Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

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The week at a glance

- **Market:** The equity markets have been volatile this week.
- **United States:** Core CPI rose 0.2% m/m, lifting the y/y rate to 2.3% from 2.2%.
- **Eurozone:** in Germany, the ZEW indicator dropped more than expected.

KEY FIGURE

0.1%

In June, headline CPI increased 0.1% m/m, growing 2.9% y/y (2.8% in May).

KEY FOCUS

The MSCI China A-shares Index has been one of the worst performing indices in Asia so far this year (-25% since its peak in January 2018). Returns have been particularly negative since the first tranche of A-shares were included in the MSCI China index at the beginning of June.
The correction contributed to improving MSCI China A-share valuations, which are now trading at the same forward Price Earnings ratio as the MSCI China and MSCI EM Asia. Moreover, the A-share premium vs. its H-shares counterparts is close to the lowest levels we have seen since 2015.
A-shares are also attractive for profitability, improving balance sheets and decreasing companies' debt. On the negative side:
1) earnings momentum has slowed markedly;
2) concerns remain over the deleveraging process and Fed rate hikes in the U.S.;
3) the U.S.-China trade dispute is escalating further after the announcement of an additional $200 bn in tariffs on Chinese products. A neutral stance is more prudent in the short-term.

KEY DATES

July 26th	July 31st	August 1st
European Central Bank (ECB) monetary policy committee	Japan Central Bank (BOJ) monetary policy committee	Federal Reserve Bank (Fed) monetary policy committee

Source: Amundi Strategy

Our weekly **analysis**

Theresa May has shifted the UK's position towards a softer Brexit.

A few days after overcoming a parliamentary revolt from pro-EU Conservatives, UK Prime Minister Theresa May continued on her precarious path by pushing her Cabinet to accept a more conciliatory position towards the EU versus the one she had seemed ready to accept up to now. This plan calls for :
1) initial alignment of regulations governing the goods market,
2) the fact that the UK, while being free to strike trade agreements with other countries, would collect customs duties on its goods on the EU's behalf (in order to enable frictionless trade between the EU and the UK and, in particular, to avoid customs checks being reinstated at the Irish border),
3) acceptance of limited access to the European services market, and
4) the end to free movement of people. This shift in the UK's position led to the resignation of two highly anti-EU heavyweights in the government, namely Foreign Secretary Boris Johnson and Brexit Secretary David Davis,

The hard Brexit camp might want to bring Theresa May down now. However, given the internal struggles in the Conservative Party (other proponents of a hard Brexit continue to support the Prime Minister), it is unlikely that they would succeed. Furthermore, it is not necessarily in their interest. Indeed, the majority of Parliament is strongly against a hard Brexit, while a political crisis could trigger new elections, a possible victory for the Labour Party and, ultimately, even reverse the Brexit process itself.

The most likely scenario is that Theresa May will remain at the helm to tackle the next steps, i.e. further parliamentary attempts by pro-EU MPs and, above all, continuing negotiations with the EU itself. The Europeans are primarily concerned with maintaining the integrity of their single market and ensuring that the UK's withdrawal does not cause issues for other countries, and so will demand additional concessions (either pushing towards the UK remaining in the single market, or for a very specific status limited to Northern Ireland). It is likely that the UK will, again, shift its position (more so than the EU would be willing to shift its own position) and that an agreement could be reached for a soft Brexit to happen in March 2019, followed by a long transition period. However, uncertainty is likely to be rife until that happens.

Index	Return			
Equity markets	**07/13/18**	1 W	1 M	YTD
S&P 500	2798	1.4%	0.8%	4.7%
Eurostoxx 50	3459	0.3%	-0.6%	-1.3%
CAC 40	5432	1.1%	-0.4%	2.3%
Dax 30	12567	0.6%	-2.5%	-2.7%
Nikkei 225	22597	3.7%	-1.6%	-0.7%
MSCI Emerging Markets (close -1D)	1070	1.0%	-5.8%	-7.5%
Commodities - Volatility	**07/13/18**	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	74	-4.5%	-4.1%	10.1%
Gold ($/ounce)	1242	-1.1%	-4.4%	-4.6%
VIX	12	-0.9	-0.5	1.4
FX markets	**07/13/18**	1 W	1 M	YTD
EUR/USD	1.16	-0.9%	-1.3%	-3.2%
USD/JPY	113	2.1%	2.2%	0.1%
EUR/GBP	0.89	0.2%	0.5%	-0.4%
EUR/CHF	1.17	0.4%	0.4%	-0.3%
Credit markets	**07/13/18**	1 W	1 M	YTD
Itraxx Main	+66 bp	-3 bp	-3 bp	+21 bp
Itraxx Crossover	+298 bp	-9 bp	-3 bp	+66 bp
Itraxx Financials Senior	+79 bp	-5 bp	-3 bp	+35 bp

Index	Return			
Fixed Income markets	**07/13/18**	1 W	1 M	YTD
EONIA	-0.36	--	--	-2 bp
Euribor 3M	-0.32	-	-	+1 bp
Libor USD 3M	2.34	+1 bp	--	+64 bp
2Y yield (Germany)	-0.64	+2 bp	-5 bp	-1 bp
10Y yield (Germany)	0.34	+5 bp	-14 bp	-8 bp
2Y yield (US)	2.59	+5 bp	+2 bp	+71 bp
10Y yield (US)	2.85	+2 bp	-12 bp	+44 bp
Eurozone Sovereigns 10Y spreads vs Germany	**07/13/18**	1 W	1 M	YTD
France	+29 bp	-6 bp	-7 bp	-7 bp
Austria	+19 bp	-7 bp	-11 bp	+3 bp
Netherlands	+10 bp	-6 bp	-7 bp	-
Finland	+9 bp	-8 bp	-9 bp	-8 bp
Belgium	+30 bp	-8 bp	-7 bp	+10 bp
Ireland	+48 bp	-2 bp	-6 bp	+24 bp
Portugal	+140 bp	-11 bp	-7 bp	-12 bp
Spain	+94 bp	-8 bp	+1 bp	-20 bp
Italy	+227 bp	-16 bp	-6 bp	+68 bp

Source: Bloomberg. Amundi Strategy - 07/13/2018 - 3.00pm