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Weekly Report 19.2.2018

Weekly Trading Information – Markets update

It was exactly the opposite picture from the previous weeks in equity markets, with most indices returning 4-5% in a dramatic turnaround. Investors realized that the 10% drop in just two weeks was primarily the product of a "technical" sell off, triggered by the so called "risk parity" funds, and rushed to buy back battered down stocks. For sure, the lesson is learned and volatility will remain elevated for months to come, as the bond market has yet to stabilize and inflation has become the biggest fear of the markets. Interestingly, the bond market behaved rather well on the day of the announcements of the US Inflation numbers (Core CPI at 0.3% vs 0.2% expected). What perhaps helped was the simultaneous announcement of the US Retail Sales for January which were much worse than expected (0% vs 0.5% expected) and at the same time the US GDP forecast for Q1 was significantly downgraded. The market's focus has also shifted to Japan, where the JPY has strengthened a lot and the government announced that Mr Kuroda, the Bank of Japan Head and the architect of ultra loose monetary conditions will be re-nominated for a second term. But the two deputies were replaced and one of them is seen by the market as "less dovish" than hoped. It would be interesting to see if the BoJ's stance on its own monetary policy starts to swift in the coming months.

In corporate news, Kering (+7%) announced a 25% increase in sales in 2017 and a 56% increase in net income, while it raised its dividend by 30%. The market initially did not like its guidance for 2018, which included a potential hit by the EUR appreciation, but the stocks recovered to outperform the market on the weekly close. Carrefour (+8%) also outperformed the market as a series of upgrades by brokers helped the stock, which under the new CEO is following an aggressive strategy to recover from multiyear lows. On the negative side, Nestle (0%) dropped to one year lows, as the firm disappointed the market with a 1.9% organic sales growth for 2017, vs the firm's target of minimum 2% , while it maintained its target of 2-4% for 2018.

Bonds were rather stable, trading on the negative side, right after the US inflation numbers, but recovering the following days to close the week almost unchanged. The 10 year US Treasury yield is at 2.87%, vs 2.86% of last week, but the 10 year German Bund yield moved lower to 0.72 vs 0.77% of last week.

Gold moved higher to test the 1'360 once again, failed and moved lower to 1'350, as the USD recovered. Gold's action as mentioned before is torn among factors which usually influence its price action, such as the USD moves, the inflation expectations and the interest rates. As volatility has picked up and will most probably remain elevated, Gold could provide a good hedge, especially given its successful test of 1'300$ recently.

The USD had a dramatic turnaround on Friday, with no obvious news. As the EURUSD was trading above 1.2500, to test the 1.2550 levels, it crashed in a matter of hours to close the week below 1.2400. It looks as if the market is selling the 1.25-1.26 area, rather aggressively at this point (see chart of the week). The JPY strengthened up to 105.50 vs the USD, a very important level on its way towards 100.0, but the USD broad rally brought the rate back to 106.50.

Global Equity Indices					
	Level	%YTD	% WTD	52 wk low	52 wk high
Dow Jones	25219.4	2.0	4.3	20379.6	26616.7
S&P500	2732.2	2.3	4.5	2322.3	2872.9
Nasdaq	7239.5	4.9	5.3	5769.4	7505.8
Russell 2000	1543.6	0.5	4.4	1335.0	1615.5
Germany DAX30	12452.0	-3.6	2.8	11693.7	13596.9
France CAC40	5281.6	-0.6	4.0	4806.5	5567.0
Eurostoxx50	3426.8	-2.2	3.0	3280.4	3708.8
Swiss SMI	8986.7	-4.2	3.5	8433.4	9616.4
UK FTSE 100	7294.7	-5.1	2.9	7073.0	7792.6
Italy FTSEMIB	22797.9	4.3	2.8	18535.5	24050.2
Greek ASE	846.1	5.4	2.1	627.3	895.6
Japan Topix	1737.4	-2.3	2.2	1452.2	1911.3
China	3199.2	-3.3	2.2	3016.5	3587.0
Hong Kong	31115.4	4.0	5.4	23438.9	33484.1
Emerging Markets	1199.7	3.6	5.0	922.9	1273.1
MSCI World	2137.9	1.6	4.2	1830.3	2249.7

High Conviction Portfolio

	YTD %	WTD	DIV YIELD	CURRENCY	SECTOR
Societe Generale	8.1	**5.4**	4.7	EUR	Financials
Siemens	-4.3	**3.9**	3.3	EUR	Industrials
Lloyds	-0.5	**1.8**	4.0	GBp	Financials
Dufry AG	-3.7	**4.6**	0.0	CHF	Consumer Discretionary
Carrefour SA	8.3	**6.8**	3.6	EUR	Consumer Staples
Nokia	19.6	**6.3**	4.1	EUR	Information Technology
Roche Holding AG	-8.5	**4.4**	3.7	CHF	Health Care
Imperial Brands	-16.1	**0.8**	6.4	GBp	Consumer Staples
Nestle	-9.6	**0.1**	3.1	CHF	Consumer Staples
Barclays	-1.5	**3.7**	1.5	GBp	Financials
IBM	1.8	**4.5**	3.8	USD	Information Technology
BNP Paribas	3.9	**2.3**	4.7	EUR	Financials
Vonovia	-9.6	**2.8**	3.0	EUR	Real Estate
Valeo	-3.1	**3.6**	2.1	EUR	Consumer Discretionary
BHP	3.6	**6.9**	4.2	GBp	Materials
Daimler	2.4	**3.4**	5.0	EUR	Consumer Discretionary
Sanofi	-10.2	**1.8**	4.6	EUR	Health Care
Deutsche Telekom	-11.1	**1.5**	4.6	EUR	Telecom Services
Telefonica	-6.0	**1.5**	9.5	EUR	Telecomn Services
Kering	-0.1	**7.0**	1.5	EUR	Consumer Discretionary
Vodafone	-12.9	**1.4**	6.4	GBp	Telecom Services
SUEZ	-25.4	**-1.4**	5.9	EUR	Utilities
Starbucks Corp	-1.7	**3.5**	2.1	USD	Consumer Discretionary
WPP	9.7	**14.8**	4.1	GBp	Consumer Discretionary
Logitech	15.7	**8.0**	1.6	CHF	Information Technology
Adient	-21.4	**2.0**	1.7	USD	Consumer Discretionary
Straumann	-1.6	**8.1**	0.6	CHF	Health Care

YTD: year to date return,
WTD: week to date return

Chart of the Week

A busy chart and difficult to read in detail by Kepler-Cheuvreux, but the big picture is very clear. The EURUSD price action shows currently three signs which in the past 10 years have coincided with medium term top. In particular:

a) It has hit the upper side of the still downtrend channel.
b) The duration of the rally is exactly equal to the typical 13-14 month recovery rally.
c) It is in such overbought territory, similar to previous tops (bottom part of the chart).

All in all it looks like 1.25-12.6 could be the short term top.

Weekly EUR/USD since historical top posted in 2008 and common 23% swings

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