wednesday 20 June	Brazil	COPOM Interest Rate Decision	Jun	6.50%	6.50%	6.50%
	US	Existing Home Sales (mom)	May	1.1%	-0.4%	-2.7%
	Portugal	ECB President Draghi, Fed Chair Powell and BoJ Governor Kuroda speak				
Thursday 21 June	UK	Bank of England Interest Rate Decision	Jun	0.50%	0.50%	0.50%
	Mexico	Banco de Mexico Interest Rate Decision	Jun	7.75%	7.75%	7.50%
Friday 22 June	Japan	National CPI, ex Fresh Food and Energy (yoy)	May	0.3%	0.3%	0.4%
	Eurozone	Markit Composite PMI	Jun P	53.9	54.8	54.1

P – Preliminary

US housing starts surprised to the upside, while the NAHB index and existing home sales disappointed expectations

At the Sintra conference, central bankers voiced their caution on the ongoing trade tensions

The Bank of England is edging towards an August rate hike

Mexico raised interest rates, while Brazil kept rates on hold

In the US this week, the economic calendar was dominated by three key housing market releases. The **National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index** disappointed expectations and unexpectedly fell to 68 in June, from 70 in May. Increasing input costs (e.g., lumber) have been weighing on the sentiment gauge in recent months. **US existing home sales** fell 0.4% mom in May (+1.1% expected, -2.7% previously), in part due to the lack of available housing inventory as the number of properties for sale fell 6.1% yoy. However, **US housing starts** surprised to the upside and rose 5.0% mom to 1,350,000 annualised in May, beating expectations of 1.9% mom and up from April's upwardly revised -3.1% (-3.7% previously). The details showed that both single-family starts (+3.9%) and the volatile multi-family category (+7.5%) rose in May.

On Monday, **President Donald Trump** said he had instructed the Office of the US Trade Representative to **identify higher tariffs (+10%) on an additional USD200 billion worth of Chinese imports** and threatened to impose tariffs on another USD200 billion of goods if China retaliates. He said "the US will no longer be taken advantage of on trade by China and other countries." On the other side, **China's** Ministry of Commerce said "if the US...publishes such a list, China will have to take comprehensive quantitative and qualitative measures and retaliate forcefully." The EU confirmed it will charge 25% higher import duties on USD3.2 billion of US goods from Friday as retaliation for the steel tariffs.

At the **Sintra conference** in Portugal this week, central bankers voiced their caution on the ongoing trade tensions. US Federal Reserve (Fed) Chair Jerome Powell noted "changes in trade policy could cause us to have to question the outlook" and that "for the first time, we're hearing about decisions to postpone investment, postpone hiring." Meanwhile, the European Central Bank's (ECB) Mario Draghi wondered about the effect of trade tensions on business confidence and investment, although he noted it's too early to see "what the consequences on monetary policy of all this can be." Finally, the Bank of Japan's Haruhiko Kuroda noted the indirect impact of the dispute could disrupt supply chain networks across East Asia.

Turning to economic data releases in Europe, the **Eurozone Composite PMI** rose by 0.7 points in June to 54.8, beating expectations of a slight fall (53.9). The gain was driven by a 1.2-point increase in the services component, while the manufacturing index fell back 0.5 points to 55.0. The numbers should ease concerns over a sharp slowdown in the region, with the composite index consistent with above-trend quarterly GDP growth.

There were three key central bank policy meetings this week. The UK's **Bank of England Monetary Policy Committee (MPC)** voted 6-3 to keep the Bank Rate on hold at 0.5%. The meeting minutes suggested the MPC continues to view the Q1 slowdown in UK GDP growth as temporary, focusing on the recent strength of consumer indicators and labour market data. All in all, this leaves the door open to a rate hike at the MPC's next meeting in August. In updated guidance, the MPC now expects to not reduce the stock of purchased assets until the Bank Rate "reaches around 1.5%, compared to previous guidance of around 2%."

As expected, the **Bank of Mexico** raised its overnight rate by 25 bps to 7.75% in a unanimous decision on a deterioration in the balance of risks for inflation. The forward guidance remained conservative and vigilant. Finally, the **Brazilian central bank** held the Selic rate at 6.50% for the second consecutive meeting, in a unanimous decision. The Copom changed its forward guidance by dropping the phrase "the next steps of monetary policy," and by opting to increase policy discretion going forward.

