

Monthly strategy update



Research

Crédit Andorrà Financial Group

May 2018



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US

- The minutes of the FOMC confirmed the message we heard in March: **the economic outlook is good and an increase in inflation is expected**. The Fed's Beige Book indicated that the US economy is continuing to **expand**, underpinned by the increase in consumption. It also suggests that the tax cuts have boosted spending and investments in businesses, as well as growth in commercial and industry lending.
- The labour market continues to provide very positive news. Job creation is exceeding expectations with an average of **275,000 new job positions** per month during the first few months of 2018.
- The **tone of the discussions between the US and China softened**.

Europe

- Confidence has tempered following all-time highs in December 2017, as the **balance of trade for February was €18.9 billion**, below the consensus expectation of in excess of €20 billion. **Inflation was at 1.3% year-on-year**, below preliminary expectations. The manufacturing and services PMIs are showing signs of exhaustion in all economies, hampered by the bad weather. The labour market continues to improve with unemployment at 8.5%.
- Moody's improved **Spain's long-term credit rating from Baa1 to Baa2**, with a stable outlook.
- Italy has still not formed a government 50 days after calling elections. The Five Star Movement rejected an alliance with the Northern League and it has now set its sights on the Democratic Party.

Others

- In commodities, we have seen sharp rallies in prices (**aluminium +8%, iron +4%, copper +2.3% and nickel +8%**) due to the **impact of sanctions on Russia on supply**.
- The crude oil market has not lagged behind and it has risen +6% in the month after output was curbed by a total of 1.8 million barrels per day by the main producers. According to a report by the IEA, this balance will be maintained throughout 2018 unless other factors tip the scales of supply and demand.

US - Macro framework

Despite the recent rally in the CPI to 2.2%, the Fed is expected to maintain its plan for progressively normalising the monetary policy. The composite PMIs were surprisingly high relative to the previous figures. The 10-year bond yield closed at 2.96%, levels unseen since 2014.

Macroeconomic indicators

Leading Indicators

	Last	Prev.	Tend.	24 Months	Last Date
PIB Q saar US	2,3	2,9	↔		31/03/2018
ISM Manufacturing	57,3	59,3	↔		30/04/2018
ISM Non Manufacturing	56,8	58,8	↘		30/04/2018
Composite PMI	54,9	54,2	→		30/04/2018
Citi surprise Index	27,7	27,7	↔		09/05/2018

Labour Market

	Last	Prev.	Tend.	24 Months	Last Date
Unemployment Rate	3,9	4,1	→		30/04/2018
Payrolls	164	135	↔		30/04/2018
Jobless Claims (w)	211	223	↘		05/05/2018
Participation Rate	62,8	62,9	→		30/04/2018

Investment

	Last	Prev.	Tend.	24 Months	Last Date
CAPEX Fed m/m%	0,5	0,6	↔		31/03/2018
Durable Goods m/m%	2,6	3,6	↘		31/03/2018
Housing Starts	1319	1295	↔		31/03/2018
New Home Sales	4	3,6	↘		31/03/2018

Activity

	Last	Prev.	Tend.	24 Months	Last Date
Retail Sales m/m%	0,6	-0,1	→		31/03/2018
Industrial Prod. m/m%	0,5	1,0	↔		31/03/2018
Consumer Confidence M	98,8	101,4	↘		30/04/2018
Consumer Confidence B	129	127,0	↔		30/04/2018
NFIB Optimism	105	104,7	↔		30/04/2018

Prices

	Last	Prev.	Tend.	24 Months	Last Date
CPI	2,5	2,4	→		30/04/2018
CPI core	2,1	2,1	→		30/04/2018
PCE	2	1,7	→		31/03/2018
PCE core	1,9	1,6	→		31/03/2018

Other

	Last	Prev.	Tend.	24 Months	Last Date
Official Rate	1,75	1,8	→		10/05/2018
10y rate	2,96	3,0	→		10/05/2018
Average Hourly Earnings y/y	2,6	2,6	→		30/04/2018
NFIB Compensation Index	21	19	↘		30/04/2018

Source: Bloomberg. In-house preparation.

Europe – Macro framework

After reaching all-time highs at the start of the year, **data from eurozone economic surveys** and leading indicators are still **falling back somewhat, although they remain solid.**

The Bund fell to 0.58 and the euro fell against the dollar to \$1.20.

Macroeconomic indicators

Leading Indicators

	Last	Prev.	Tend.	24 Months	Last Date
PIB q/q% SAAR	0,4	0,7	→		31/03/2018
ISM Manufacturing	56,2	56,6	↔		30/04/2018
ISM Non Manufacturing	54,7	54,9	↔		30/04/2018
Composite PMI	55,1	55,2	→		30/04/2018
Citi surprise Index	-101	-101,0	↔		09/05/2018

Labour Market

	Last	Prev.	Tend.	24 Months	Last Date
Unemployment Rate	8,5	8,5	→		31/03/2018
Unemployed (millions)	13,8	13,9	↔		31/03/2018
Employment q/q% SWDA	0,3	0,4	→		31/12/2017
Labour Costs(Q) y/y%	1,5	1,6	↔		31/12/2017

Investment

	Last	Prev.	Tend.	24 Months	Last Date
Construction Confidence	4,5	5,2	↔		30/04/2018
PMI Construction	52,5	50,6	↔		30/04/2018
Industrial Confidence	7,1	7	↔		30/04/2018
Capacity Utilisation	84,4	84,7	↔		30/06/2018

Activity

	Last	Prev.	Tend.	24 Months	Last Date
Retail Sales m/m%	0,1	0,3	→		31/03/2018
PMI Retail Sales	48,6	50,1	↔		30/04/2018
Consumer Confidence	0,4	0,1	↔		30/04/2018
Industrial Production y/y%	2,9	3,7	→		28/02/2018
Economic Sentiment Indicat	113	112,7	↔		30/04/2018

Prices

	Last	Prev.	Tend.	24 Months	Last Date
CPI	1,2	1,3	↔		30/04/2018
Core CPI	0,7	1,0	→		30/04/2018
Breakeven 5yr/5yr	1,7	1,7	→		30/04/2018
10yr Breakeven Germany	1,59	1,6	↔		30/04/2018

Other

	Last	Prev.	Tend.	24 Months	Last Date
Official Rate*	0	0,0	→		26/04/2018
10y rate*	0,54	0,6	→		30/04/2018
CBPP3 (mm €)	253	252,6	↔		04/05/2018
EUR/USD	1,19	1,2	→		30/04/2018

Source: Bloomberg. In-house preparation.

Next key dates: all eyes on...

