

During the current week, the focus was on the developments regarding US-China relations and on Brexit. At the unofficial European Union Summit, the **EU** stated that: "The Union stands by the withdrawal agreement of the **UK** from the EU and intends to proceed with its ratification. It is not open for renegotiation". In the **Eurozone**, the ECB maintained its refinancing rate unchanged at 0% and said that rates will remain unchanged at least until through summer 2019. The ECB's quantitative easing programme ended, as it was expected. In **China**, retail sales posted in November the lowest annual rise since mid-2003 and industrial production the lowest annual increase since November 2008. China announced (14/12) that will reverse for 3-months the 25% retaliatory tariff it had imposed on car imports from the US (down to 15% from 40%). This is a positive development stemming from US-China discussions at the recent G-20 Summit (30/11-1/12).

Most of the main equity indices remain into "bull market" territory (denoted as a "rule of thumb": not losing more than 20% versus bull market peak level on closing prices). However, DAX index recently (6/12: 10811) entered "bear market", posting on closing prices a change of -20.3% versus January 23 (13560).

Index	Current price (13/12)	Latest peak (closing price)	Change: current price vs latest peak	Price change since current bull market start	At current level: Reaction vs latest bear bottom	Perception about current market status
<b>S&amp;P 500</b>	2.651	2.931	-9,6%	9/3/09-current: 292%	not applicable: in bull market	
<b>NIKKEI</b>	21.816	24.271	-10,1%	24/6/16-current: 46%	not applicable: in bull market	
<b>CAC</b>	4.897	5.640	-13,2%	11/2/16-current: 26%	not applicable: in bull market	
<b>FTSE 100</b>	6.878	7.877	-12,7%	11/2/16-current: 24%	not applicable: in bull market	
<b>SMI</b>	8.815	9.612	-8,3%	11/2/16-current: 18%	not applicable: in bull market	
<b>STOXX 50 EUROZONE</b>	3.112	3.697	-15,8%	11/2/16-current: 16%	not applicable: in bull market	
<b>STOXX 600 EUROPE</b>	349	403	-13,4%	11/2/16-current: 15%	not applicable: in bull market	
<b>DAX</b>	10.925	13.560	-19,4%	not applicable: in bear market	3%	
<b>SPAIN (IBEX)</b>	8.926	11.135	-19,8%	not applicable: in bear market	3%	
<b>ITALY (FTSE MIB)</b>	19.049	24.544	-22,4%	not applicable: in bear market	3%	
<b>MSCI EMERGING MARKETS</b>	986	1.273	-22,6%	not applicable: in bear market	5%	

Source: Bloomberg

### The week ahead:

The meetings of the Federal Reserve (19/12), Bank of Japan and Bank of England are expected next week (20/12). Focus remains on US-China developments and Brexit. US temporary government "shutdown" on December 21 cannot be excluded, as there is still no agreement for budget issues and for the funding of constructing a wall in the border with Mexico. The Fed will probably increase the Fed funds rate by 0.25% at 2.25%-2.50%, but will likely downgrade its forecasts for growth and its projections for the path of the benchmark rate. It seems more likely that the rate hike cycle of the Fed will end at the terminal range of 2.75%-3.00% by June 2019. In case the recent market turbulence persists, it is possible to see a negative feedback loop between financial conditions and the economy, which could result to an earlier end of rate hikes, probably in March 2019 at 2.50%-2.75%. **US** leading indicators index (20/12) is expected unchanged on monthly basis in November, after thirteen months of increases. US PCE core inflation is expected (21/12) unchanged at 1.8% in November. **Eurozone** trade balance for October will be announced next week (17/12). In **Germany**, the IFO business climate index (18/12) may have dropped in December at the lowest level (101.8) since March 2017. The Bank of **England** will keep its policy unchanged (20/12), ahead of considerable uncertainty from Brexit.

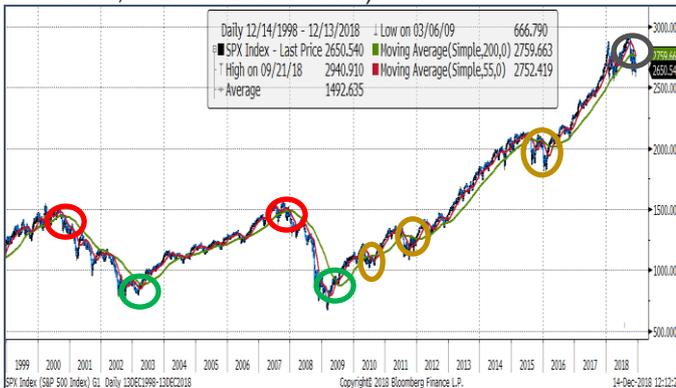
At least two key issues continue to bring "clouds" for risky assets and the global economy: US-China relations and Brexit. Both these topics, are associated with considerable uncertainty, discouraging "buyers" of risky assets, worsening the financial environment and already negatively impacting macroeconomic environment (mainly in Europe and in China). In case, this troublesome situation continues, it is possible that the generally positive market sentiment cycle that started in March 2009 will be at risk. In this case, capital preservation rather capital appreciation will likely be the key mid-term objective. From a longer term perspective, the fundamentals of major economies and prudent monetary policy can provide the base (probably later-on) for investment opportunities to appear.