The week ahead

Macro Data and Key Events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 25 June	Germany	Ifo Business Climate Index	Jun	101.8	102.2
	US	New Home Sales (mom)	May	1.0%	-1.5%
Tuesday 26 June	US	S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index (yoy)	Apr	6.7%	6.8%
	US	Conference Board Consumer Confidence Index	Jun	128.0	128.0
Wednesday 27 June	US	Durable Goods Orders (mom)	May P	-1.0%	-1.6%
	US	Pending Home Sales (mom)	May	1.0%	-1.3%
Thursday 28 June	US	GDP Annualised (qoq)	Q1 F	2.2%	2.2% P
Friday 29 June	Japan	Jobless Rate	May	2.5%	2.5%
	Japan	Industrial Production (mom)	May P	-1.0%	0.5%
	UK	GDP (qoq)	Q1 F	0.1%	0.1%
	Eurozone	CPI Estimate (yoy)	Jun	2.0%	1.9%
	US	PCE Core (yoy)	May	1.9%	1.8%
	US	University of Michigan Index of Consumer Sentiment	Jun F	99.2	99.3

P – Preliminary, Q – Quarter, F – Final

In the coming week, US housing market data and the May core personal consumption expenditures inflation release will be in focus...

US

US housing market updates kick off the upcoming week, with **new home sales** anticipated to continue their steady uptrend and rise 1.0% mom in May to an annualised 669,000. Although rising mortgage costs may weigh on the outlook, activity remains underpinned by a solid labour market. Meanwhile, **pending home sales** are seen increasing by 1.0% mom.

Meanwhile, the **S&P CoreLogic Case-Shiller 20-City Composite Home Price Index** is likely to show an average 0.40% mom rise in house prices during the three months to April, a modest deceleration from the prior release. This would push annual growth slightly lower, to 6.7% yoy.

Although trade tensions are rattling financial markets, **US consumer confidence** is expected to remain unchanged at 128.0 in June, reflecting plentiful employment prospects and a boost to after-tax income.

Headline **US durable goods orders** could decline 1.0% mom in May, weighed down by a second monthly drop in commercial aircraft orders. However, underlying business equipment spending has remained resilient and orders for non-defence capital goods excluding aircraft – a core measure – are expected to increase by 0.5% mom.

Finally, the **PCE core deflator** – the Fed's preferred inflation gauge – is expected to pick up 0.1 ppt to 1.9% yoy, partially due to base effects. The Fed recently raised its 2018 core inflation projection to 2.0% yoy (+1.9% yoy previously).

Europe

Eurozone headline CPI inflation for June is anticipated to edge up to 2.0% yoy in the flash estimate. Although headline inflation has moved up towards the ECB's target in recent months, this has mainly been driven by energy inflation amid oil price movements. Underlying price pressures have remained muted, with core inflation over the month anticipated to drop back slightly to 1.0%.

Germany's Ifo Business Climate Index stabilised at 102.2 in May, following steady declines from the all-time high reached in November 2017 (105.2). There could be a further deterioration in June amid continuing concerns over global trade protectionism and recent weakness in German data releases.

Asia

Japan's jobless rate is expected to stabilise at 2.5% in May, as survey-based signals during the month were little changed. The job-to-applicant ratio is also expected to remain stable, at 1.59 (a 44-year high) for the fifth time in six months.

Japan's industrial production for May is expected to decrease by 1.0% mom, after three straight months of gains, amid concern about US-China trade tensions. The Ministry of Economy, Trade and Industry survey of production forecast for that month showed a 0.3% mom expected increase, followed by a decline of 0.8% in June.

...as will flash eurozone inflation numbers for June

Market Moves

Equities

Global equities edged lower as escalating trade tensions weighed on investor sentiment

Bonds

US Treasury yields ended little changed this week, while core European bond yields fell

Currencies

Developed market currencies mostly rose against the US dollar

Commodities

Oil prices rose as OPEC signalled its intention to boost oil output

Equities

US equities fell this week, as risk appetite was hit by escalating trade tensions between the US and China. US President Donald Trump asked officials to identify USD200 billion of Chinese goods to be subject to a 10% tariff. However, some support came from media reports suggesting that some US officials were trying to restart trade talks with China before the tariffs come into effect on 6 July. Overall, the S&P 500 Index closed 0.9% lower and the Dow Jones Industrial Average Index shed 2.0%.