Central banks

Bank of England meeting	10-May-18
Federal Reserve meeting	2-May-18

Macroeconomic data

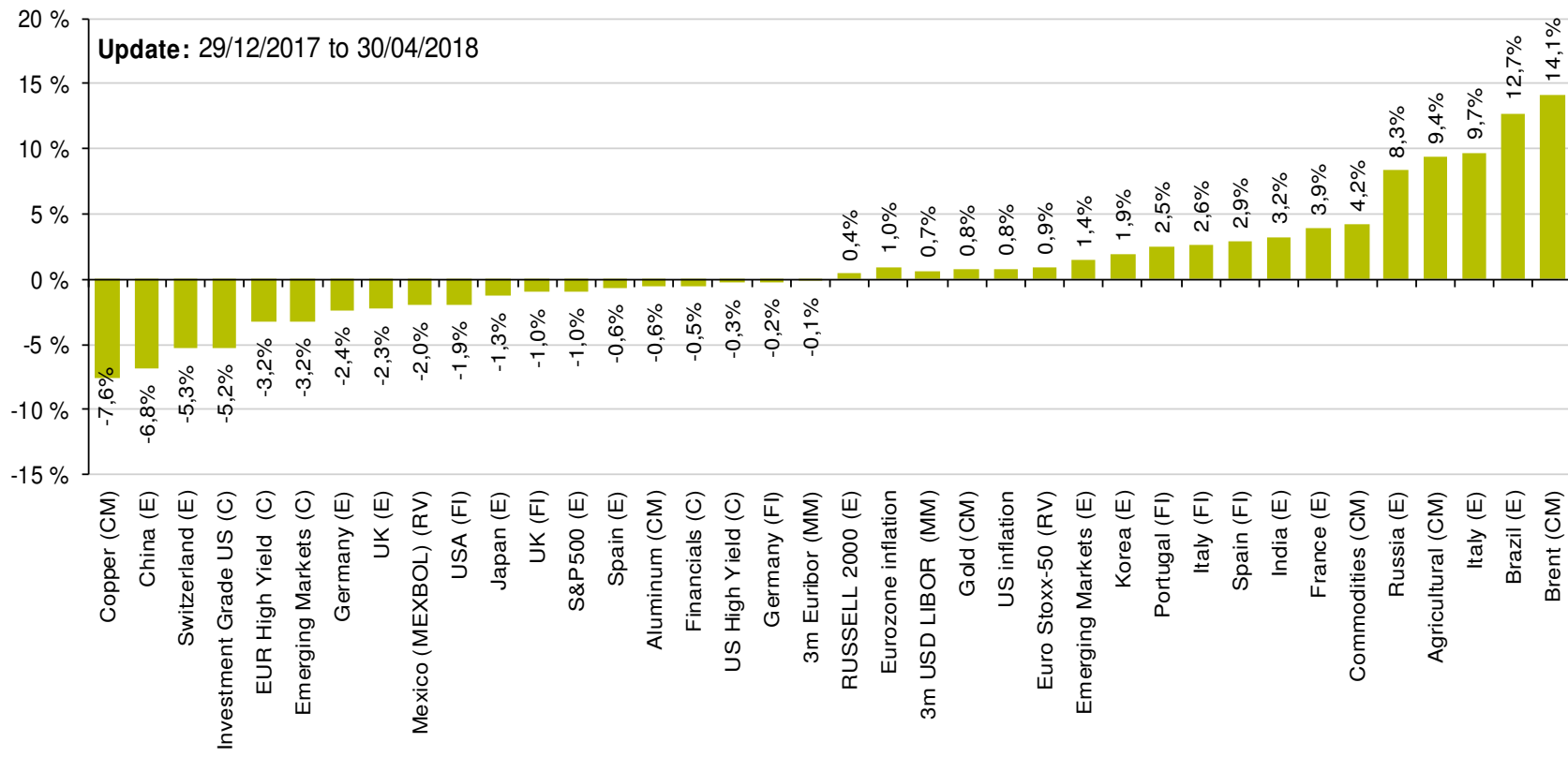
	Inflation	Labour Market	GDP
United States	10-May-18	4-May-18	30-May-18
Europe	22-May-18		2-May-18
UK	22-May-18	16-May-18	25-May-18

Political agenda

If Italy does not form a government, we will be on our way to new elections.

Commodities and emerging markets were the best performers, Brazil and the Brent in particular. The worst assets were copper and Chinese equity.

2018 performance ranking by assets

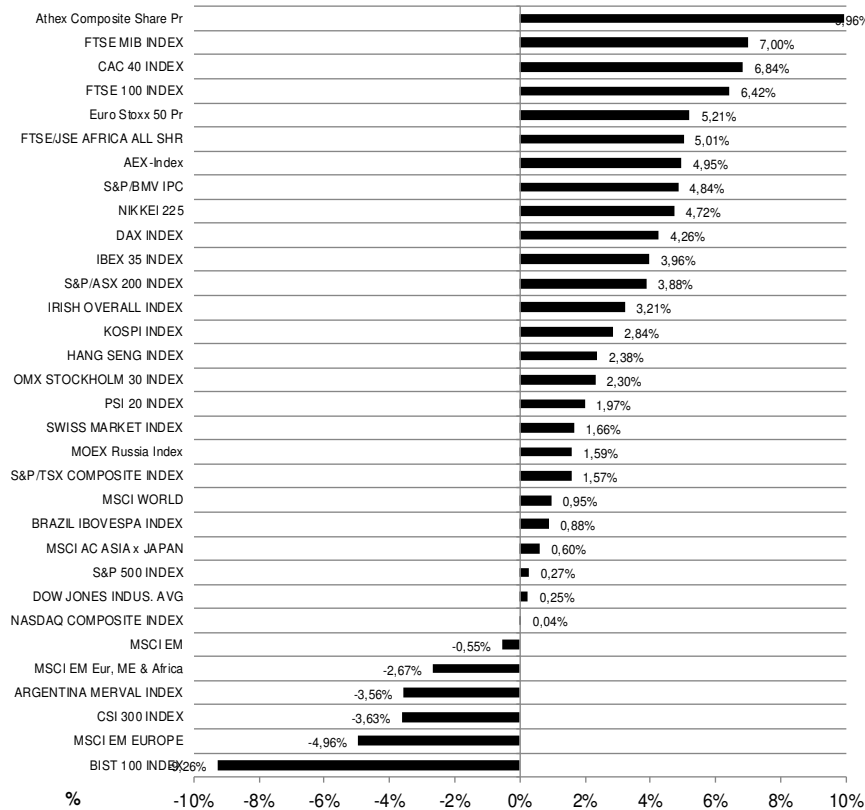


Source: Bloomberg. In-house preparation.