### Quote of the Week

The President of the ECB said (13/12): "The drivers of the economic recovery are still in place. The balance of risks is moving to the downside".

Global Markets in Charts

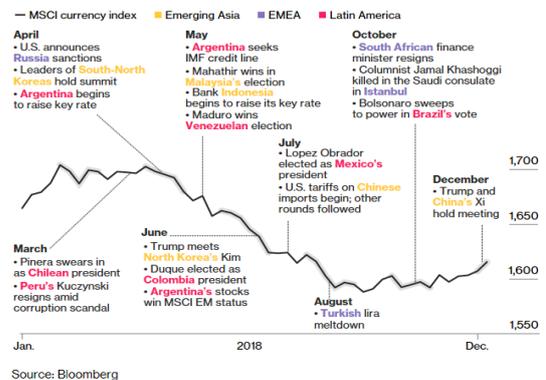
- The **S&P 500** index posted low (10/12: 2,583) since April 2018. The 55 days average cut downwards the 200 days (12/12). Looking at the last 20 years, the downwards cross in 2000 (1<sup>st</sup> red circle in the chart below) happened in a year in which a bear market started. The upwards cross of 2003 (1<sup>st</sup> green circle below) happened in the first year of the bull market, which lasted until 2007. The downwards cross of December 2007 (2<sup>nd</sup> red circle), almost coincided with the start of the bear market (10/2007) and the upwards cross in June 2009 (2<sup>nd</sup> green circle) was just after the start of the bull market (3/2009). Three downwards crosses happened (2010-2016: yellow circles), with no bear market, but with correction (in 2010:-16%, in 2011: -19%, in 2015-2016: -14%).



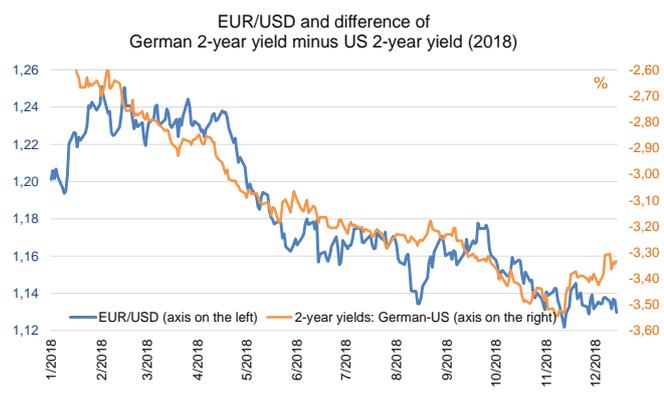
- The **Emerging** markets currency index has dropped by 4.1% year to date and the MSCI emerging markets equity index has posted total return of -12.8% in USD (7.7% in euro terms) in 2018 (price change 26/1-13/12: -22.6%). Worsening relations between US-China and other geopolitical developments have negatively affected emerging markets. The potential end of Fed rate hikes by June 2019 (or earlier) can provide the support for the MSCI Emerging markets index. The “bear market” of the emerging index may continue, if it coincides with bear market in core developed markets, which is not evident yet.

Turbulent Year

Political upheaval roiled emerging markets in 2018



- EUR/USD** had dropped in mid-November at the lowest level of 2018 (12/11: \$1.1216). This coincided with a difference of German-US 2-year yields at the lowest of 2018 (12/11: -3.54%). Currently, EUR/USD is weakening again (\$1.1290), while the short term differential described above is a bit higher (14/12: -3.33%). Risk-off environment weighs on the euro. Support is at \$1.1190 (61.8%: \$1.034-\$1.2555) and at \$1.1080 (18/5/17 low). Resistance is at \$1.1500 (7/11/18 high) and at the area of \$1.1700 (200 days average).



- EUR/GBP** posted high (£0.9087) since August on December 10, as uncertainty around Brexit escalated. It is currently (14/12) at £0.8975, above the 200 days average (£0.8840), which stands as strong support. Resistance is at £0.9100 (28/8/18 high), at £0.9300 (29/8/17 high) and at £0.9415 (7/10/16 high).