European equity markets also declined over the week amid trade tensions. The EU confirmed it will begin charging 25% higher import duties on USD3.2 billion of US goods as retaliation for the US steel tariffs. This offset gains following better than expected June eurozone PMI numbers. The EURO STOXX 50 Index fell 1.8%, with a large drag from automobile stocks amid a negative corporate earnings announcement in the sector. However, the UK's FTSE 100 Index outperformed over the week (+0.6%), boosted by gains in consumer staples and energy stocks.

Asian stock markets sold off as tensions between the US and China on import tariffs escalated, weighing on investor sentiment. Chinese equities underperformed, with the Shanghai Stock Exchange Composite Index down 4.4%, although the People's Bank of China pledged to use monetary policy tools "comprehensively" to mitigate any US import tariff negative impact on China. Hong Kong shares also suffered. The Hang Seng Index finished the week down 3.2%. Japan's Nikkei 225 Index also ended lower (-1.5%).

Bonds

US Treasury yields fell at the beginning of the week (prices rose), as investors assessed the economic consequences of recent tariff threats. Speaking in Sintra, Portugal, Fed Chair Jerome Powell said that business contacts could delay investment and hiring amid rising protectionism. Nevertheless, two-year and 10-year bond yields gradually edged higher to close little changed at 2.54% and 2.89%.

Trade tensions, and lingering concerns over Italian politics following the appointment of two eurosceptics to key parliamentary posts, saw a diverging performance between core and peripheral **European government bonds**. Benchmark German 10-year bond yields shed 7 bps to 0.34% (prices rose) while Italian 10-year bond yields jumped 9 bps to 2.69%.

Currencies

At the beginning of the week, major developed currencies traded lower against the US dollar as a deteriorating global trade outlook benefited the greenback. However, the greenback took a dive on Thursday after the Philadelphia Business Outlook survey came in much weaker than expected. Eventually, sterling ended the week flat, also supported by a hawkish Bank of England June meeting, while the euro rose 0.4% against the US dollar.

In **Asian currency markets**, investors continued to assess the risk of a full-blown trade war between the US and China, with potential ripple effects on other Asian economies. In four countries dependent on exports (Korea, Taiwan, China and Thailand), currencies underperformed against the US dollar (the Thai baht fell 1.5%). The Japanese yen gained 0.6%, however, while the Indian rupee appreciated slightly (+0.3%).

Commodities

Crude oil prices edged up this week as OPEC signalled its intention to increase oil production. However, rather than specify a target increase in output, this would be done by complying more closely with the pact agreed in November 2016 to cut output by 1.2 million barrels per day, with output currently around 600,000-700,000 barrels per day below this level. Overall, Brent crude rose 3.1% to close at USD75.7 a barrel.

Meanwhile, **gold** prices retreated this week (-0.8% to USD1,269 per troy ounce), as Fed Chair Jerome Powell reaffirmed the case for gradual increases in US interest rates, weighing on the non-yield-generating asset.