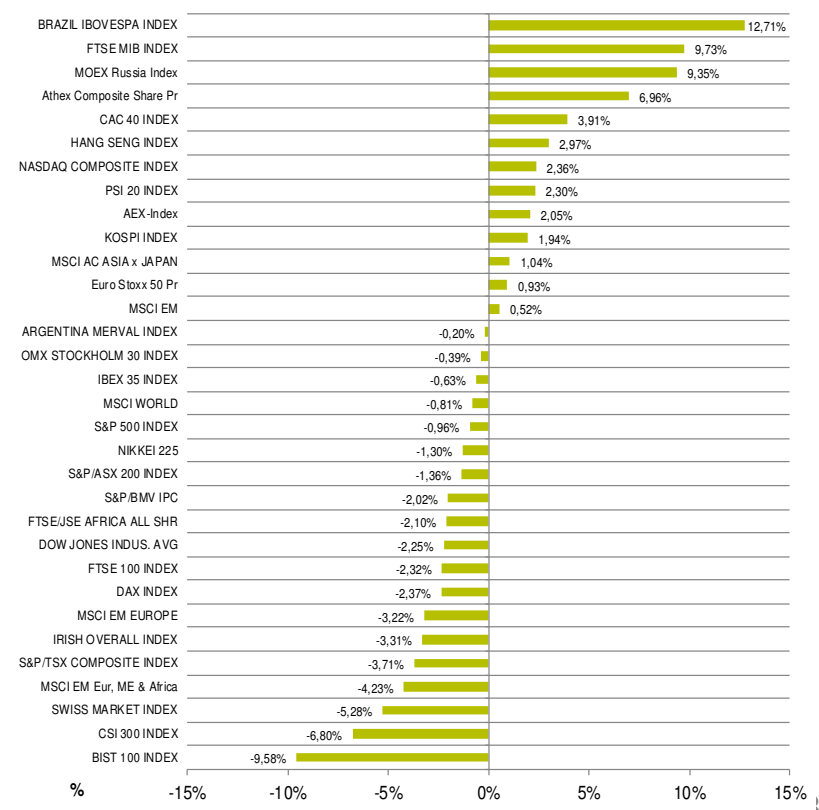
Performance summary

The tone of the discussions between the US and China softened. It looks like the markets are becoming numb to the tweets and news surrounding this matter. In this regard, the **S&P 500 saw a rise of +0.3%**, as did the other global markets. However, it was **the Eurostoxx 50 (+5.2%) and the Nikkei 225 (+6.2%) that rose the most**, thanks to the dollar rising over 2% against both the euro and the yen.

Last month



Cumulative annual YTD

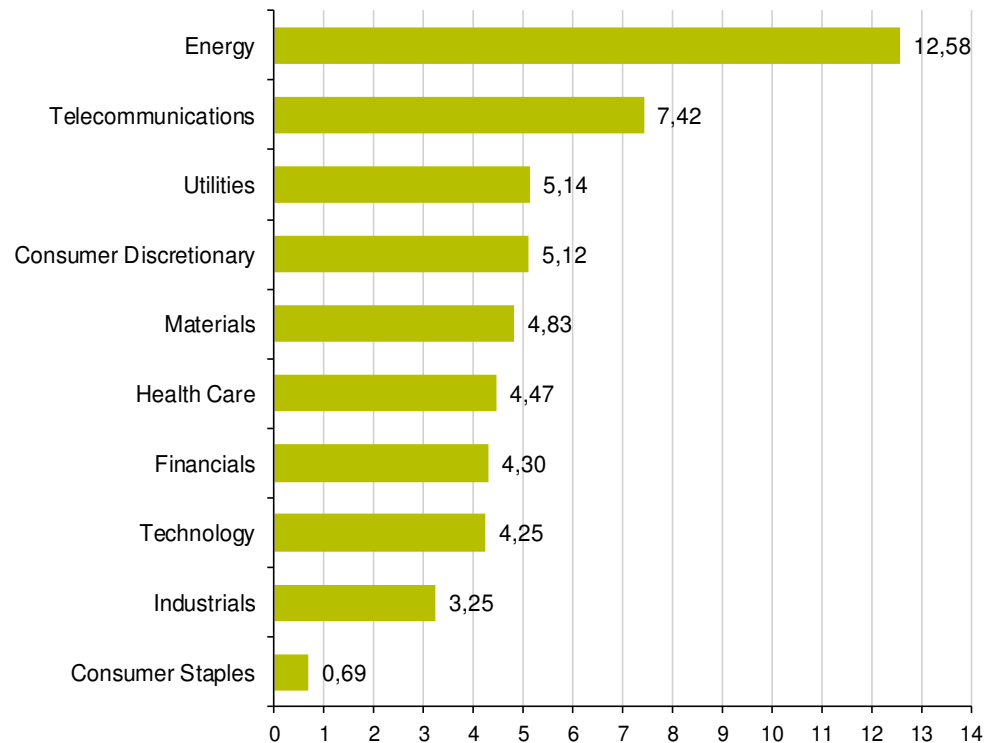


Source: Bloomberg, in-house preparation.

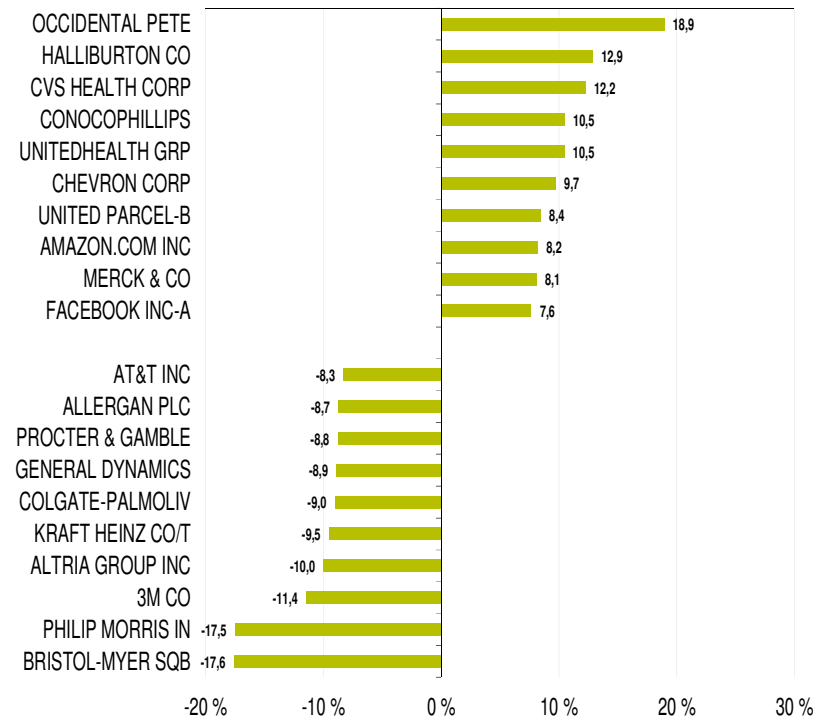
US

The energy sector (+9.4%) performed the best during April, in light of the increase in the price of oil. The US attack on Syria (in response to an apparent chemical attack by the Syrian government on its own citizens) and new sanctions on Russia have driven the rise in the price of oil. On the negative side, we saw that the consumer staples sector (-4.1%) performed the worst in the month, burdened, among other things, by the fact that the 10-year bond yield exceeded 3%.

