

Weekly Investment Update

9th August 2019



Global News

US-China trade war – The trade war between the US and China escalated further this week, as China’s central bank fixed the yuan midpoint above 7 per US dollar, which is a key threshold figure between the two currencies, for the first time since 2008. This was seen as retaliation to President Donald Trump’s tweet last week, stating that he would put new tariffs of 10% on a further \$300 billion in September. President Trump, on Wednesday, labelled the Chinese bank a currency manipulator, as the drop in yuan value is a means to limit the losses against its currency during the trade dispute. Chinese state run agricultural firms have also stopped buying farm goods from the US, further inflaming the situation, as the people who are affected the most from this situation are the politically sensitive states that Trump needs to keep on side as he goes in the 2020 Presidential election.

US recession odds – In a Bloomberg survey, economists were asked what their outlook was for US economic growth. It was agreed that the likelihood of a US recession within the next 12 months was 35%, as appose to a forecast made previously of 31%. Economists also see the Federal Reserve having to cut interest rates once more in 2019.

UK GDP – The UK’s 2019 Q2 Gross Domestic Product figure unexpectedly fell for the first time since 2012, dropping by -0.2%, as manufacturing data disappointed. One more output decline in Q3 would push the UK into a technical recession.

German export data – Germany’s export figures slumped in June, posting the biggest annual decline in three years, as shipments were down 8% from the previous year. The latest figures add to the evidence that the export reliant economy is being badly affected by the ongoing trade war. German is now forecast to grow by only 0.5% in 2019, which is the second lowest in Europe, just ahead of Italy.

Market Summary

Global Equities – Major global equity markets fell in the early part of the week, as the rally in fixed income continued. With tensions around the trade war increasing, investors fled to safe haven assets in favour of equity markets as China retaliated to US tariff threats. As of Thursday’s close, the FTSE 100 index was down -1.15% for the week, the Hang Seng (-2.96%) and Nikkei 225 index (-2.34%) both suffered, but the S&P 500 staged a comeback and finished slightly positive (+0.25%).

Commodities – Oil prices (WTI & Brent Crude) fell to its lowest levels in 7 months, as sentiment around consumer and industrial demand worsened, and larger than expected US inventories. However, there was a slight rebound in prices later on in the week, as Saudi Arabia confirmed they were in discussion with other oil producers to try and stabilise the price.

Gold prices had their best week since April 2016, reaching \$1,518.25 per ounce, as China devalued its currency in response to the US’s threat to impose tariffs on \$300 billion of Chinese goods.

Fixed Income – As investors seek safe haven assets, bond prices pushed higher, sending yields tumbling. The yield on the 10-year US treasury fell to its lowest level since October 2016, touching 1.595% on Wednesday. The German 10-year bund yield fell for 9 days straight, to a record low of -0.61%.

Chart of the week

Going Flat 2s10s curve hits tightest since June 2007



Source: Bloomberg 9/8/19 – Considered a negative signal

Key Economic Releases Next Week

Monday	Tuesday	Wednesday	Thursday	Friday
	<ul style="list-style-type: none"> - German CPI final yy - US CPI yy 	<ul style="list-style-type: none"> - German GDP - UK inflation 	<ul style="list-style-type: none"> - UK retail sales - US jobless claims - US retail claims 	<ul style="list-style-type: none"> - US housing starts

Market Performance – 8/8/19

Global Market Indices	2019 YTD %*
FTSE 100	+9.80%
S&P 500	+17.40%
Dax	+10.01%
Nikkei 225	+6.52%
Hang Seng	+4.48%
Fixed Income	Yield %
UK 10 Yr Gilt	+0.52%
US 10 Yr Treasury	+1.69%
Commodities	2019 YTD %
Gold	+17.39%
Currency	
GBP/USD	1.21 (9/8/19)
GBP/EUR	1.08 (9/8/19)

Source: FE Analytics/ Bloomberg.com

*Total Return/Local currency

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