

# Strategy & Quantitative Research

## Weekly Brief

19<sup>th</sup> of June 2017

### WHAT WE LEARNED LAST WEEK

#### Markets: Lower peripheral spreads

- The Euro Stoxx index was negative with a weekly return of -1.2% at 3543 and the S&P 500 increased by 0.1% at 2433. The implied volatility was stable in Eurozone with a V2X index at 13.7 and in the US with the CBOE Vix index at 10.4.
- US West Texas Intermediate decreased at \$44.74.
- The German bund yield decreased by 1.6bps at 0.278% and the US 10Y yield decreased by 4.2bps at 2.156%.
- The French spread decreased by 3.4bps to 36bps. Peripheral spreads decreased by 0.5bps for Spain at 117bps and by 12.5bps for Italy at 170bps.

#### Europe: President Emmanuel Macron's party win a clear majority in the French parliament

- **French Legislative Elections:** President Emmanuel Macron's party win an absolute majority in the French parliament, which were marked by a record low turnout.
- **Greece:** As expected, the creditors bought time by finding an agreement on a new aid of €8.5bn. Germany obtained from the IMF that it participates in the aid plan without conceding debt restructuring. This restructuring issue is postponed to 2018, after the German parliamentary elections in September.

#### US: Even if the Core inflation weakened, a 3<sup>rd</sup> hike seems on track

- **Political:** President Donald Trump on Friday confirmed that he was under investigation by the FBI for obstruction of justice.
- **Inflation:** US Consumer Price Index fell 0.1% in May vs 0.2% increase expected, weighed down by declining prices for gasoline, apparel, airline fares, communication and medical care services, among others. U.S. consumer prices unexpectedly fell in May, suggesting a softening in domestic demand. The drop in inflation could limit the Fed's ability to continue raising interest rates this year. Retreating inflation pressures could worry policymakers who have previously viewed the softness as transitory.
- **Central Banking:** Fed raised rates for the 2<sup>nd</sup> time in 2017 (from 0.75-1 to 1-1.25) and specified the modalities of future gradual reduction of its balance sheet. Balance sheet reduction can begin in September by stopping to reinvest part of Treasuries and MBS: amounts not reinvested will be \$10bn/month with an increase of \$10bn/month each quarter until the total of \$50bn/month is reached. Even if the Core inflation weakened, the FOMC still sees another hike this year.

#### China: Chinese real estate is slowing, but growth is holding up

- **Political:** Activity remained driven by resilience of private consumption (stable and in line with expectations at 10.7% in May) and industrial production (stable at 6.5% and 10bp above expectations). The first effects of measures to contain housing bubble are beginning to be felt. Restrictions imposed in major cities have led to a slowdown in investment (8.6% in May vs. prior 8.9%) and fuel the idea that Q1 was the high point of Chinese growth this year.

### WHAT TO WATCH THIS WEEK

- **Monday:** Eurozone: Construction Output m/m (prior: -1.1%).
- **Tuesday:** US: Existing Home Sales (est: 5.51m, prior: 5.57m). Germany: PPI m/m (est: -0.1%; prior: 0.4%).
- **Thursday:** US: FHFA House Price Index m/m (est: 0.4%, prior: 0.6%); Eurozone: Trade Balance (est: 22.3b; prior: 23.1b); China: Retail Sales y/y (est: 10.7%; prior: 10.7%);
- **Friday:** Eurozone: Markit Manufacturing PMI (est: 56.7; prior: 57.0); US: Markit Manufacturing PMI (est: 53.0; prior: 52.7); New Home Sales (est: 599k; prior: 569k);