United States sector performance (%)



Best/worst performance in the month (%)

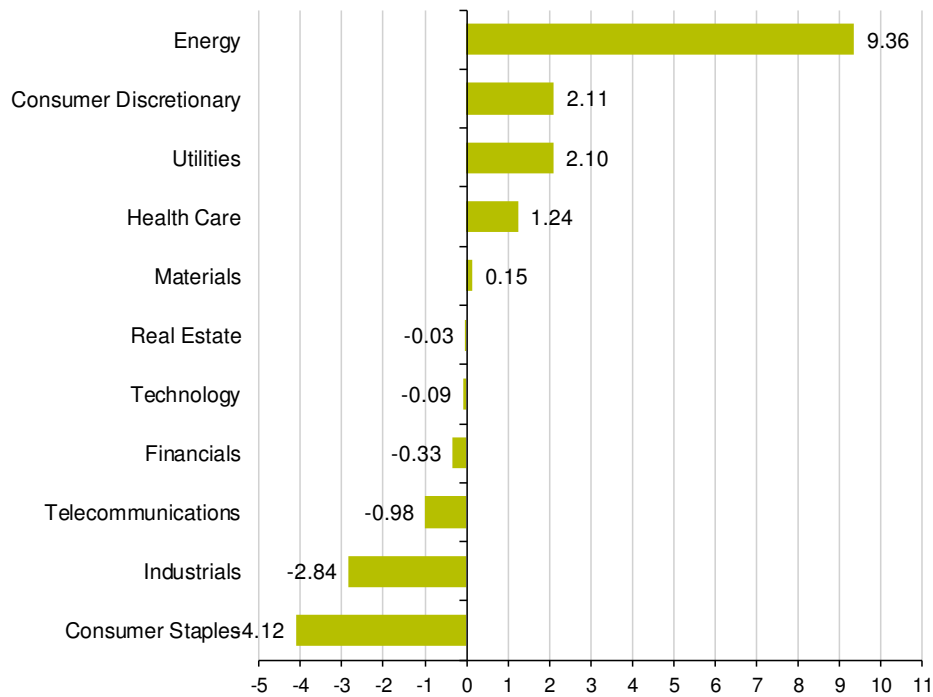


Source: Bloomberg, In-house preparation.

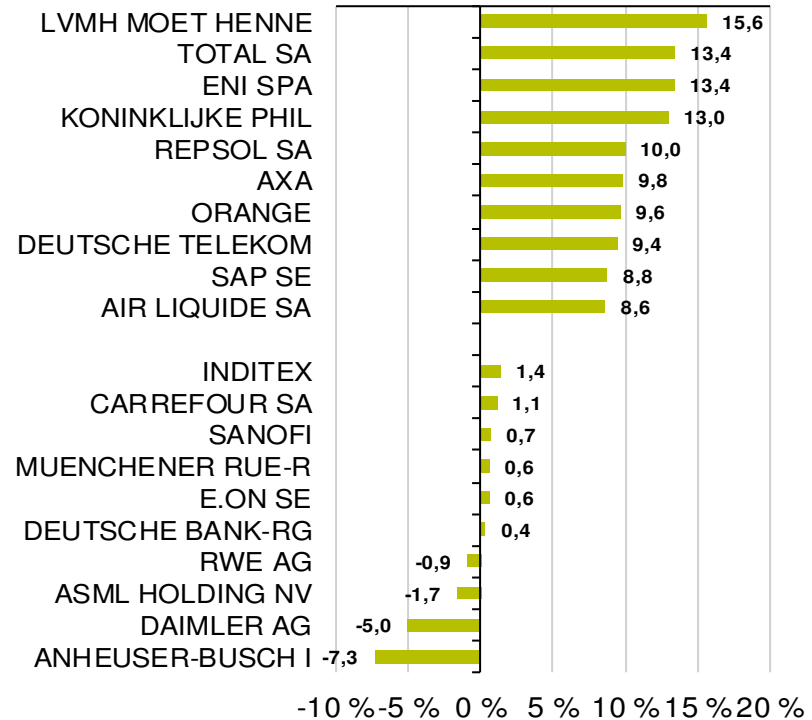
Europe

We note the remarkable rise of the Eurostoxx 50 (+5.2%), as it rose much more than the US indices. Contributing factors to its significantly better performance include the sharp rally in two sectors with much more weight in this index than the US one (**the energy sector rose +12.8% and the telecom sector rose +6.8%**) and the fall of the euro against the dollar. Furthermore, none of the sectors fell during the month, although the **consumer staples sector performed the worst (+1.1%)**.

Eurozone sector performance (%)



Best/worst performance in the month (%)

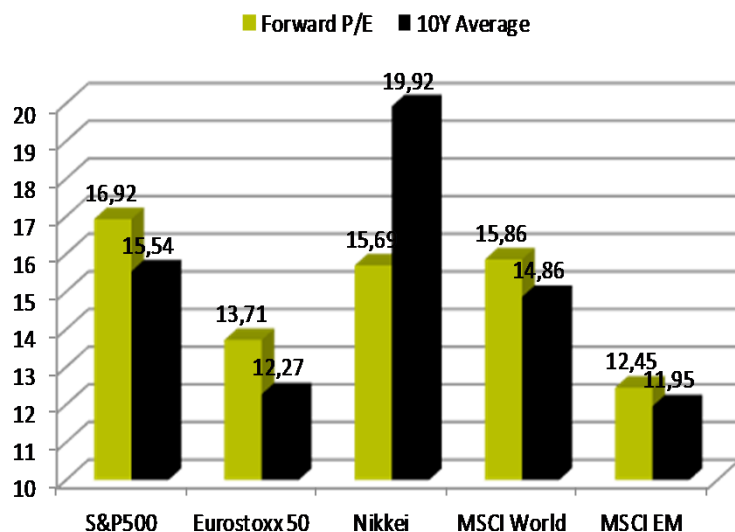


Source: Bloomberg, In-house preparation.

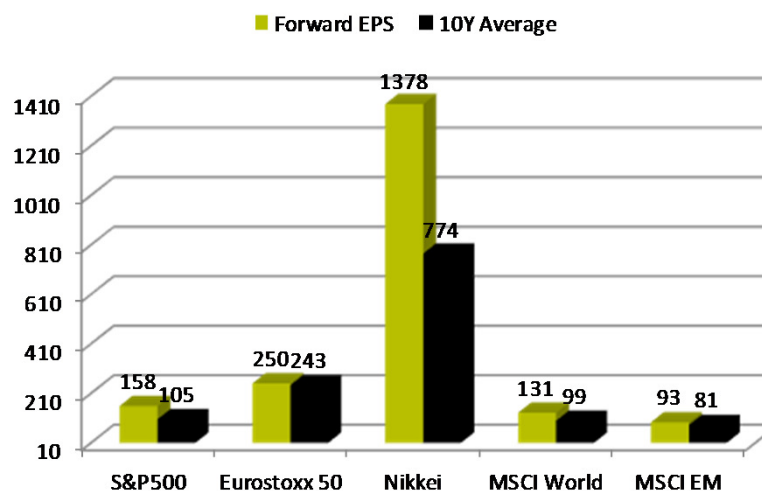
Equities valuations

- **Increase in valuations for the main indices except those in the S&P 500, which dropped a little more in April.** Following the drop in March, US market valuations **now look nothing like what we were seeing at the end of last year.** For the other indices, the sharp rally during the month has translated into higher valuations. The Forward P/E for the S&P 500 is at x16.4 and the Eurostoxx 50 at x14.1. Even so, the Nikkei continues to be the only index below the below the 10-year average.
- **Expected earnings per share have improved this month and the improvement in Japan is notable once again,** even though the yen has risen in recent months.