Market Data

Equity Indices	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)
World									
MSCI AC World Index (USD)	509	-1.5	-1.6	0.2	9.3	-0.7	551	462	15.4
North America									
US Dow Jones Industrial Average	24,581	-2.0	-1.0	2.6	14.9	-0.6	26,617	21,197	16.1
US S&P 500 Index	2,755	-0.9	1.1	4.2	13.2	3.0	2,873	2,406	17.3
US NASDAQ Composite Index	7,693	-0.7	4.3	7.3	23.3	11.4	7,807	6,082	23.2
Canada S&P/TSX Composite Index	16,450	0.8	1.9	6.8	8.1	1.5	16,489	14,786	15.9
Europe									
MSCI AC Europe (USD)	459	-2.2	-5.7	-3.2	1.8	-5.9	524	449	13.8
Euro STOXX 50 Index	3,442	-1.8	-4.1	2.8	-3.2	-1.8	3,709	3,262	13.8
UK FTSE 100 Index	7,682	0.6	-2.5	10.5	3.3	-0.1	7,904	6,867	13.9
Germany DAX Index*	12,580	-3.3	-4.5	4.0	-1.7	-2.6	13,597	11,727	13.1
France CAC-40 Index	5,387	-2.1	-4.5	4.3	2.0	1.4	5,657	4,995	14.6
Spain IBEX 35 Index	9,792	-0.6	-3.4	3.2	-8.6	-2.5	10,772	9,328	12.7
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	548	-2.5	-3.5	-5.2	8.8	-3.8	617	499	13.2
Japan Nikkei-225 Stock Average	22,517	-1.5	-1.9	4.3	12.0	-1.1	24,129	19,240	16.3
Australian Stock Exchange 200	6,225	2.2	3.0	4.9	9.1	2.6	6,249	5,639	16.6
Hong Kong Hang Seng Index	29,339	-3.2	-6.1	-5.6	14.3	-1.9	33,484	25,200	11.5
Shanghai Stock Exchange Composite Index	2,890	-4.4	-10.1	-11.5	-8.2	-12.6	3,587	2,837	11.5
Hang Seng China Enterprises Index	11,340	-4.5	-8.2	-8.8	9.0	-3.2	13,963	10,204	7.7
Taiwan TAIFEX Index	10,899	-1.7	-0.4	-1.0	4.8	2.4	11,270	10,189	13.9
Korea KOSPI Index	2,357	-1.9	-4.4	-5.6	-0.6	-4.5	2,607	2,310	9.2
India SENSEX 30 Index	35,690	0.2	3.0	8.1	14.1	4.8	36,444	30,681	18.5
Indonesia Jakarta Stock Price Index	5,822	-2.9	1.2	-6.9	-0.1	-8.4	6,693	5,717	14.8
Malaysia Kuala Lumpur Composite Index	1,694	-3.8	-8.2	-9.7	-4.7	-5.7	1,896	1,678	16.3
Philippines Stock Exchange PSE Index	7,063	-6.2	-7.6	-13.1	-10.1	-17.5	9,078	6,924	16.2
Singapore FTSE Straits Times Index	3,287	-2.1	-7.2	-5.8	2.2	-3.4	3,642	3,193	13.1
Thailand SET Index	1,635	-4.1	-7.1	-9.1	3.4	-6.8	1,853	1,556	14.9
Latam									
Argentina Merval Index	30,211	0.2	-2.5	-5.3	43.9	0.5	35,462	20,614	8.0
Brazil Bovespa Index*	70,641	-0.2	-14.6	-16.7	15.3	-7.5	88,318	60,758	10.7
Chile IPSA Index	5,375	-1.7	-4.9	-2.6	13.0	-3.4	5,895	4,718	15.7
Colombia COLCAP Index	1,523	-1.2	-0.1	3.7	6.1	0.6	1,598	1,415	15.6
Mexico S&P/BMV IPC Index	46,738	-0.4	2.5	-1.3	-4.7	-5.3	51,772	44,429	16.1
EEMEA									
Russia MOEX Index	2,250	0.5	-3.3	-1.6	20.9	6.6	2,377	1,836	5.8
South Africa JSE Index	56,857	-1.4	-2.2	-0.6	11.3	-4.5	61,777	50,795	14.2
Turkey ISE 100 Index*	95,852	1.4	-7.2	-18.2	-4.2	-16.9	121,532	92,289	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	-1.5	-1.4	0.9	0.3	11.4	23.6	60.0
US equities	-1.1	1.2	4.5	3.8	14.7	34.7	85.9
Europe equities	-2.1	-5.4	-1.7	-3.9	4.7	6.4	33.2
Asia Pacific ex Japan equities	-2.5	-3.2	-4.5	-2.7	11.7	22.5	49.7
Japan equities	-1.9	-2.5	-2.4	-0.6	11.4	21.0	46.7
Latam equities	-0.8	-12.1	-20.0	-13.7	-0.6	0.7	-9.1
Emerging Markets equities	-3.0	-5.1	-9.2	-6.0	9.4	17.3	34.5

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)	514	0.1	0.8	0.3	0.7	-0.2
JPM EMBI Global	764	0.0	-0.7	-3.1	-2.8	-5.4
BarCap US Corporate Index (USD)	2,798	-0.4	0.3	-0.6	-1.7	-3.6
BarCap Euro Corporate Index (Eur)	246	0.1	0.4	0.1	0.7	-0.3
BarCap Global High Yield (Hedged in USD)	462	-0.1	-0.2	-0.5	1.8	-1.3
Markit iBoxx Asia ex-Japan Bond Index (USD)	191	0.0	0.1	-0.9	-0.9	-2.5
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	243	-0.3	-1.5	-2.8	-0.1	-3.6

