ALPHA BANK

Global Markets Minesweeper

October 5, 2018

Global Markets Analysis
INVESTMENT PORTFOLIOS
MANAGEMENT DIVISION

In the current week, US economic figures indicated strong growth pace. ISM non-manufacturing index increased in September at a high (61.6) since August 1997. Strong economic growth has been reflected in the rise of the US 10-year government bond yield, which posted the highest level (3.23%) since May 2011 (10-year average: 2.5%). German 10-year yield posted the highest level (5/10: 0.57%, 200-days average: 0.49%) since May. In the Eurozone, the unemployment rate dropped in August at the lowest level (8.1%) since 2008. It is doubtful whether government bond yields can rise further from here. This doubt stems from the expectation that the remaining increases of the Fed funds rate will likely be limited around the area of 3% by the end of 2019 (from 2%-2.25% now), a level probably already reflected in markets. The Chairman of the Federal Reserve highlighted the strength of US economy. His message about rates was mixed. He said that "interest rates are still accommodative, but we're gradually moving to a place where they'll be neutral. We may go past neutral. But we're a long way from neutral at this point, probably".

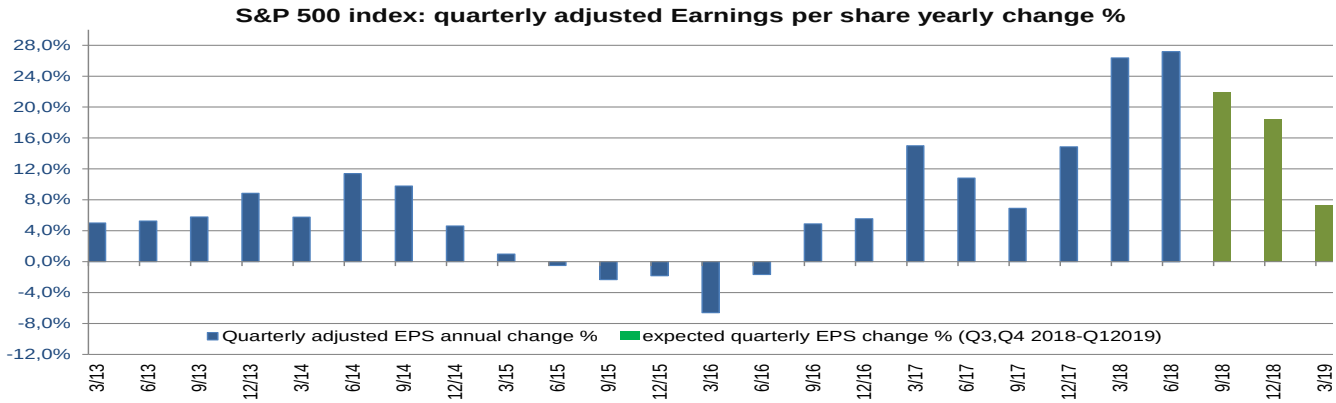
Some worries around protectionism measures, tense relations between US-China, Brexit negotiations, Italy-EU budget talks could support government bond prices, mainly in the US. The MSCI All countries world index dropped so far this week by 1.15%, but maintains positive total return year to date (3.1%, in euro terms: 7.7%).

The week ahead:

US inflation figures for September will be announced on October 11. IMF will release its world economic outlook on October 9.

US headline inflation (11/10) may have dropped in September at 2.4% from 2.7% in October. Core inflation has probably risen at 2.3% from 2.2% on August. University of Michigan consumer confidence index (12/10) may have marginally increased in October.

The S&P 500 index is expected to post strong annual increase of earnings per share in the third quarter (around 22%).



Source: Bloomberg

Among S&P 500 companies which will report economic results next week are: JPMorgan, Citigroup, Wells Fargo (12/10).

Eurozone industrial production (12/10) may have risen on monthly basis in August, but the year over year change is expected lower. **UK** industrial production (10/10) may have increased both on monthly and yearly basis in August.

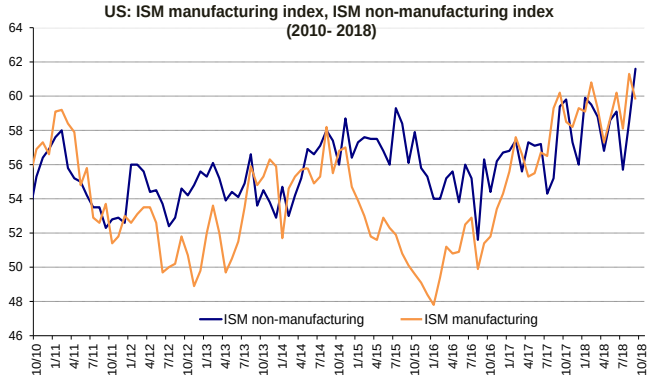
Markets focus will be on US employment figures today (5/10) and the announcement of economic results of US corporations for the third quarter during October.

