

## Strategy & Quantitative Research

# Weekly Brief

20<sup>th</sup> of August 2018

### WHAT WE LEARNED LAST WEEK

#### Markets: European equities fall continues

- The Euro Stoxx index decreased by 1.6% at 3372 while the S&P 500 increased by 0.6% at 2850. The implied volatility increased in Eurozone and decreased in US with a V2X index at 16.1 and with the CBOE VIX index at 12.6.
- US West Texas Intermediate slightly decreased at \$65.91.
- The German bund yield decreased by 1.8bps at 0.31% and the US 10Y yield increased by 1.4bps at 2.87%.
- The French spread was up by 1.3bps at 36bps. Peripheral spreads rose by 5.5bps for Spain at 117bps and by 14.7bps for Italy at 282bps.

#### Europe: Positive surprises on GDP growth and Turkey's underlying problems

- **Activity:** Preliminary GDP for Q2 Q/Q is up +0.4% from +0.3% while +0.3% was estimated. GDP Y/Y is up +2.2% while +2.1% was expected. Final July Core CPI Y/Y is at +1.1% as surveyed. Industrial Production SA in June is down -0.7% from +1.3% while -0.4% was expected. UK Core CPI YY in July is stable at +1.9% as expected. Germany GDP SA Q/Q for the Q2 is up +0.55 while +0.4% was surveyed. This sudden upgraded growth comes after a jump in spending in Germany. It boosted Eurozone growth to higher levels than initially indicated in the Q2 easing concerns over an export-led slowdown.
- **Turkey:** "Turkey's policymakers need to boost the credibility of their policy actions and independence of the central bank, as well as tolerate weaker growth, if they are serious about restoring economic stability and sustainability", according to Fitch. The Central Bank raised the effective interest rate by 1.5 percentage points. The country's regulator has also restricted short selling of the lira, and Qatar had also pledged to invest \$15bn in the country, although the plan is scant on details. Those efforts have helped stabilize the lira, but this ad hoc and incomplete policy response cannot fully address the underlying causes of the lira's fall, namely the large current account deficit and external financing requirements, the jump in inflation (to 15.9% in July), the build-up in foreign currency debt (30% of GDP), and deterioration in economic policymaking credibility while Turkey's reserves are notably low compared to its \$181 billion in short-term debt denominated in currencies other than the lira.

#### US: US jobless claims fall for a second straight week

- **Activity:** Initial jobless claims for the week ending August 11th were down to 212k from 213k (est 215k). Industrial production M/M in July is down +0.1% from +1.0% while +0.3% was surveyed.
- **Political:** As trade tensions rise between the US and China, the IMF and Central Banks have stepped in to warn that the confrontation could hurt global recovery.

#### China: China's industrial output growth stable in July

- **Activity:** July Industrial production Y/Y is stable at +6.0% while +6.3% was surveyed. July retail sales Y/Y is slightly down at +8.8% from +9.0% while +9.1% was surveyed.
- **Political:** China is set to impose additional 25% tariffs on \$16bn of US goods in response to the Trump administration's imposition of extra 25% tariffs on \$16bn of Chinese goods.

### WHAT TO WATCH THIS WEEK

- **US:** Preliminary Markit PMIs will be published next week
- **Europe:** Preliminary Markit PMIs for August should be published, Manufacturing PMI is expected stable at 55.1 while Services and Composite PMIs are expected slightly up from 54.2 to 54.4 and from 54.3 to 54.4.

#### ABN AMRO Investment Solutions - AAIS

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with a share capital of 4,324,048 euros  
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