

The Week Ahead

Active is: Keeping an eye on capital markets



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„Between trade and growth concerns“

Elections to the European Parliament took place at the past weekend and showed that the European political landscape has become **more fragmented**. While pro-European groups still have a parliamentary majority, any coalition talks look set to be difficult. The main impact of the elections will probably be felt at the national level: gains by EU-sceptic parties, such as the right-wing, nationalist “Lega” in Italy, are likely to lead to higher political instability; Greek PM Tsipras has announced early parliamentary elections; coalition talks in Belgium remain difficult; and Nigel Farage’s anti-EU party will have a major impact on the Brexit policy of the next UK government.

Political uncertainties are unlikely to abate, even though the effects on the equity and bond markets were limited at the beginning of the week; market participants seemed to have anticipated the result to a large extent. A look at the **commodities markets** is rather more interesting. While a recent increase in US inventories (to their highest levels since July 2017) removed concerns about a potential supply shortage, the intensifying trade tensions between the US and China will leave their traces on global growth. Commodities, particularly oil, came under pressure due to a potential decline in demand, and market-based US inflation expectations for the coming five years deteriorated further (*see Chart of the Week*).

The impact of the persistent trade conflict is being felt in other areas, too. Money market funds registered the strongest inflows since the beginning of the year (almost USD 50 bn), whereas emerging markets equities suffered from rising **capital outflows** during the past five weeks. Demand for US Treasuries remains healthy, and besides the Japanese yen, the US dollar is still a “safe haven”, despite its significant overvaluation and the unilateral positioning of speculative investors. At the same time, the US manufacturing sector has to cope with intensifying **headwinds from the trade conflict**. The Markit manufacturing PMI dropped to its

Publications



“European election results provide relief – for now“

While the pro-European vote held up in many countries, the result will likely be a more fragmented European Parliament that may slow decision-making. Most challenging for European leaders could be the signs of increasingly polarised electorates.



“Active is: Being a rational optimist“

The world is becoming a better place. All the indicators concur: increasing life expectancy on every continent of the planet, falling child mortality and child labor, rising prosperity and, from a global perspective, declining inequality. Wherever the forces of creative disruption are allowed to unfold, we have every reason to be rational optimists. But what does this mean for investors and others?



“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.

lowest level since September 2009 (from 52.6 to 50.6 points), and consumer durables orders pointed to a major slowdown in US growth in April. On the other side of the Pacific Ocean, the Japanese manufacturing PMI dropped to 49.6 in May, i.e. below the growth threshold, and Chinese industrial profits were down almost 4% year-on-year in April on the back of lower manufacturing demand and activity.

This has led to calls for **fiscal stimulus**. In the US, President Trump announced a USD 16 bn package for the agricultural sector, which is suffering most from the trade conflict with China. This step, together with more conciliatory remarks in the trade conflict, follows a well-known pattern to support the markets, which has been dubbed the "Trump put". At the same time, the Federal Reserve is biding its time (the "Fed put") and the Chinese government supports its industrial sector by infrastructure programmes and easier access to loans (the "Xi put"). By the way, China is increasingly preparing for the possibility that the trade conflict will *not* be resolved any time soon; according to a state research institute, the trade war might continue until 2035. If growth decelerates further, additional large-scale monetary and fiscal policy measures are on the cards.

The Week Ahead

Several interesting **US** figures are due. The ISM index (on Monday) and industrial order intake (on Tuesday) will give us more insight into the current situation of the US economy. The ADP labour market report (Wednesday) will provide a first hint of what the official US labour market data for May will look like on Friday. And the trade balance (Thursday) should be seen in the context of the smouldering trade war. In the **euro area**, the focus will be on German industrial order intake (Thursday) and on industrial output and trade data for Germany and France (Friday). The **European Central Bank's** (ECB's) rate decision will get much attention on Thursday, as consumer prices (also due on Thursday) remain below the ECB target of just below 2% and market-based inflation expectations continue to decline. In **Asia** investors' attention will focus on **Chinese** data. On Monday, the Caixin manufacturing PMI will show whether the Chinese industry can decouple from the global slowdown, and on Friday, FX reserve figures might tell us whether the Chinese central bank has intervened to support the local currency.

Active is:

While technical indicators, such as the relative strength indices (RSIs), have recently stabilised at a low level, the percentage of bears increased to almost 40% in the latest survey of the American Association of Individual Investors (AAII). That survey showed that the share of cash in the portfolios was reduced to 15% and that the share of equity funds rose by 2 pp, to 37%. This suggests that the bulls will regain their strength.