Quote of the Week

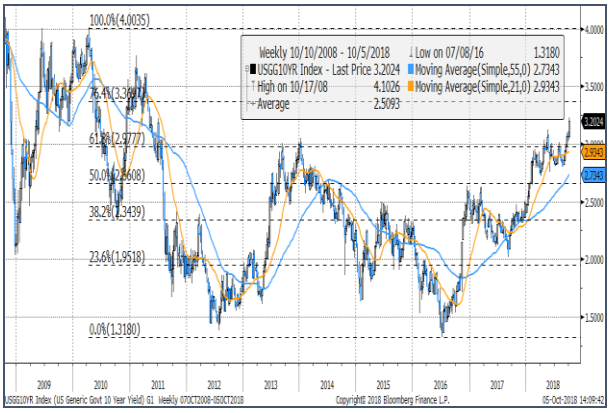
In Italy, the head of the lower house's budget committee said (2/10): "There is no plan for Italy to leave the euro. Italy would have declared a 3.1% budget deficit for 2019 instead of the 2.4% it has set, if it had wanted to go up against the EU."

Global Markets in Charts

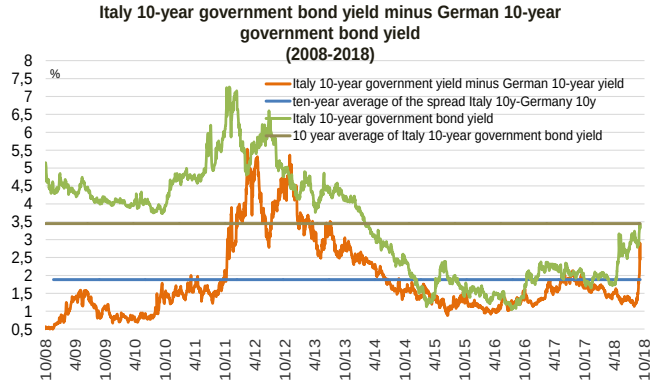
- In the **US,** ISM manufacturing (1/10) dropped in September at 59.8 (August: 61.3), but continues to indicate expansion for 25th consecutive month. ISM non-manufacturing index (3/10) posted in September a high (61.6) since August 1997. Both are indicative of strong economic growth pace. Atlanta Fed estimates (1/10) annualised quarterly growth of 4.1% in the third quarter of the year, which makes it possible to get annual growth rate for all 2018 in the area of 3% (first half: 2.75%).



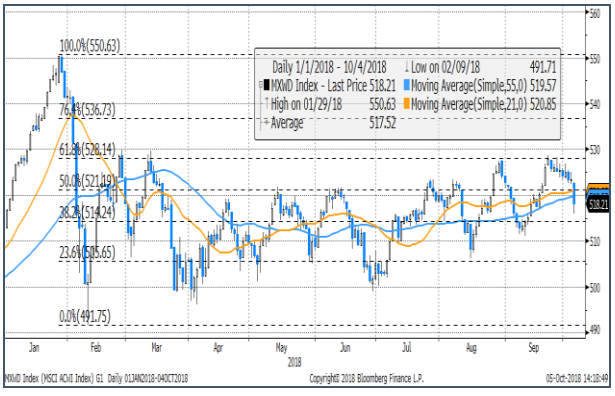
- **US** 10-year yield government bond yield posted this week a high (3.23%) since May 2011. Resistance is at 3.30%-3.40% area (Fibonacci retracement 76.4%: 4%-1.32% and 25/4/11 high). Support is at 3% area (28/9/18 low).



- In **Italy**, the spread of 10-year yield from the German 10-year yield increased at a high (2/10: 3.03%, 10-year average: 1.9%) since June 2013. Talks between Italy and the EU regarding the budget deficit target dispute may continue for a while. The 10-year yield of Italy reached a high (3.46%) since March 2014, however this is around the 10-year average (3.45%).



- The **MSCI** All Countries world stock index dropped this week at the lowest level (516, 200-days average: 518) since mid-September. However, the total return of the index in 2018 remains positive at 3.1% (7.7% in euro terms). Support for the index is at 500 (28/6/18 low), resistance is at 528 and 536 (21/9/18 high, Fibonacci retracement 61.8% and 76.4% of 551-492).



