

The Week Ahead

Active is: Keeping an eye on capital markets



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Trade

The expired week, I was working at our Frankfurt office, my annual pilgrimage where I met with our economists, strategists and other investment professionals. After flying for more than 10 hours from Hong Kong, my most often-asked question was "What's happening in China?" Right they are, because China is a country prone to globalization and a major net-exporter for the world economy. But while the latest export figures from **China**, as well as the Purchasing Manager Indices still look quite unimpressed from all the trade talks at the global political arena, I wonder, whether it is not more about good old Europe investors should care about?

After the major sell-off in **Italian government bonds**, markets seem to be relieved by the avoidance of uncertain snap elections. Spreads, not only from Italian but also Spanish and Portuguese treasures narrowed vs. German bunds and equity markets showed signs of relieve at the beginning of the expired week. It now remains to be seen to what extent the populist League/5* government coalition will ultimately loosen the fiscal purse strings and seek confrontation with Brussels. At least in the near future, the long average maturity of Italian public debt protects against rising market rates (see graph of the week). At the same time, the **Spanish parliament** withdrew its support to PM Mariano Rajoy. However, the ability of the new minority government led by socialist Pedro Sanchez to change Spanish policy priorities seems limited. While new elections cannot be excluded, there is, in contrast to Italy, a high probability that any new government in Madrid would be headed by a non-populist party.

The week ahead

- Tuesday: The CPI inflation figure for the US (May) will be published. Given the recent rise in the oil price, the market expects the inflation rate to have made positive gains.
- Wednesday: The US **FOMC** (Federal Open Market Commity of the Federal Reserve) will announce its rate decision. Given the recent strength in the employment data and the inflation figures, we see a high probability that the US Federal Reserve will decide at this meeting to rise its fed funds target rate.
- Also on Wednesday, the April industrial production figures for the **European Union** will be announced. Although the trade tensions are high and may negatively impact industrial production within the Euro zone, the recent weakness of the Euro and the latest PMI figure suggest industrial production should remain positive.
- On Thursday, the retail sales for the US (May) will be announced. Given the strong growth of employment in the US, markets expect the retail sales to grow 0,4% on a month on month basis. But the rise in own price may cause the retail sale figure to disappoint the market as more disposable income are spend on gas stations than on department stores.
- On Thursday **China** will announce its industrial production and retail sales figures for May. Given the continual deleveraging process, the market is expecting a slight decline in the industrial production figure in May versus the previous month. But the market is expecting the retail sales figure for May to increase from the previous month.
- Also on Thursday the **ECB** (European Central Bank) will announce its refinancing rate. A hike seems to be more than just unlikely.

From a **technical prospective**, the seasonal softness in the market that we usually witness during the summer months maybe less pronounced this year, as the weakness in the first quarter negated the profit taking activities that we usually see in May – there simply were no profits to be taken.

A supportive factor should be the regained strength in the US technology and the small and mid-cap sector. But the weakness in the pro-cyclical sectors, such as banking, warrants closer monitoring.

At this stage of the cycle and given the reflationary environment we are in, equities might be preferred over sovereign bonds. But volatility will be with markets. Investors need to stay active and “trade”.

Yours,

Charles Ma

Upcoming Political Events 2018

8-9 Jun: G-7 Summit, Quebec, Canada

12-13 Jun: FOMC meeting and economic projections

Overview political events 2018
([click here](#))

Chart of the Week:

Italy's fiscal sustainability: Not under threat in the near term, but policy stance to be closely monitored by markets and Brussels¹

		Implicit interest rate on public-sector debt, % (i)				
		2	3	4	5	
Primary balance, as % of GDP (p)	2	129.2	131.1	132.4	133.7	
	1.5	130.3	131.6	132.9	134.2	
	1	130.8	132.1	133.4	134.7	
	0	131.8	133.1	134.4	135.7	
	-1	132.8	134.1	135.4	136.7	
	-2	133.8	135.1	136.4	137.7	

¹⁾ Sensitivity of Italy's debt ratio in 2018 to the country's fiscal discipline and interest burden, assuming nominal GDP growth of 2%. The long average maturity of Italian public debt of ~7 years and low implied interest rate of ~3% should protect Italian public finances against rises in market rates, at least in the near future. Past performance is not an indicator of future results. Sources: Datastream, AllianzGI Global Economics & Strategy.