12-month forward P/E ratios



Expected EPS

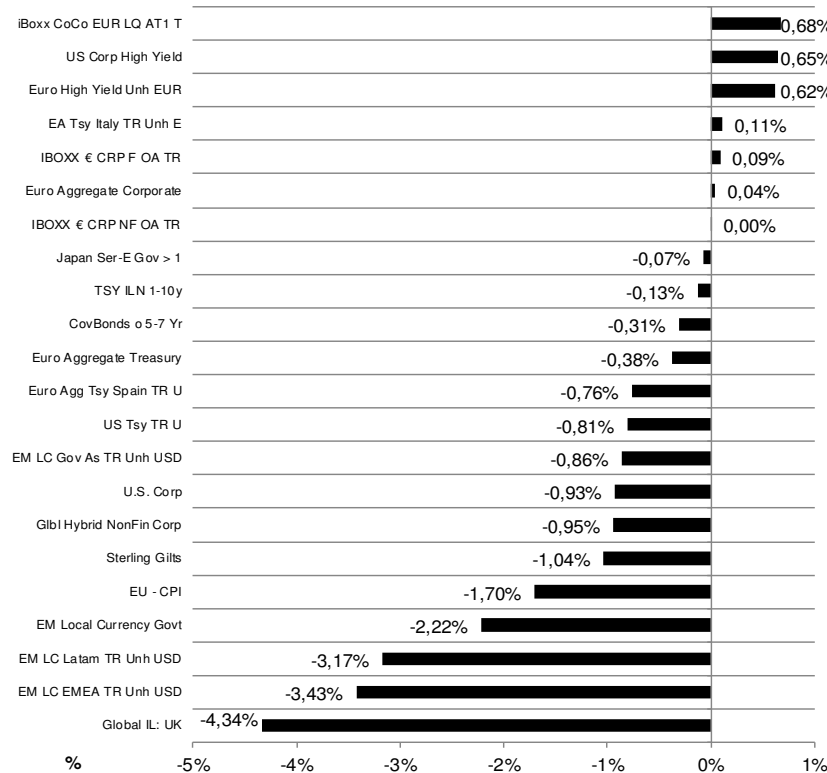


Source: Bloomberg, in-house preparation

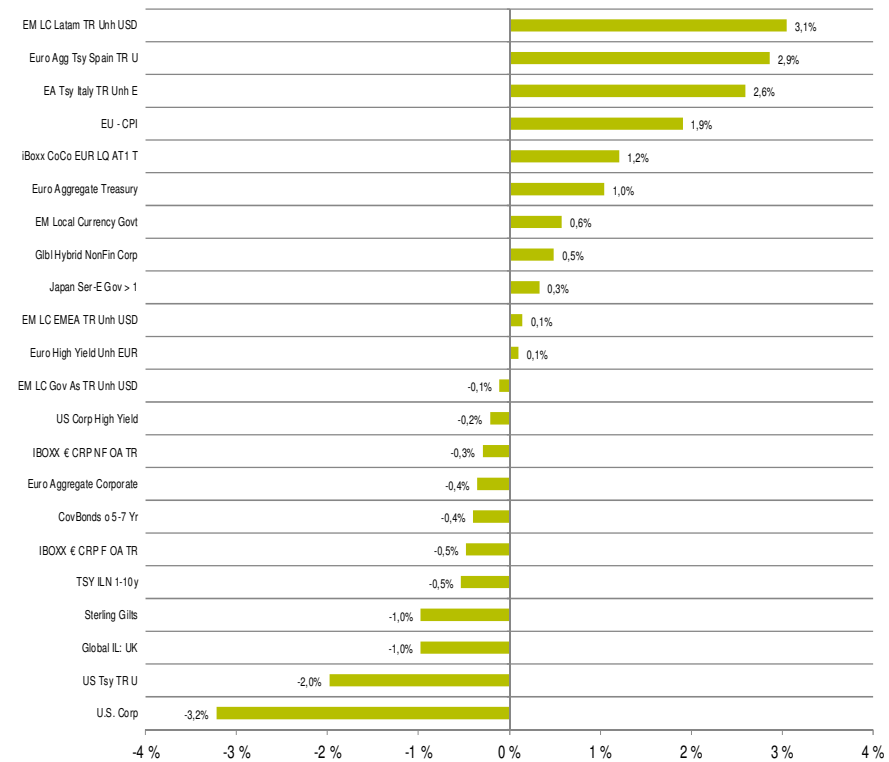
Performance summary

The main assets that increased the most in April were the CoCo bonds in euros and High Yield in dollars. In **corporates**, the euro outperformed the dollar as it benefitted from support for the ECB's purchase programme (ECB purchases show a clear bias towards corporate programmes compared with government programmes).

Last month



Cumulative annual YTD



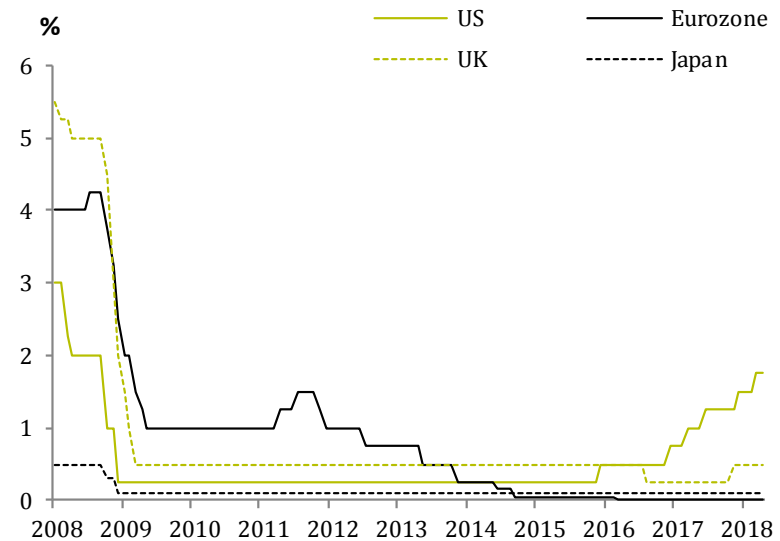
Source: Bloomberg, in-house preparation

Central banks (I)

As expected, the FOMC increased the interest rates of the **Federal Reserve to 1.75% in March**. As for the ECB, its last meeting had a dovish tone and stimuli will be withdrawn gradually. The Bank of Japan continues with its stimuli with the aim of reaching its inflation target. A slowdown in consumer spending is predicted for 2019, following an expected tax increase.