Keep going, even if the times are volatile! Yours
Stefan Scheurer

Upcoming Political Events 2019

8 – 9 Jun: G20 meeting of finance ministers and central bank governors in Japan

[Overview political events 2019 \(click here\)](#)

[Overview Central Banks Calender \(click here\)](#)

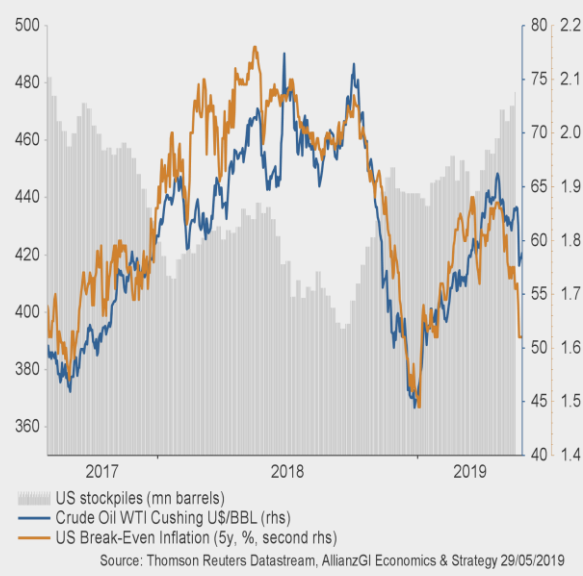
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Chart of the Week

Oil came under pressure, while market-based US inflation expectations for the coming five years deteriorated further.



Calendar Week 22:

Monday			Consensus	Previous
CH	Caixin Manufacturing PMI	May	50	50.2
IT	Markit Manufacturing PMI	May	--	49.1
UK	Markit Manufacturing PMI	May	--	53.1
US	ISM Manufacturing	May	53.9	52.8
US	Construction Spending MoM	Apr	0.40%	-0.90%
Tuesday				
EC	Unemployment Rate	Apr	--	7.70%
EC	CPI Core YoY	May A	--	1.30%
EC	CPI Estimate YoY	May	--	1.70%
IT	Unemployment Rate	Apr P	--	10.20%
JN	Monetary Base YoY	May	--	3.10%
UK	Markit Construction PMI	May	--	50.5
US	Factory Orders MoM	Apr	-1.00%	1.90%
US	Factory Orders ex. Transport MoM	Apr	--	0.80%
Wednesday				
CH	Caixin Composite PMI	May	--	52.7
CH	Caixin Services PMI	May	54.2	54.5
EC	PPI YoY	Apr	--	2.90%
EC	Retail Sales YoY	Apr	--	1.90%
IT	Markit Services PMI	May	--	50.4
IT	Markit Composite PMI	May	--	49.5
JN	Nikkei Composite PMI	May	--	50.8
JN	Nikkei Services PMI	May	--	51.8
UK	Markit Services PMI	May	--	50.4
UK	Markit Composite PMI	May	--	50.9
US	ADP Employment Change	May	215k	275k
US	ISM Non-Manufacturing Index	May	56.5	55.5
Thursday				
EC	ECB Main Refinancing Rate	Jun 06	--	0.00%
EC	ECB Deposit Facility Rate	Jun 06	--	-0.40%
GE	Factory Orders YoY	Apr	--	-6.00%
GE	Markit Construction PMI	May	--	53
US	Initial Jobless Claims	Jun 01	--	--
US	Continuing Claims	May 25	--	--
US	Trade Balance	Apr	-\$50.8b	-\$50.0b
Friday				
CH	Foreign Reserves	May	--	\$3094.95b
FR	Trade Balance	Apr	--	-5324m
FR	Current Account Balance	Apr	--	-1.3b
FR	Industrial Production YoY	Apr	--	-0.90%
FR	Manufacturing Production YoY	Apr	--	0.50%
GE	Industrial Production YoY	Apr	--	-0.90%
GE	Trade Balance	Apr	--	22.7b
GE	Current Account Balance	Apr	--	30.2b
GE	Exports SA MoM	Apr	--	1.50%
GE	Imports SA MoM	Apr	--	0.40%
GE	Labor Costs WDA YoY	1Q	--	2.00%
IT	Retail Sales YoY	Apr	--	-3.30%
JN	Labor Cash Earnings YoY	Apr	--	-1.90%
JN	Leading Index	Apr P	--	--
JN	Coincident Index	Apr P	--	--
UK	Halifax House Price 3Mths/Year	May	--	5.00%
US	Change in Nonfarm Payrolls	May	203k	263k
US	Unemployment Rate	May	3.70%	3.60%
US	Average Hourly Earnings YoY	May	--	3.20%
US	Consumer Credit	Apr	\$11.500b	\$10.281b

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