Source: Bloomberg

**Global Markets Minesweeper**
**Event Risk Calendar, 17 - 21 December, 2018**

Monday 17/12						
Date Time	Country	Event	Period	Survey	Prior	
17/12 12:00	EC	Trade Balance SA (Euro)	Oct	--	13.4b	
17/12 12:00	EC	CPI Core (YoY)	Nov F	1.00%	1.00%	
17/12 12:00	EC	CPI (YoY)	Nov F	2.00%	2.20%	🌟
17/12 15:30	US	Empire Manufacturing	Dec	20.2	23.3	🌟
17/12 17:00	US	NAHB Housing Market Index	Dec	61	60	
17/12 23:00	US	Net Long-term TIC Flows	Oct	--	\$30.8b	
<b>Corp. Results</b>		US: Oracle Corp				
Tuesday 18/12						
Date Time	Country	Event	Period	Survey	Prior	
18/12 11:00	GE	IFO Business Climate	Dec	101.8	102	🌟
18/12 11:00	GE	IFO Expectations	Dec	98.2	98.7	
18/12 15:30	US	Housing Starts (MoM)	Nov	0.40%	1.50%	🌟
18/12 15:30	US	Building Permits (MoM)	Nov	0.40%	-0.40%	🌟
12/18/2018	UK	GfK Consumer Confidence	Dec	-14	-13	
<b>Corp. Results</b>		US: Micron Technology Inc, FedEx Corp				
Wednesday 19/12						
Date Time	Country	Event	Period	Survey	Prior	
19/12 01:50	JN	Trade Balance	Nov	-¥630b	-¥450b	
19/12 09:00	GE	PPI (YoY)	Nov	--	3.30%	
19/12 11:30	UK	CPI (YoY)	Nov	2.30%	2.40%	🌟
19/12 11:30	UK	CPI Core (YoY)	Nov	1.90%	1.90%	
19/12 11:30	UK	RPI Ex Mort Int.Payments (YoY)	Nov	3.20%	3.20%	
19/12 11:30	UK	PPI Output NSA (YoY)	Nov	3.10%	3.30%	
19/12 13:00	UK	CBI Trends Total Orders	Dec	7	10	
19/12 17:00	US	Existing Home Sales (MoM)	Nov	-0.40%	1.40%	
19/12 21:00	US	FOMC Upper Bound	19-Dec	2.50%	2.25%	🌟
19/12 21:00	US	FOMC Lower Bound	19-Dec	2.25%	2.00%	🌟
<b>Eco Event</b>		EC meets to consider Italy's budget				🌟
		US FOMC Projections (21:00), Fed's Powell press conference (21:30)				🌟
<b>Corp. Results</b>		US: General Mills Inc				
Thursday 20/12						

December 14, 2018

Date Time	Country	Event	Period	Survey	Prior	
20/12	JN	BOJ Policy Balance Rate	20-Dec	--	-0.10%	🌟
20/12 06:30	JN	All Industry Activity Index (MoM)	Oct	2.00%	-0.90%	
20/12 11:30	UK	Retail Sales Inc Auto Fuel (YoY)	Nov	2.00%	2.20%	
20/12 13:00	UK	CBI Retailing Reported Sales	Dec	20	19	
20/12 14:00	UK	Bank of England Bank Rate	20-Dec	0.75%	0.75%	🌟
20/12 15:30	US	Philadelphia Fed Business Outlook	Dec	15	12.9	
20/12 15:30	US	Initial Jobless Claims	15-Dec	--	206k	
20/12 17:00	US	Leading Index (MoM)	Nov	0.00%	0.10%	🌟
<b>Eco Event</b>	UK	Bank of England monetary policy meeting (14:00)				🌟
<b>Corp. Results</b>		US: Carnival PLC, Accenture PLC, NIKE Inc				
		<b>Friday 21/12</b>				
Date Time	Country	Event	Period	Survey	Prior	
21/12 01:30	JN	Natl CPI Ex Fresh Food (YoY)	Nov	1.00%	1.00%	🌟
21/12 09:00	GE	GfK Consumer Confidence	Jan	10.3	10.4	
21/12 09:45	FR	GDP (YoY)	3Q F	--	1.40%	
21/12 11:30	UK	Public Sector Net Borrowing (GBP)	Nov	7.5b	8.0b	
21/12 11:30	UK	GDP (YoY)	3Q F	1.50%	1.50%	
21/12 15:30	US	GDP Annualized (QoQ)	3Q T	3.50%	3.50%	🌟
21/12 15:30	US	Durable Goods Orders (MoM)	Nov P	2.00%	-4.30%	🌟
21/12 17:00	EC	Consumer Confidence	Dec A	-4.4	-3.9	🌟
21/12 17:00	US	Personal Spending (MoM)	Nov	0.30%	0.60%	
21/12 17:00	US	PCE Core (YoY)	Nov	1.80%	1.80%	
21/12 17:00	US	U. of Mich. Sentiment	Dec F	97.5	97.5	🌟
<b>Eco Event</b>	US	US government partial shutdown could start if President, Congress do not resolve Mexican border wall issue				🌟

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