Official interest rates of developed countries

	Country	Last month	Last chg.	Date
America	US	1,75%	● 25 pb	March-18
	Canada	1,25%	● 25 pb	January-18
Europe	Eurozone	0,00%	● -5 pb	March-16
	UK	0,50%	● 25 pb	November-17
	Norway	0,50%	● -25 pb	March-16
	Switzerland	-0,75%	● -50 pb	January-15
Asia	Australia	1,50%	● -25 pb	August-16
	New Zealand	1,75%	● -25 pb	November-16
	Japan	0,10%	● -20 pb	December-08



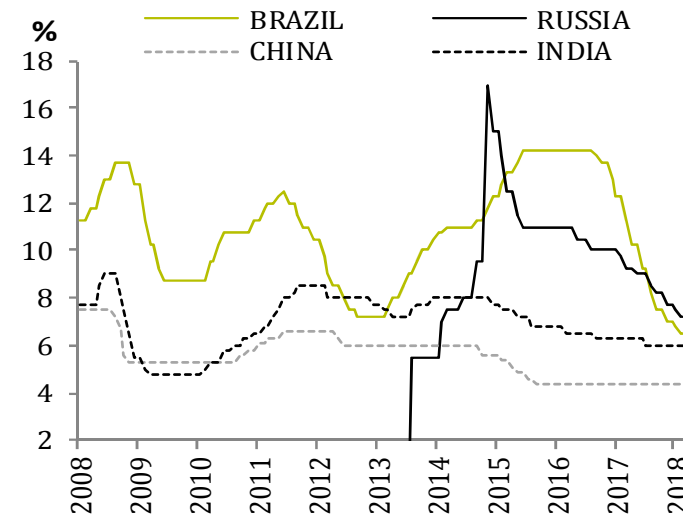
Source: Bloomberg, in-house preparation

Central banks (II)

The Central Bank of Peru reduced its reference rate by **0.25% to 3%**. The good performance of emerging countries has caused the central banks to think about **increasing reference rates**, particularly in Asia, while in Latin America, central banks have little room to manoeuvre with regards to reductions.

Official interest rates of developing countries

	Country	April 2017	Last chg.	Date
America	Brazil	6,75%	● -75 bp	Mar-18
	Mexico	7,50%	● 25 bp	Feb-18
	Chile	2,50%	● -25 bp	May-17
	Peru	3,00%	● -25 bp	Mar-18
	Colombia	4,25%	● -25 bp	Mar-18
Europe	Hungary	0,90%	● -15 bp	May-16
	Russia	7,50%	● -25 bp	Feb-18
	Czech Rep	0,75%	● 25 bp	Feb-18
	Poland	1,50%	● -50 bp	Mar-15
Asia	China	4,35%	● -25 bp	Oct-15
	India	6,00%	● -25 bp	Jul-17
	Korea	1,50%	● 25 bp	Nov-17
	Indonesia	6,50%	● -25 bp	Jun-16

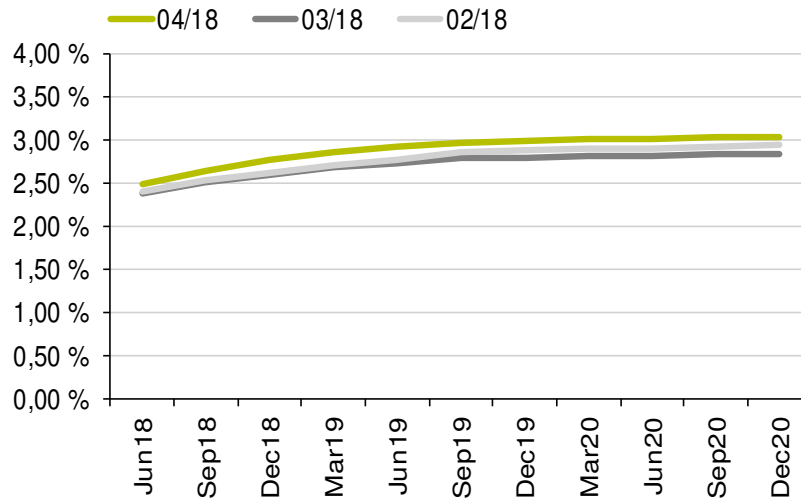


Source: Bloomberg, in-house preparation

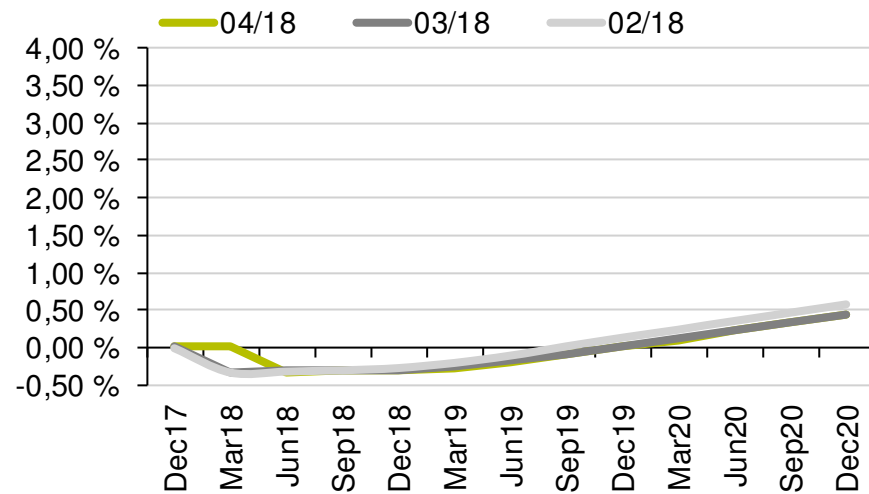
Money markets

The 12-month Euribor remains the same with the intervention of the ECB. The 12-month USD Libor has increased 66 basis points since the beginning of the year to 2.76%, in line with the expected rate hikes.

3-month \$ Libor futures



3-month Euribor futures

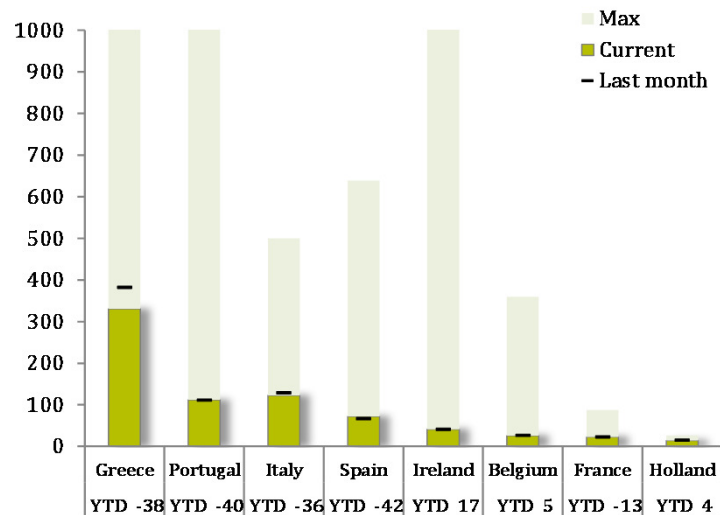


Source: Bloomberg, in-house preparation

Risk premiums

During April, **the risk premiums for Spain and Portugal did not fall.** Meanwhile, Brazil, South Africa and Russia rose by 10 basis points.

