

The Week Ahead

Active is: Keeping an eye on capital markets



Hans-Jörg Naumer

Global Head of Global
Capital Markets &
Thematic Research

[@AllianzGI_VIEW](#)

“Everything has its price”

The trade conflict is spreading further. Most recently, tensions between the US and Turkey have intensified and fed through to the Foreign Exchange (FX) market.

In fact, the free fall of the **Turkish lira** was one of the main issues during the past week, particularly since this development is not only a consequence of the spat between the US and Turkey, but also showcases Turkey's economic vulnerability. While Turkey has experienced a period of rapid growth in the last few years (indeed, its expansion rates were among the strongest worldwide in the last few years according to IMF data with 7.4% yoy lately), the upswing has been largely supported by considerable fiscal and monetary stimulus. This stimulus has led to significant economic imbalances, such as higher foreign debt, which creates dependency on FX reserves, or large current-account deficits and excessive inflation, which is moving towards 16%. Everything has its price.

The weakness of the **Turkish lira** is more than an idiosyncratic risk. After years of strong capital inflows, **emerging markets currencies** in particular have become vulnerable to rising US interest rates. Above all, this is true for countries where house prices have overshot, private-sector debt has ballooned and the economy has become dependent on foreign capital (and is running current-account deficits; see our “Chart of the Week”). With the markets tense, it makes sense to be cautious not only about Turkey, but about the emerging markets as a whole. And market participants will probably remain nervous during the coming week.

In fact, geopolitics are not the only source of potential trouble. Last Tuesday, the capital markets were happy about euro-area GDP, which exceeded expectations in the second quarter. This fuelled hopes that the effect of the trade tensions might ultimately be smaller than initially feared. In contrast, the situation in **China** gave rise to concerns. Investment in machinery

Publications



“AllianzGI Insights”

Neil Dwane: Global View Trump turns the tables on trade

Andreas Utermann: Viewpoint Time to change the narrative on active

Neil Dwane: To reduce inequality, focus on inclusive growth



“3 key themes to shape the remainder of the year”

Three factors appear likely to shape the US economy through the rest of 2018: trade tensions, mid-term elections and the Fed's road to normalisation. In a late-cycle environment marked by the potential for tail risks, investors should take a closer look at small caps, energy, high yield and alternatives, writes Mona Mahajan.



Helicopter Money: “Central Banks as Spenders of Last Resort?”

Comments on the book “Between Debt and the Devil: Money, Credit, and Fixing Global Finance by Adair Turner” by Hans-Jörg Naumer (Journal of Markets & Ethics)

and equipment as well as infrastructure spending slowed significantly.

The Week Ahead:

On Wednesday, the **US Fed** is due to release its minutes; in all probability, expectations of two additional rate steps during the remainder of the year will be confirmed. This could prop up the dollar and will certainly not make things easier for the Turkish lira.

With only a handful of hard data on the calendar, sentiment indicators will take centre stage and illustrate market participants' expectations. Above all, we will get the manufacturing and non-manufacturing PMIs for the euro area, the US and **Japan** (due on Thursday). On that day, the consumer confidence index for the euro area and initial claims from the **US** will be released as well. And on Friday, US consumer durables orders will be published. In our view the picture seems clear: the US economy is going at full speed and the euro area is doing well, despite a few signs of weakness. This should support the markets.

Active is:

Market participants should remain nervous, particularly since we may be in for further geopolitical surprises. However, from a **technical vantage point** the situation seems to be stable.

The relative strength indicators suggest that selling pressure is small, and the number of "bulls" indicates that investors are not exuberant. This should help to prevent disappointments.

While we are probably in for another volatile week, investors will need to take some risks if are seeking to obtain attractive returns. Everything has its price.

Yours, Hans-Jörg Naumer

Upcoming Political Events 2018

28 Aug: FOMC meeting minutes

13 Sep: ECB Council meeting

13 Sep: BoE meeting and minutes

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

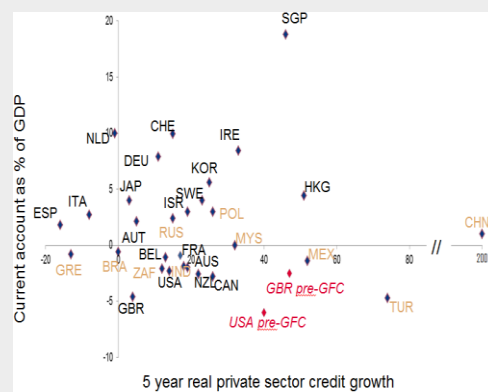
Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

to our publications ([click here](#))

to our twitter feed ([click here](#))

Chart of the Week

Lira sell-off: more than just an idiosyncratic event



Source: AllianzGI, Datastream, BIS. Legend: current account balance as % of GDP in 2017 vs real credit growth between Q4 2012 and Q4 2017; respective 5 year changes in the run-up to the peak in US house prices in 2006 and in UK in 2007.

Calendar Week 34:

Monday			Consensus	Previous
GE	PPI YoY	Jul	--	3,00%
EC	Construction Output YoY	Jun	--	1,80%
Tuesday				
UK	PSNB ex Banking Groups	Jul	--	5,4b
Wednesday				
JN	All Industry Activity Index MoM	Jun	--	0,10%
US	Existing Home Sales MoM	Jul	1,30%	-0,60%
US	FOMC Meeting Minutes	Aug 01	--	--
Thursday				
EC	Markit Manufacturing PMI	Aug P	--	55,1
EC	Markit Services PMI	Aug P	--	54,2
EC	Markit Composite PMI	Aug P	--	54,3
EC	Consumer Confidence	Aug A	--	-0,6
FR	Business Confidence	Aug	--	106
FR	Markit Manufacturing PMI	Aug P	--	53,3
FR	Markit Services PMI	Aug P	--	54,9
FR	Markit Composite PMI	Aug P	--	54,4
GE	Markit Manufacturing PMI	Aug P	--	56,9
GE	Markit Services PMI	Aug P	--	54,1
GE	Markit Composite PMI	Aug P	--	55
JN	Nikkei Manufacturing PMI	Aug P	--	52,3
US	Initial Jobless Claims	Aug 18	--	--
US	Continuing Claims	Aug 11	--	--
US	FHFA House Price Index MoM	Jun	--	0,20%
US	Markit Manufacturing PMI	Aug P	--	55,3
US	Markit Services PMI	Aug P	--	56
US	Markit Composite PMI	Aug P	--	55,7
US	New Home Sales MoM	Jul	3,80%	-5,30%
US	Kansas City Fed Manf. Activity	Aug	--	23
Friday				
GE	Import Price Index YoY	Jul	--	4,80%
JN	CPI YoY	Jul	--	0,70%
JN	CPI Core YoY	Jul	--	0,80%
US	Durable Goods Orders MoM	Jul P	1,10%	0,80%
US	Durables Ex Transportation MoM	Jul P	0,50%	0,20%

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted. This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations. This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association and Investment Trust Association, Japan]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan. AdMaster 575263