

# Bedrock Friday 25 August 2017 Newsletter

It is the last Friday of August. As Summer is winding-down, we need to focus on the upcoming last leg of 2017. We must admit that the outlook is somewhat obscured by the recent “total eclipse of the facts” we saw in the latest sequence of Trump’s speeches... There may be light at the end of the Trump Tunnel- Former undercover CIA agent Valerie Plame Wilson is looking to crowdfund enough money to buy Twitter so President Donald Trump can’t use it. Wilson launched the fundraiser last week, tweeting: “If @Twitter executives won’t shut down Trump’s violence and hate, then it’s up to us. #BuyTwitter #BanTrump.” The GoFundMe page for the fundraiser says Trump’s tweets “damage the country and put people in harm’s way.” As of Wednesday morning, she had raised less than \$6,000 of her \$1 billion goal. Which led the White House to conclude that “...the low total shows that the American people like the Republican president’s tweets...”.

In thinking into the future, we note that Political instability, money problems and economic growth still top the list of threats to global markets. It’s just that the main players have swapped roles; “For much of the post-crisis period, U.S. money, Chinese growth, and European politics have mattered most” to investors, New York-based director of global strategy at Eurasia, Karthik Sankaran, wrote in a research note this week. “But developments over the past year suggest that markets should be paying attention to U.S. politics, European growth, and Chinese money.” These days, it’s a fractious White House fomenting global political risk that for a decade had emanated from Europe. China is no longer the world’s growth driver as it grapples with a bad-debt situation that’s erupted in the decade since the U.S. righted its own banks after they collapsed under the weight of consumer loan defaults. Meanwhile, as political turmoil subsides in Europe, the region is helping to offset faltering demand from China. Euro-zone growth, while not as significant a contributor to global expansion, has still come as an unanticipated positive surprise for the global economy. But it’s U.S.-related political risk that remains center stage, according to Eurasia. The greenback is the worst-performing currency this year among 16 major peers, according to data compiled by Bloomberg. Clearly, it’s U.S.-related political risk that remains center stage. Starting today there is the Jackson Hole summit, where the Federal Reserve hosts meetings amongst the leading central bankers of the world. Later today both The Fed’s Janet Yellen and ECB’s Mario Draghi will address the world with their views, outlooks and plans. The interpretations of whatever may be suggested will be driving our decisions commencing Monday. It is likely we will hear some more details about the Fed’s unwinding of their balance sheet- probably a slow process over years to come, acting as a “Tightening-Light” process which will be easier on the economy than a proper rise in rates. The ECB may well tell us that they are in no rush whatsoever, both being concerned with the lack of inflationary pressures on either side of the puddle. So our outlook will not be much clearer on Monday. If we are right that no dramatic policy decisions will be disclosed, markets should rise next week as risk is attenuated with this knowledge. The soft economic U.S. data published Wednesday contrasted with positive PMI data from the euro area that highlighted the prospect of moderate economic growth. This disparity helped the Euro to maintain its recent gains against the Dollar. European Central Bank policy maker Ardo Hansson said he isn’t currently concerned about the strength of the euro as officials prepare to discuss how to wind down their bond-purchase program. On the topic of low inflation, he said that issues such as digitization and globalization of supply chains may have temporarily distorted the Phillips curve -- the relationship between low joblessness and higher wages and prices -- but that old economic paradigms should eventually reassert themselves. As a rising Euro further dampens price rises... Delicate balancing here, so no shocks should be expected...

The USD Index has fallen over 9% since the beginning of 2017 based on slower US economic growth in H1 2017 and concerns over Trump’s ability to deliver on its campaign promises. Market expectations of future interest rate hikes in the US have been dramatically reduced as a consequence. Technically, the USD Index is turning up at the support level of 93. Weekly stochastics and RSI suggest the USD is oversold and could experience a relief rally in the medium-term. Ahead of this week’s Jackson Hole symposium, Hedge Funds’ net long euro positions are approaching all time highs (SG Hedge Fund Watch). This suggests the rate of euro appreciation may begin slowing. Yes, our longstanding erroneous bias in favour of the US\$ may come to near term realisation... Our optimism on equities has been vindicated with a generally rosy Q2 earnings’ season showing about 12% rise in earnings for the S&P500, and pleasingly, driven by top-line revenue growth. The Economist forecasts a further 11% rise in earnings for 2018... we stay optimistic on equities.