Eurozone 10y sovereign bond risk premiums



CDS: Risky countries

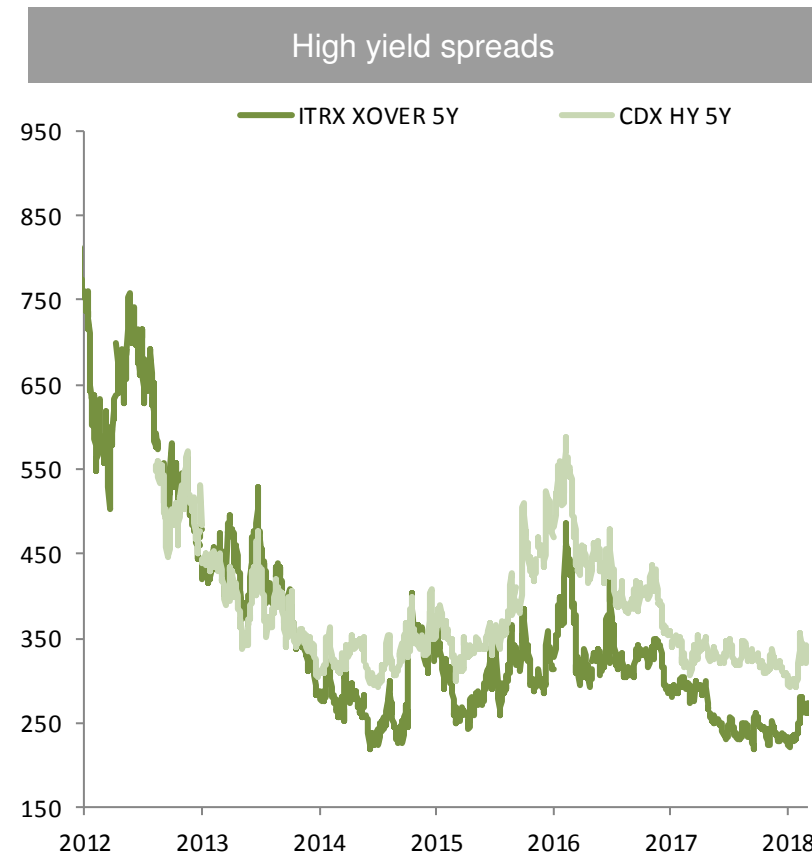
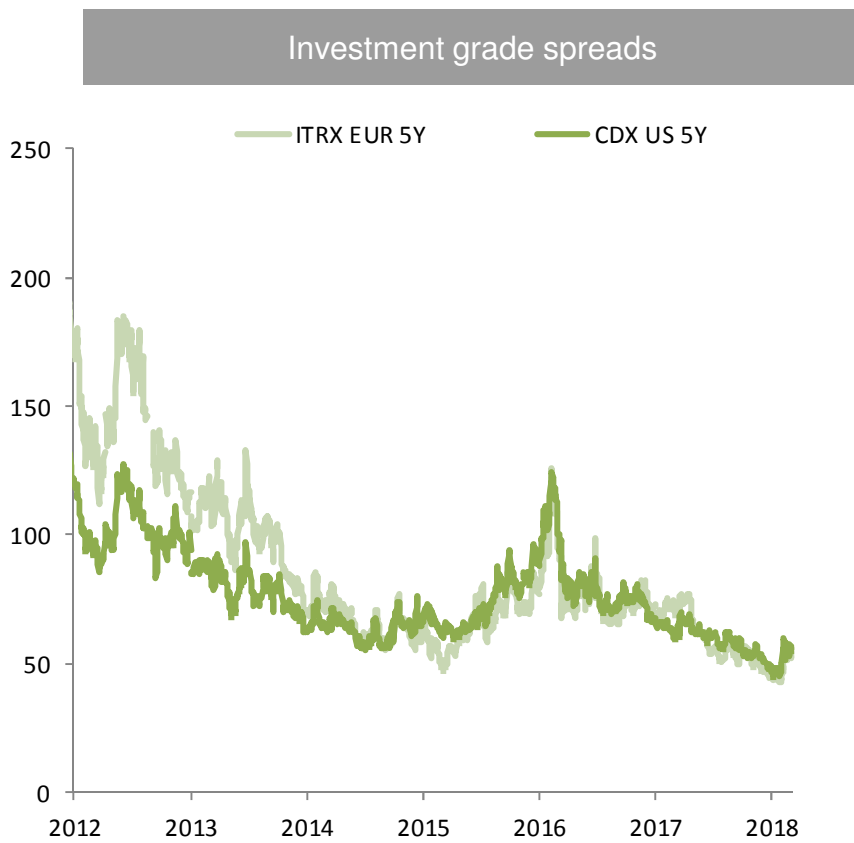
Country	04/18	Δ 1 month
BRAZIL	174 bp	10 bp
SOUTH AFRICA	162 bp	10 bp
RUSSIA	133 bp	10 bp
MEXICO	114 bp	4 bp
COLOMBIA	107 bp	0 bp
PERU	77 bp	-5 bp
PANAMA	65 bp	-5 bp
CHILE	51 bp	0 bp
ITALY	88 bp	-14 bp
PORTUGAL	63 bp	0 bp
SPAIN	39 bp	-1 bp

Source: Bloomberg, in-house preparation

Source: Bloomberg, in-house preparation

Spreads

The spreads tightened in April. Company fundamentals (which remain solid) and default rates down to almost historic lows are the drivers that mean the spreads are staying at all-time lows both for Investment Grade (IG) and High Yield (HY) bonds.