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	1.16	1.18	1.23	1.12	1.20	1.26	1.11	0.4
GBP/USD	1.33	1.33	1.34	1.41	1.27	1.35	1.44	1.27	-0.1
CHF/USD	1.01	1.00	1.01	1.05	1.03	1.03	1.09	0.99	1.0
CAD	1.33	1.32	1.28	1.29	1.32	1.26	1.34	1.21	-0.6
JPY	109.97	110.66	110.90	105.28	111.33	112.69	114.73	104.56	0.6
AUD	1.34	1.34	1.32	1.30	1.33	1.28	1.36	1.23	0.0
NZD	1.45	1.44	1.44	1.39	1.38	1.41	1.47	1.32	-0.4
Asia									
HKD	7.85	7.85	7.85	7.85	7.80	7.81	7.85	7.79	0.0
CNY	6.51	6.44	6.37	6.34	6.83	6.51	6.84	6.24	-1.0
INR	67.83	68.02	68.04	65.11	64.60	63.87	68.46	63.25	0.3
MYR	4.00	3.98	3.97	3.91	4.29	4.05	4.30	3.85	-0.4
KRW	1,108	1,098	1,077	1,072	1,141	1,067	1,158	1,054	-0.9
TWD	30.29	30.01	29.91	29.14	30.44	29.73	30.64	28.96	-0.9
Latam									
BRL	3.79	3.73	3.65	3.31	3.34	3.31	3.97	3.08	-1.5
COP	2,916	2,896	2,853	2,860	3,028	2,986	3,103	2,685	-0.7
MXN	20.01	20.63	19.77	18.64	18.12	19.66	20.96	17.45	3.0
EEMEA									
RUB	62.99	63.14	61.22	57.26	59.99	57.69	65.04	55.56	0.2
ZAR	13.44	13.43	12.57	11.85	12.97	12.38	14.57	11.51	0.0
TRY	4.68	4.73	4.67	3.94	3.51	3.80	4.93	3.39	1.1

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	1.91	1.92	1.92	1.71	0.95	1.38	-1
2-Year	2.54	2.55	2.57	2.28	1.34	1.88	-1
5-Year	2.77	2.80	2.90	2.62	1.76	2.21	-3
10-Year	2.89	2.92	3.06	2.82	2.15	2.41	-3
30-Year	3.04	3.05	3.20	3.06	2.72	2.74	-1
10-year bond yields (%)							
Japan	0.03	0.03	0.05	0.03	0.05	0.04	0
UK	1.32	1.33	1.52	1.44	1.01	1.19	-1
Germany	0.34	0.40	0.56	0.53	0.25	0.42	-7
France	0.71	0.73	0.83	0.77	0.60	0.78	-2
Italy	2.69	2.60	2.32	1.88	1.90	2.01	9
Spain	1.35	1.29	1.45	1.28	1.37	1.56	6
China	3.59	3.62	3.68	3.78	3.58	3.90	-4
Australia	2.65	2.69	2.86	2.70	2.38	2.63	-4
Canada	2.13	2.22	2.49	2.18	1.50	2.05	-9

*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	1,269	-0.8	-1.7	-4.5	1.5	-2.6	1,366	1,205
Brent Oil	75.7	3.1	-4.9	9.8	67.4	13.2	81	45
WTI Crude Oil	69.2	6.3	-4.1	7.6	61.9	14.5	73	42
R/J CRB Futures Index	198	0.7	-4.2	1.2	18.6	1.9	207	166
LME Copper	6,786	-3.3	-2.8	1.4	18.2	-6.4	7,348	5,690

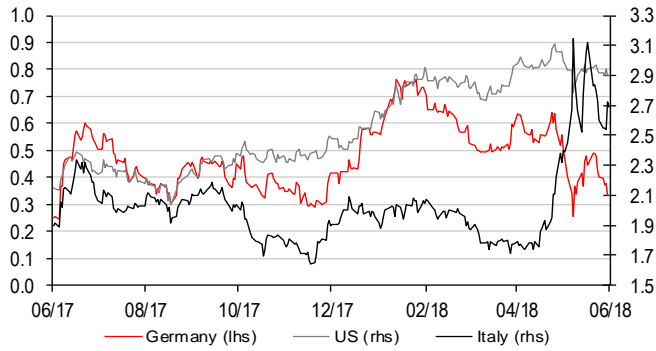
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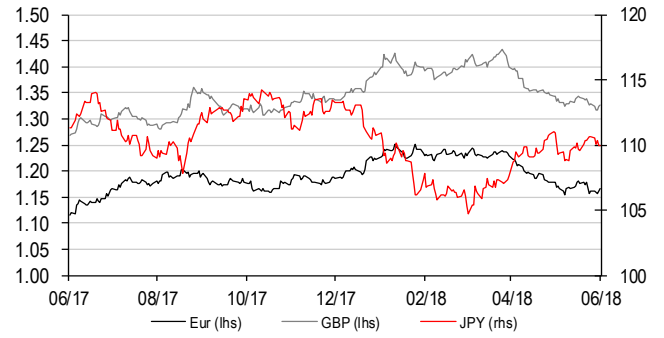
22/06/2018 Investment Weekly 6

