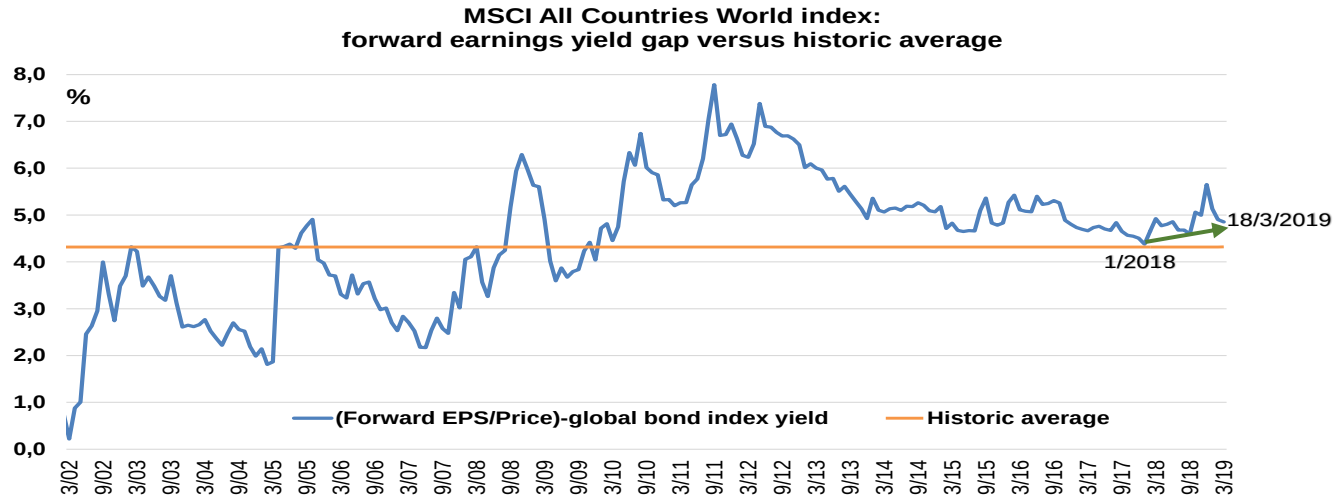
ALPHA BANK

Global Markets Minesweeper

March 22, 2019

Global Markets Analysis
INVESTMENT PORTFOLIOS
MANAGEMENT DIVISION

In the current week, risk-on sentiment continued. Dropping government bond yields have enhanced the attractiveness of global equities. The MSCI All countries world index increased at a high (19/3: 514.5) since October 2018. The difference between forward earnings yield (expected earnings per share 12-month divided by the price) minus the yield of the global aggregate bond index is higher than it was one-year ago and above the historic average.



Source: Bloomberg (Barclays Global aggregate bond index: yield to worst)

The drop of government bond yields was triggered by slowing growth and supportive monetary policy by the main Central Banks. The **Fed** maintained its benchmark rate at 2.25%-2.50% and revised lower its projection for the rate, expecting no change in 2019 (down from previously expecting two hikes). For 2020, the Fed expects one hike. **US** leading indicators increased by 0.2% on monthly basis in February, but the yearly rise was the lowest (3%, historic average: 2.5%) since February 2017. **Eurozone** consumer confidence index increased in March, but still at a level (-7.2, February: -7.4) below the 12-month average (-6.3). **German** PMI manufacturing dropped at a low (44.7) since 2012.

The week ahead:

In the **Eurozone,** the announcement of the economic confidence index (28/3) for March will be key, after eight consecutive dropping months and weak PMI manufacturing (22/3). **German** IFO business climate index (25/3) has likely slightly increased in March. **US** consumer confidence (26/3) is expected marginally higher in March.

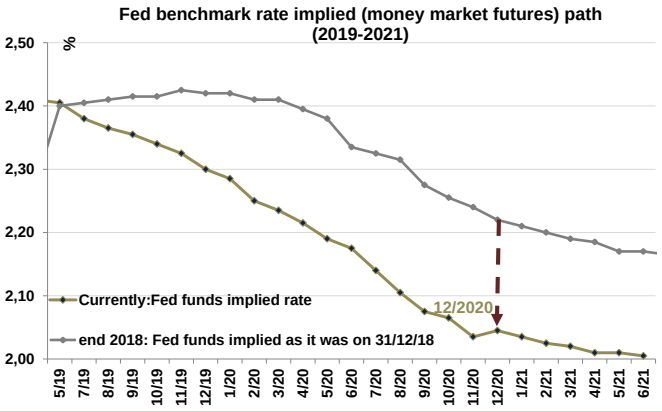
Slowing economic growth and accommodative monetary policy by major Central Banks triggered low government bond yields. **This has enhanced search for yield and risk-on environment. The hypothesis is that growth will be slower, but not worryingly slow.** In case, unexpectedly too low growth becomes evident, then low government bond yields may be interpreted as negative, as an indication of fading economic activity, rather than positive. Economic figures in the period ahead, but also other issues (such as the direction of Brexit, US-China trade talks) will affect how investors will interpret low government bond yields: as a positive (as currently) or as a negative (if coupled with too low growth). In the next week, there will be a third vote in the **UK** regarding the withdrawal deal. If it is accepted then the Brexit will likely be "orderly" (with transition period starting from May 22). If it is rejected, the UK will have until April 12 (not March 29), to decide whether a much longer Brexit delay will be requested or a "disorderly" (no deal) Brexit may happen. **The focus at least until April 12, will be about Brexit: will it be "orderly" (with transition period), "disorderly" (with no deal/no transition) or it will not happen at all. US economic figures will also be in focus.**

