Weekly Market Focus

HINDUJA BANK
SWITZERLAND

06 February 2019

CONTENTS

Follow us on
LinkedIn

ASSET CLASS REVIEW

Economic forecast downgrade

Many institutions have downgraded their growth forecasts for the global economy. This is due to weaker economic data and the sharp price declines at the end of last year. In addition, credit spreads have risen and yield curves have flattened.

The European commission has downgraded its growth expectations for the Eurozone for this year at 1.9% because of commercial tensions and the growing public debt. Inflation expectations have also been lowered for 2019 at 1.4%, below ECB expectations at 1.6% and target at 2.0%. Beside of trade tensions, the European commission is worried about the Italian debt sustainability. In the same line, the Bank of England forecasts 1.2% growth this year down from 1.7% predicted 3 months ago.

Together with recent Fed Chairman comments, the market is in dovishness mode again and 10 year bonds are coming down in Europe and in the US. Risks of seeing the US curve inverting are therefore increasing. The mid part of the curve is favoured for that reason. Evidence that global economy is entering its later stage is growing when, in the same time, exposition to stocks into balanced portfolios is at its highest level in 11 months at 48.5%. This bullishness contradicts most recent fundamentals.

However, the question is whether lower share prices, higher credit spreads and the flatter yield curve will predict lower growth or even a recession. From an historical perspective, these signs must be taken seriously in any event. In the US, job and wages growth means that real disposable income among consumers can increase consumer spending and compensate for the reduction in fiscal and monetary stimulus. As this is not the case in Europe, we favour US geographically.

FOREX

AUD

While the RBA still sounded surprisingly balanced in its statement yesterday, RBA governor Philip Lowe this morning sounded very different in a speech in front of the National Press Club. Now it sounds more as if the RBA had given up on the idea of rate hikes. Of course, the economic risks down under have been known for a while. As a "small" open economy Australia is particularly dependent on the economic situation in East Asia. And the economic warning signals there have been sounding for much longer than in the US. It is therefore not a sign of particular dovishness that the RBA (more or less at the same time as the Fed) has moved from "possibly restrictive soon" to "neutral". We consider this step to be smaller than the monetary policy reversal on the part of the Fed. The following therefore applies: it is correct and logical that the market reacts with AUD weakness to Lowe's speech, but there is no reason to put massive pressure on the Australian currency.

BRL

Today's interest rate decision by the Brazilian central bank (BCB) - most probably for the last time under current central bank governor Ilan Goldfajn - is unlikely to be exciting in itself. Once again it will leave interest rates unchanged at 6.5%. Instead, it will be interesting to see how the BCB assesses the current situation, especially after last week's Fed meeting. Details will probably only be published in the minutes of the meeting. However, first indications may already be found in the accompanying statement. At its last meeting in December, the BCB switched from rather hawkish to neutral. There is now speculation on the market as to whether the next step by the central bank could be an interest rate cut rather than an increase. We think such speculation is way premature. After all, the pension reform still has to be passed, with the risk that the current government will also fail to bring it through Congress. The central bank had always stressed that fiscal policy reforms were necessary to keep inflation in check. Against this backdrop, the BCB should stay cautious and not fuel rate cut speculation further. This is basically good news for the BRL. However, the focus of the FX market is on pension reform. And as long as there are no clear indications of a possible adoption in this respect, the BRL should not be able to gain further from current levels. On the contrary, we see potential for disappointment and therefore upward risks in USD-BRL.

INR

Tomorrow morning the rate decision of the Indian central bank (RBI) is due – for the first time under the new central bank governor Shaktikanta Das. At its last meeting in December, there were no signs of a dovish stance on the part of the central bank. It will be interesting to see whether this will change tomorrow and whether the RBI will abandon its position of a calibrated tightening. After all, inflation in December was only 2.2% and thus at the lower end of the central bank's target corridor of 2-6%. Some analysts even expect the RBI to cut interest rates tomorrow. The replacement of the head of the central bank may also play a role in this regard. Unlike his predecessor, Governor Das might be more willing to give in to government pressure and pursue a more expansionary monetary policy. However, we believe it is more likely that the RBI would prepare the market for a possible turnaround and therefore expect only a change in communication tomorrow, probably in the direction of a neutral stance. Should it turn very dovish or even lower its interest rate, the INR should fall significantly.

RUB

Rosstat published a flash estimate of 2.3% for GDP growth during 2018. This was the fastest growth rate since Western sanctions were imposed following Crimea and a significant positive surprise. Until recently, the Economy Ministry held a 1.8% forecast growth estimate for 2018 and CBR also held a 1.5%-2% estimate; consensus estimates were in the 1.6%-1.8% region. Then, just last month, Rosstat made significant upward revisions to construction sector data, because of which the Economy Ministry raised its estimate to 2.1%. There is a strong likelihood that Rosstat will revise up its quarterly numbers for Q1-Q3 2018 in line with the 2.3% full-year reading -- right now, no updated quarterly breakdown is available. Large gas sales in Q4 are also reported to have added a sizeable chunk to 2018 GDP. Based on the full-year breakdown, market sees that construction increased by a hefty 4.7% last year, while the crucial extraction sector grew by 3.8%. From the demand side, household consumption growth was a stable 2.2%, slower than the 3.2% of 2017. Overall, the market should digest this information in the context of Rosstat continually revising and refining its national accounts in recent years. If the surprise happens to come from historical data revision rather than fundamental improvement in the latest quarter, then such a revision has only minor FX implications -- mainly via the prospect of better headlines numbers in future. As a result, the rubble was largely unchanged yesterday.