Market Trends

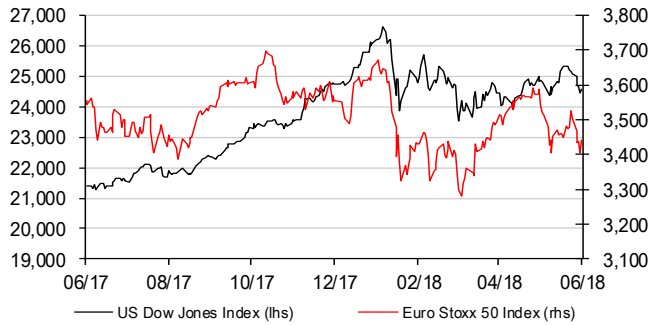
Government bond yields (%)



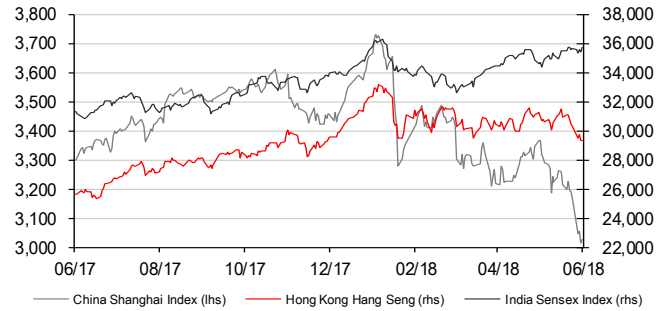
Major currencies (vs. USD)



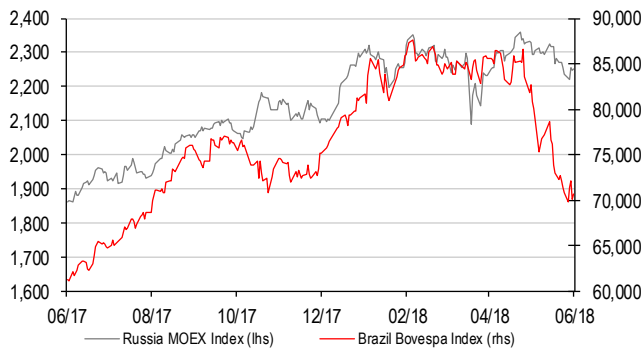
Global equities



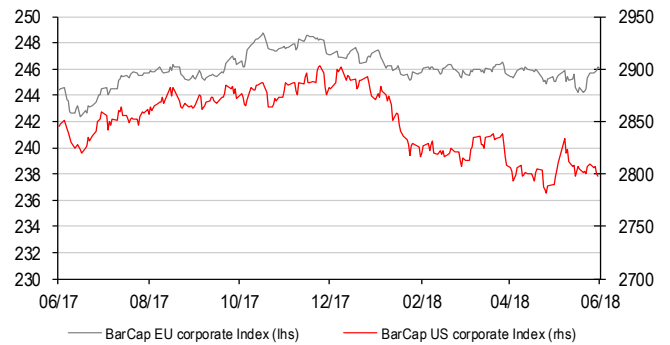
Emerging Asian equities



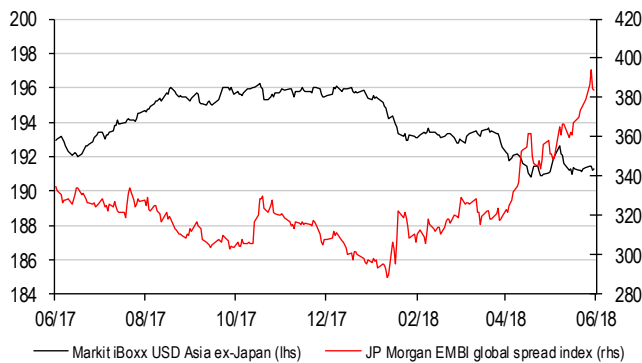
Other emerging equities



Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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