Source: Bloomberg

Global Markets Minesweeper						
Event Risk Calendar, 8 - 12 October, 2018						
		Monday 8/10				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
8/10 04:45	CH	Caixin China PMI Services	Sep	51.4	51.5	
8/10 08:45	SZ	Unemployment Rate SA	Sep	2.50%	2.60%	
8/10 09:00	GE	Industrial Production SA (MoM)	Aug	0.50%	-1.10%	
8/10 09:00	GE	Industrial Production WDA (YoY)	Aug	0.10%	1.10%	
8/10 11:30	EC	Sentix Investor Confidence	Oct	11.8	12	
US holiday, stock market open (Columbus Day), Japan markets closed (Health-sports Day)						
		Tuesday 9/10				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
9/10 02:01	UK	BRC Sales Like-For-Like (YoY)	Sep	0.20%	0.20%	
9/10 02:50	JN	BoP Current Account Balance	Aug	¥1889.6b	¥2009.7b	
9/10 08:00	JN	Eco Watchers Survey Current SA	Sep	47	48.7	
9/10 08:00	JN	Eco Watchers Survey Outlook SA	Sep	50.8	51.4	
9/10 09:00	GE	Trade Balance	Aug	16.3b	16.5b	
9/10 09:00	GE	Current Account Balance	Aug	--	15.3b	
Eco Event	IN	Annual meetings of IMF and the World Bank (through Oct. 14)				
	IN	The IMF presents its World Economic Outlook				
		Wednesday 10/10				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
10/10 02:50	JN	Core Machine Orders (MoM)	Aug	-3.70%	11.00%	
10/10 02:50	JN	Core Machine Orders (YoY)	Aug	1.60%	13.90%	
10/10 11:30	UK	Trade Balance	Aug	-£1000	-£111	
10/10 11:30	UK	Industrial Production (YoY)	Aug	1.00%	0.90%	
10/10 11:30	UK	GDP (MoM)	Aug	0.20%	0.30%	
10/10 11:30	UK	Monthly GDP 3M/3M Change	Aug	0.60%	0.60%	
10/10 15:30	US	PPI Final Demand (MoM)	Sep	0.20%	-0.10%	
10/10 15:30	US	PPI Ex Food and Energy (MoM)	Sep	0.20%	-0.10%	
10/10 15:30	US	PPI Final Demand (YoY)	Sep	2.70%	2.80%	
10/10 15:30	US	PPI Ex Food and Energy (YoY)	Sep	2.60%	2.30%	
Eco Event	UK	Bank of England chief economist Andy Haldane speaks in London				
		Thursday 11/10				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
11/10 02:01	UK	RICS House Price Balance	Sep	1%	2%	

11/10 02:50	JN	PPI (YoY)	Sep	2.90%	3.00%	
11/10 09:45	FR	CPI (YoY)	Sep F	--	2.20%	
11/10 15:30	US	CPI (MoM)	Sep	0.20%	0.20%	
11/10 15:30	US	CPI Ex Food and Energy (MoM)	Sep	0.20%	0.10%	
11/10 15:30	US	CPI (YoY)	Sep	2.40%	2.70%	
11/10 15:30	US	CPI Ex Food and Energy (YoY)	Sep	2.30%	2.20%	
11/10 15:30	US	Initial Jobless Claims	6-Oct	--	207k	
Eco Event	EC	ECB publishes an account of its Sept. 12-13 meeting				
Corp. Results		US: Walgreens Boots Alliance Inc, Delta Air Lines Inc				
		Friday 12/10				
Date Time	**Country**	**Event**	**Period**	**Survey**	**Prior**	
12/10	CH	Trade Balance	Sep	$24.55b	$27.89b	
12/10	CH	Imports (YoY)	Sep	14.50%	19.90%	
12/10	CH	Exports (YoY)	Sep	8.70%	9.80%	
12/10 07:30	JN	Tertiary Industry Index (MoM)	Aug	0.30%	0.10%	
12/10 09:00	GE	CPI (YoY)	Sep F	2.30%	2.30%	
12/10 12:00	EC	Industrial Production SA (MoM)	Aug	0.50%	-0.80%	
12/10 12:00	EC	Industrial Production WDA (YoY)	Aug	-0.10%	-0.10%	
12/10 15:30	US	Import Price Index (MoM)	Sep	0.30%	-0.60%	
12/10 17:00	US	U. of Mich. Sentiment	Oct P	100.8	100.1	
Eco Event	EC	ECB executive board member Sabine Lautenschlaeger speaks				
	US	Chicago Fed President Evans takes part in discussion (16:30)				
	US	Atlanta Fed President Bostic speaks (19:30)				
Corp. Results		US: PNC Financial Services, JPMorgan Chase & Co, Wells Fargo & Co, Citigroup				

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