Publications



“A region on the rise: key conclusions from our Asia Conference”

Our clients and investment professionals recently met in Berlin for our 10th annual Asia Conference. Here are some of the highlights from two days of discussions about the world's most dynamic region.



“AI – Artificial Intelligence: Part of everyday life, driving our future.”

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The “creative power of destruction” is unstoppable. On the contrary. And it's only just beginning..



“Active Management”

The debate about the advantages and disadvantages of active and passive management has for years been one of the liveliest in the investment industry. Just what is the best approach to investment? “Active” or “passive”?

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Calendar Week 23:

Monday		Consensus	Previous	
CH	Foreign Direct Investment YoY CNY	May	--	-1.10%
CH	Money Supply M2 YoY	May	--	8.30%
CH	Money Supply M1 YoY	May	--	7.20%
CH	Money Supply M0 YoY	May	--	4.50%
FR	Bank of France Business Sentiment	May	--	102
IT	Industrial Production YoY	Apr	--	3.60%
JN	Money Stock M2 YoY	May	--	3.30%
JN	Money Stock M3 YoY	May	--	2.80%
JN	Core Machine Orders YoY	Apr	--	-2.40%
JN	Machine Tool Orders YoY	May P	--	22.00%
UK	Trade Balance	Apr	--	-£3091
UK	Industrial Production YoY	Apr	--	2.90%
UK	Manufacturing Production YoY	Apr	--	2.90%
UK	Construction Output SA YoY	Apr	--	-4.90%
Tuesday				
EC	ZEW Survey Expectations	Jun	--	2.4
GE	ZEW Survey Current Situation	Jun	--	87.4
GE	ZEW Survey Expectations	Jun	--	-8.2
JN	PPI YoY	May	--	2.00%
JN	Tertiary Industry Index MoM	Apr	--	-0.30%
UK	Jobless Claims Change	May	--	31.2k
UK	Average Weekly Earnings 3M/YoY	Apr	--	2.60%
UK	ILO Unemployment Rate 3Mths	Apr	--	4.20%
US	CPI YoY	May	--	2.50%
US	CPI Ex Food and Energy YoY	May	--	2.10%
US	Real Avg Weekly Earnings YoY	May	--	0.40%
Wednesday				
EC	Industrial Production YoY	Apr	--	3.00%
UK	CPI YoY	May	--	2.40%
UK	CPI Core YoY	May	--	2.10%
UK	PPI Input NSA YoY	May	--	5.30%
UK	PPI Output NSA YoY	May	--	2.70%
UK	House Price Index YoY	Apr	--	4.20%
US	PPI YoY	May	--	2.60%
US	PPI Core YoY	May	--	2.30%
US	FOMC Rate Decision (Upper Bound)	Jun 13	2.00%	1.75%
Thursday				
CH	Retail Sales YoY	May	9.60%	9.40%
CH	Industrial Production YoY	May	6.90%	7.00%
CH	Fixed Assets Ex Rural YTD YoY	May	7.00%	7.00%
EC	ECB Main Refinancing Rate	Jun 14	--	0.00%
EC	ECB Deposit Facility Rate	Jun 14	--	-0.40%
JN	Capacity Utilization MoM	Apr	--	0.50%
UK	Retail Sales Ex Auto Fuel YoY	May	--	1.50%
UK	Retail Sales Inc Auto Fuel YoY	May	--	1.40%
US	Retail Sales MoM	May	0.40%	0.30%
US	Retail Sales Ex Auto and Gas YoY	May	--	0.30%
US	Import Price Index YoY	May	--	3.30%
US	Export Price Index YoY	May	--	3.80%
US	Initial Jobless Claims	Jun 09	--	--
US	Continuing Claims	Jun 02	--	--
US	Business Inventories MoM	Apr	0.40%	0.00%
Friday				
EC	EU27 New Car Registrations	May	--	9.60%
EC	Trade Balance SA	Apr	--	21.2b
EC	Labour Costs YoY	1Q	--	1.50%
IT	Industrial Sales WDA YoY	Apr	--	3.60%
IT	Industrial Orders NSA YoY	Apr	--	2.60%
JN	BoJ Interest Rate	Jun 15	--	-0.10%
JN	BoJ 10-Yr Yield Target	Jun 15	--	0.00%
US	Empire Manufacturing	Jun	18	20.1
US	Industrial Production MoM	May	0.30%	0.70%
US	Capacity Utilization	May	78.20%	78.00%
US	U. of Mich. Sentiment	Jun P	98.1	98

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