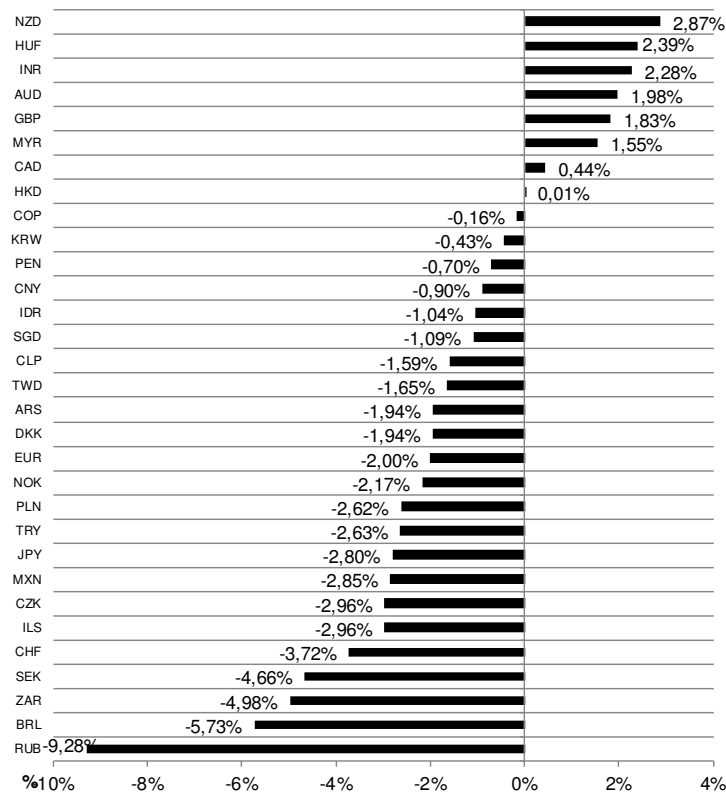


Source: Bloomberg, in-house preparation

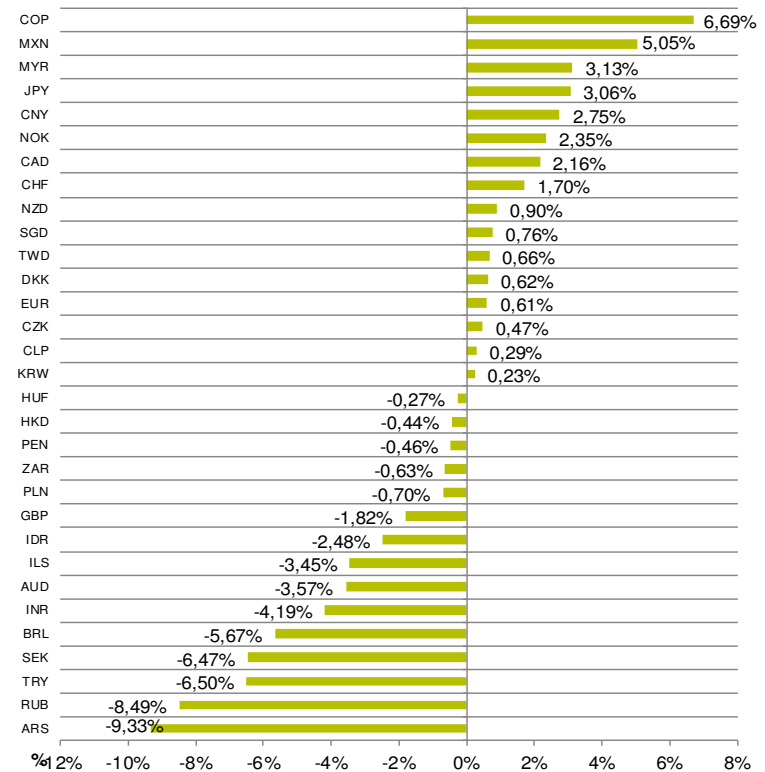
Foreign exchange - Performance summary

In April, the 10-year US Treasury bond yield surpassed the 3% milestone, causing the dollar to strengthen against most currencies, which was particularly damaging to emerging countries. The yen continues to be one of the best-performing currencies this year due to heavy involvement from the Bank of Japan.

Last month (vs. USD)



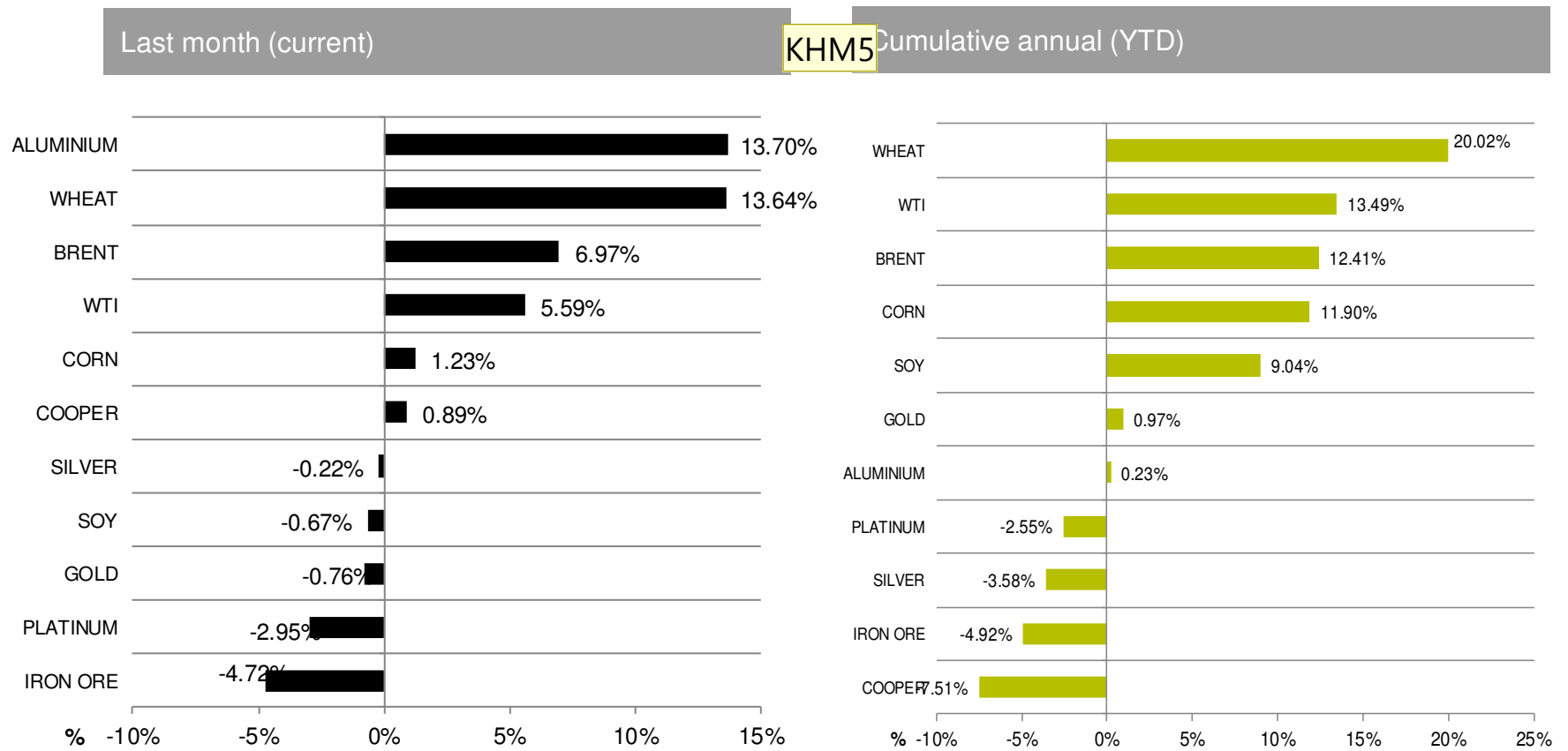
Cumulative annual YTD (vs. USD)



Source: Bloomberg, in-house preparation

Commodities - Performance summary

High volatility in aluminium following the announcement of sanctions on Russia. Wheat continues to rise, driven by uncertainties surrounding the US harvest.



Source: Bloomberg, in-house preparation

Diapositiva 19

KHM5

les taules en anglès no cuadren amb les taules en castellà.

Kathryn Helen MORGAN; 09/05/2018

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