Some more little noticed blips are interesting- A Month After Tighter Sanctions, Russia Risk Drops to a Four-Year Low. The cost of insuring Russian debt against default for five years using credit-default swaps dropped to 145.6 basis points on Thursday, a level not seen since well before the nation’s annexation of Crimea in 2014. That’s cheaper than most periphery countries in the euro area, including Italy and Portugal. The currency’s one-month volatility this week dropped to a three-year low and Russia’s benchmark Micex stock index has rebounded 8.3% since entering a bear market in mid-June.

Turkey’s currency is on course for its seventh monthly gain, and still the likes of Goldman Sachs Group Inc and Societe Generale SA are bullish. That’s because the advances have been limited and the lira remains the worst-performer among major currencies over the last 12 months. It’s also the most undervalued in terms of OECD purchasing power parity, with a real effective exchange rate that BlueBay Asset Management LLP sees as cheap. China’s yuan has been on a tear this year, but experts are predicting the run may be over — and it may even be poised for a downturn.

“There are good and bad times, but our mood changes more often than our fortune”. Thomas Carlyle. And as times appear to be good again, We end our prose with more wise words from Huxley “Men do not learn much from the lessons of history and that is the most important of all the lessons of history.”

## Market Weekly Highlights:

- The greenback remained steady this week with the Dollar Index trading around the 93.00 level, down some 8.75% YTD.  
The USD is at 1.1817 against the EUR and at 0.9634 against the CHF. The Pound is higher against the Dollar since the start of the year at \$1.2836 as is the Japanese Yen, trading at 109.63.  
The Russian Ruble is trading sideways against the USD at 59.10 following the oil-price pattern. The Brazilian Real is slightly higher vs. USD for the week at 3.1467.  
Crude oil WTI is in the middle of this year's range, at around 47.60.
- The yield on 10Y U.S. Treasuries stands at 2.19% almost unchanged for the week. The Japanese 10 year JGB is up in price for the week and continues to offer POSITIVE returns at 0.027%.  
In Europe, we see the German Bund yield trading at 0.39% down for the week. The French 10Y Yield hit 1.15% early this year and went down as low as 0.57% in June back up at 0.95% in July and now is down again at 0.68%.  
The Swiss 10 year bond yield traded last month in POSITIVE territory hitting almost 0.080%, the highest for the year to only trade back down at currently NEGATIVE 0.12%.  
In Peripheral Europe, Italian 10Y yields have started the year at 1.71% and are currently higher at 2.10% whilst the Spanish 10Y yields trade 40bps lower than Italy, having started the year at 1.30% and currently trading at 1.60%.
- Equity markets are up this week in the USA; the DJIA is at 21'783, lower than its all-time highs but up slightly for the week at 0.15%, the S&P500 at just above 2'438 up 0.37% for the week and Nasdaq at 6'271 on yesterday close, also up some 0.79%. In reality, we are basically still at or near the all time highs, or within a couple of percentage points thereof.  
In Europe, this week all major indices are up with the exception of Italian and Spanish markets which are slightly down with FTSE MIB at -0.15% and IBEX 35 at - 0.07% as we watch. Eurostoxx50 is up for this week 0.20%, as is the DAX. The CAC40 has gained 0.40% this week and FTSE 100 some 1.40%.  
In Asia the Nikkei traded slightly down at -0.09% but remains positive for the year with a mere 1.77%.  
Hang Seng and Shanghai Composite Indices are both up at exactly 1.92% for the week.  
BOVESPA is strongly up at 4.64% for the week and a nice run of above 18% for the year.

Highlighted items are interesting data points for the week



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