Quote of the Week:

The President of the Fed said (20/3): "Growth is slowing somewhat more than expected".

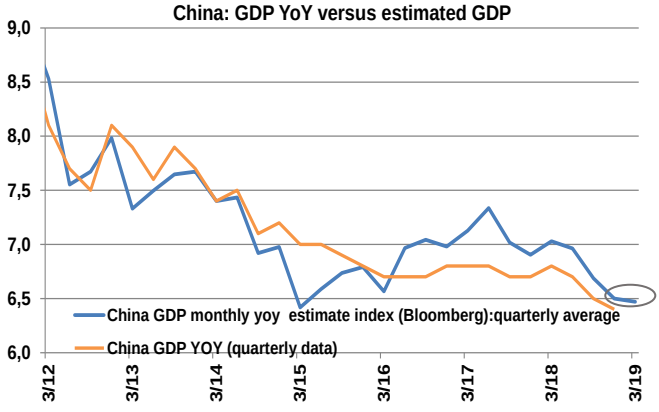
Global Markets in Charts

- The **Fed** maintained its benchmark rate unchanged at 2.25%-2.50% (20/3), as it was expected, but revised lower its forecast, indicating unchanged rate for all 2019. For 2020, the Fed expects one rate at 2.50%-2.75%, down from 3%-3.25% previously. Futures money market reflects an even lower benchmark rate at the area of 2% at the end of 2020. The Fed downgraded its forecast for GDP growth at 2.1% in 2019 (previous estimate: 2.3%).

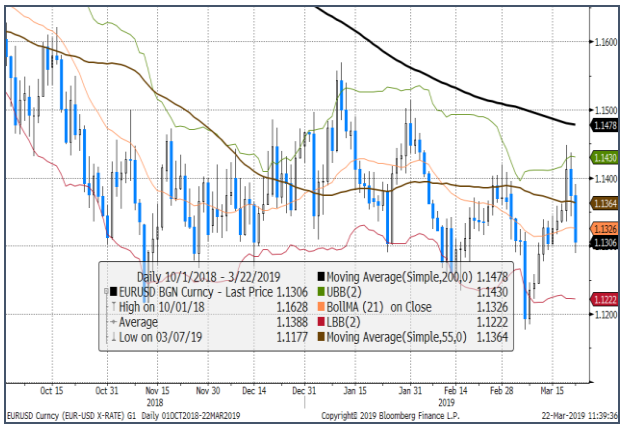


- In the **US,** the S&P 500 index increased at a high (21/3: 2,860.3) since October 2018, as the hesitant stance of the Fed and low government bond yields have supported risk-taking. Resistance is at 2,874 (10/10/18) and at 2,941 (historic high of 21/9/18). Support is at the area of 2,750 (200-day average, 11/3/19 low) and at 2,650 (30/1/19 low).

- The MSCI **Emerging** markets index increased this week at a high (21/3: 1,075.4) since August 2018. Resistance is at 1,120 (20% from 2018 low of 935), at 1,150 area and 1,197 (Fibonacci retracement 61.8%, 76.4%: 1,279-930). Support is at 1,025 (8/3/19 low, 200-day average). Fed's rate pause, low US government bond yields, reform expectations in Brazil, quite attractive valuation in Russia and China, as well as strong growth in India have contributed to the recovery of the emerging index. Worries over Chinese growth may have been exaggerated, as the first quarter 2019 yearly growth will likely be not weak, close to 6.5%.



- **Eurozone** PMI manufacturing index dropped in March at a low (47.6) since April 2013, indicating contraction of the sector and rising risk for the economy. EUR/USD had posted high (20/3: $1.1448) since February 4, but retreated at $1.1289 after the PMI figures were released (22/3). Resistance is at $1.1490 (200-day average, 1/2/19 high), at $1.1570 (10/1/19 high). Support is at $1.1180 (7/3/19 low) and at $1.1080 (18/5/17 low).