VIEWS FROM THE TRADING FLOOR

Equity

S&P was up 3.7% last week, with a significant decrease of volatility, the VIX index moving from 19.13 to 15.57. On the upside, we have personal products up 15%, copper up 13% and technology hardware up 11%. On the downside, we find specialized consumer services and diversified chemicals both down 6.7%, agricultural products down 5%.

The biggest boost to overall sentiment during the week seemed to come following the end of the Fed's meeting on Wednesday. The central bank decided to keep rates steady, as widely expected, but investors were cheered by an unexpectedly dovish post-meeting statement. The statement removed all reference to further rate increases, suggesting that Fed officials will probably wait at least until June before taking any further action.

The EU statistics agency reported that the Eurozone economy grew by 1.8% in 2018, its weakest pace in four years. In addition to Italy's standoff with the EU, the region's economy was hit by a slowdown in exports, protests in France, and inventory backlogs in Germany's automobile sector caused by new emissions testing requirements.

S&P 500: The index rally went on for the whole week.

On the upside, the next resistance stands at 2816.

On the downside, the first significant support is at 2645 before 2589 and 2542.

Eurostoxx 50: The index finally managed to break through its 3156 resistance and quickly reached the 3214 target we were mentioning last week.

The next target lays at 3260.

On the downside, the first significant supports are at 3156, 3105 and 3083.

EQUITY

Developed countries

		Total return - 1 Week
SMI	⬆	1.9%
Euro Stoxx 50	⬆	1.7%
DAX	⬆	1.3%
FTSE 100	⬆	3.4%
S&P 500	⬆	2.0%
Dow Jones	⬆	1.6%
Nikkei 225	⬆	1.5%

Developing countries

Russia/Micex	⬆	1.1%
India/Nifty 50	⬆	3.9%
China (HK)	⬆	1.7%

⬆ - Upward move ⬇ - Downward move

FIXED INCOME

Developed countries

	2-year Yield	10-year Yield
USA	2.5%	2.7%
UK	0.7%	1.2%
Germany	-0.6%	0.2%
France	-0.4%	0.6%
Italy	0.5%	2.8%
Spain	-0.3%	1.3%
Switzerland	-0.8%	-0.3%

Developing countries

	2-year Yield	10-year Yield
Russia	3.9%	4.7%

COMMODITIES

		Total return - 1 Week
Crude Oil	⬇	12.8%
Gold	⬆	1.9%

CALENDARS

Economic Events

Date of release	Domicile	Event	Period	Actual	Estimated
01 Feb 2019	US	Change in Nonfarm Payrolls	Jan	304k	165k
01 Feb 2019	US	ISM Manufacturing	Jan	56.6	54.0
06 Feb 2019	Germany	Factory Orders MoM	Dec	-1.6%	0.3%
04 Feb 2019	Italy	CPI	Jan	-1.7%	-1.9%

Contacts

Geneva – Headquarters

Hinduja Bank (Switzerland) Ltd

Place de la Fusterie 3bis
1204 Geneva, Switzerland
Tel. +41 58 906 08 08
Fax +41 58 906 08 00

Branches

Zurich
Florastrasse 7
8008 Zurich, Switzerland
Tel. +41 58 906 05 05
Fax +41 58 906 05 06

Lugano
Viale Serafino Balestra 5
6900 Lugano, Switzerland
Tel. +41 91 910 43 43
Fax +41 91 923 55 73

Representative Office

London
Room no: 117,
First Floor, Regus,
100 Pall Mall,
London SW1Y5NQ
Tel. +44 20 7321 5642

Subsidiaries

Switzerland
Rowena AG
Grenzstrasse 24
9430 St Margrethen, Switzerland
Tel. +41 71 747 49 59
Fax +41 71 747 49 51

Dubai
Hinduja Bank (Middle East) Ltd
Dubai International Financial Centre
Building GV 10, 2nd Floor, Office 205
Dubai, UAE 506783
Tel. +97 14 436 65 88

Mauritius
Hinduja India Mauritius Holdings Ltd
HBS Trust Services (Mauritius) Ltd
4th Floor, The AXIS
26 Bank Street, Ebene 72201
Mauritius
Tel. +230 489 31 28

UK
Amas Investment & Project Services Ltd
Room no: 117,
First Floor, Regus,
100 Pall Mall,
London SW1Y5NQ
Tel. +44 20 7839 4661
Fax +44 20 7839 5992

India
Paterson Securities Pvt Ltd
Bhavani Mansion 3, 4th Lane
Nungambakkam High Road
Chennai - 34
India

Publisher

Hinduja Bank (Switzerland) Ltd

Place de la Fusterie 3 bis

1204 Geneva, Switzerland

Tel. +41 22 906 08 08

Fax +41 22 906 08 00

www.hindujabank.com

info@hindujabank.com

Disclaimer

The information in this publication was developed using data which Hinduja Bank (Switzerland) Ltd assumes to be accurate; nevertheless, Hinduja Bank (Switzerland) Ltd accepts no liability and offers no guarantee. The availability of such information does neither constitute a recommendation nor a solicitation to buy or sell any of the products and services discussed herein. Statements made in this publication can be changed without prior notice. The Bank or its subsidiaries or affiliates cannot be engaged in any legal action, claim or dispute for any result, performance, losses or any other reason linked to any information provided in this document. Moreover, the content is not intended for individuals (or entities) who (which), by reason of their nationality or domicile or for any other reason, are subject to foreign regulations prohibiting access to banking services or investment instruments via one or several distribution channels, or prohibiting or restricting the use of any information provided in this document.