Source: Bloomberg

Global Markets Minesweeper

Event Risk Calendar, 25 - 29 March, 2019

		Monday 25/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
25/3 11:00	GE	IFO Business Climate	Mar	98.7	98.5	
25/3 11:00	GE	IFO Expectations	Mar	94.1	93.8	
25/3 11:00	GE	IFO Current Assessment	Mar	103	103.4	
25/3 16:30	US	Dallas Fed Manf. Activity	Mar	9.6	13.1	
		Tuesday 26/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
26/3 01:50	JN	PPI Services (YoY)	Feb	1.20%	1.10%	
26/3 09:00	GE	GfK Consumer Confidence	Apr	10.8	10.8	
26/3 09:45	FR	GDP (QoQ)	4Q F	0.30%	0.30%	
26/3 09:45	FR	GDP (YoY)	4Q F	0.90%	0.90%	
26/3 14:30	US	Housing Starts (MoM)	Feb	-1.60%	18.60%	
26/3 14:30	US	Building Permits (MoM)	Feb	0.20%	-0.70%	
26/3 15:00	US	FHFA House Price Index (MoM)	Jan	0.40%	0.30%	
26/3 15:00	US	S&P CoreLogic CS 20-City (MoM) SA	Jan	0.30%	0.19%	
26/3 16:00	US	Richmond Fed Manufact. Index	Mar	12	16	
26/3 16:00	US	Conf. Board Consumer Confidence	Mar	132	131.4	
Eco Event	EC	Philadelphia Fed's Harker speaks In Frankfurt (09:45)				
Corp. Results		US: Carnival Corp				
		Wednesday 27/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
27/3 13:00	UK	CBI Retailing Reported Sales	Mar	5	0	
27/3 14:30	US	Trade Balance	Jan	-$57.3b	-$59.8b	
27/3 16:00	US	Current Account Balance	4Q	-$130.0b	-$124.8b	
Eco Event	EC	ECB President Mario Draghi speaks in Frankfurt (10:00)				
	US	Kansas City Fed President George speaks (23:30)				
		Thursday 28/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
28/3 11:00	EC	M3 Money Supply (YoY)	Feb	3.90%	3.80%	
28/3 12:00	EC	Economic Confidence	Mar	106	106.1	
28/3 12:00	EC	Consumer Confidence	Mar F	-7.2	-7.2	
28/3 14:30	US	GDP Annualized (QoQ)	4Q T	2.30%	2.60%	
28/3 14:30	US	Personal Consumption	4Q T	--	2.80%	

28/3 14:30	US	Initial Jobless Claims	23-Mar	--	221k	
28/3 15:00	GE	CPI (YoY)	Mar P	1.50%	1.50%	
28/3 16:00	US	Pending Home Sales (MoM)	Feb	0.50%	4.60%	
28/3 17:00	US	Kansas City Fed Manf. Activity	Mar	--	1	
Corp. Results		US: Accenture PLC				
		Friday 29/3				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
29/3 01:30	JN	Jobless Rate	Feb	2.50%	2.50%	
29/3 01:30	JN	Tokyo CPI Ex-Fresh Food (YoY)	Mar	1.10%	1.10%	
29/3 01:50	JN	Industrial Production (MoM)	Feb P	1.30%	-3.40%	
29/3 01:50	JN	Retail Sales (MoM)	Feb P	0.80%	-1.80%	
29/3 02:01	UK	GfK Consumer Confidence	Mar	-14	-13	
29/3 07:00	JN	Housing Starts (YoY)	Feb	-0.10%	1.10%	
29/3 09:00	GE	Retail Sales (MoM)	Feb	-1.00%	2.90%	
29/3 09:00	GE	Retail Sales (YoY)	Feb	2.10%	2.60%	
29/3 09:45	FR	CPI (YoY)	Mar P	1.20%	1.30%	
29/3 10:55	GE	Unemployment Claims Rate SA	Mar	4.90%	5.00%	
29/3 11:30	UK	GDP (YoY)	4Q F	1.30%	1.30%	
29/3 11:30	UK	Current Account Balance (GBP)	4Q	-22.5b	-26.5b	
29/3 12:00	EC	CPI Core (YoY)	Mar A	1.00%	1.00%	
29/3 12:00	EC	CPI Estimate (YoY)	Mar	1.50%	1.50%	
29/3 14:30	US	Personal Spending (MoM)	Jan	0.30%	-0.50%	
29/3 14:30	US	PCE Core (YoY)	Jan	1.90%	1.90%	
29/3 15:45	US	MNI Chicago PMI	Mar	61.9	64.7	
29/3 16:00	US	New Home Sales (MoM)	Feb	2.50%	-6.90%	
29/3 16:00	US	U. of Mich. Sentiment	Mar F	97.8	97.8	
Eco Event	US	Fed's Quarles speaks (18:05)				

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