



Millennium  
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# Weekly Investment Note

Geneva | 23 June 2017

*Committed to you*

“

Uncertainty remains high one year after the referendum

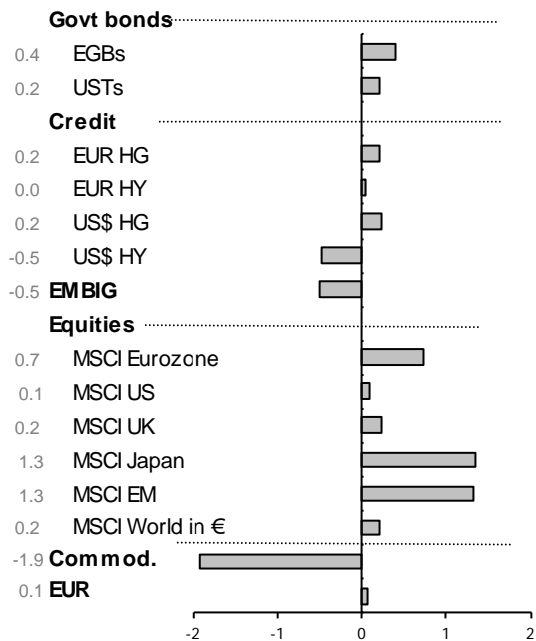
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MARKETS WEEKLY REVIEW

MAJOR MACROECONOMIC DATA RELEASE

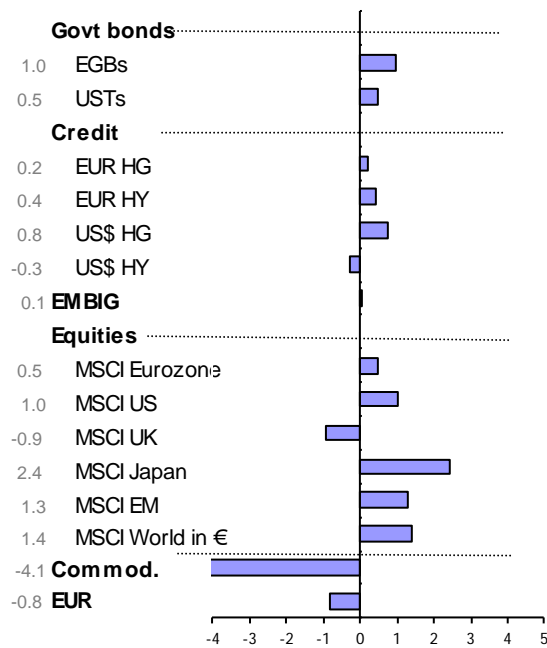
## Weekly Returns

% Chg in local currency, through Thursday's close



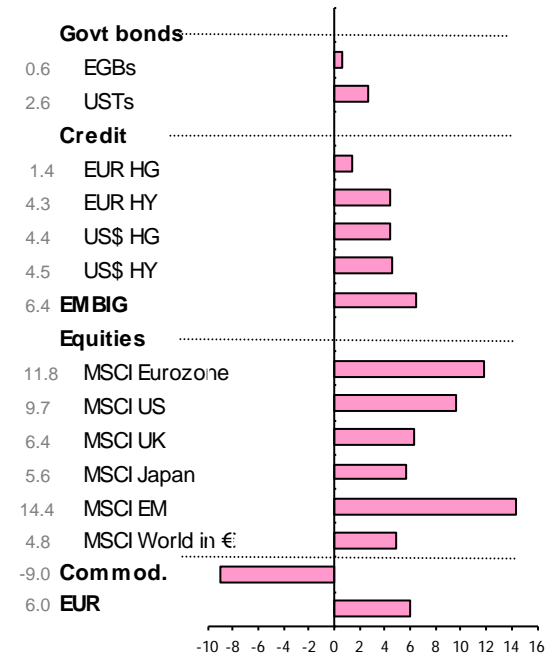
## Month-to-date Returns

% Chg in local currency, through Thursday's close



## Year-to-date Returns

% Chg in local currency, through Thursday's close



Source: Bloomberg.

Note: EFFAs indices used for government bonds, BoA-ML indices used for credit, MSCI Net TR indices local currency used for equities, Dow Jones-UBS Commodity Index TR used for commodities, EUR performance against USD.

## Highlights

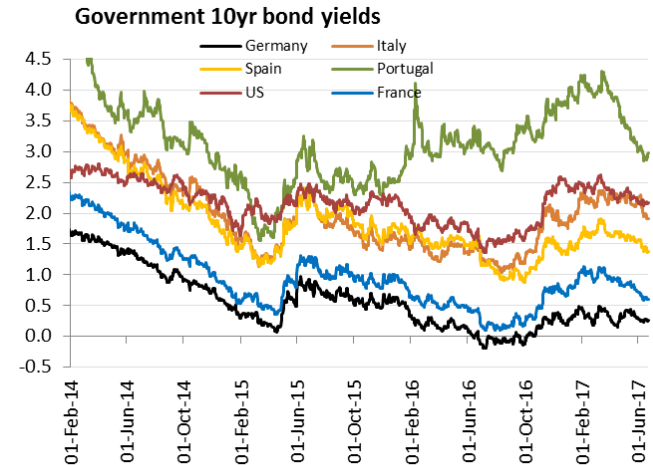
- BoE Carney in no hurry to hike interest rates, but BoE Chief Economist suggests possibility of a rate hike in 2H17.
- Brexit negotiations start with a moderate tone
- ECB proposes statute change to become Euro clearing regulator.
- New proposal to replace Obamacare.
- China A-Shares to be included in MSCI indexes in 2018.
- Argentina places a 100 year bond at 7.9%.
- Intesa offers to acquire assets -“good bank”- from B. Popolare di Vicenza and Veneto Banca
- All US banks pass the first part of the Fed stress test.
- Moody’s downgrades major Australian banks.
- Macron’s Party wins parliamentary elections.
- *Next week: EA EC confid indic, CPI, US 1Q GDP, consum confid, durable goods, UK GDP, JPN IP, CPI, CH PMIs.*

## Markets review

- **Government bonds** returns were positive, both in the US (+0.2%) and Europe (+0.4%), with yields little changed.
- **Corporate bonds** returns were marginally positive, benefiting from the positive impact of the underlying yield curve. US HY was down, as spreads widened due to the drop in oil prices.
- **EMD in USD** was down 0.5%, impacted by wider spreads.
- **Equities** were up 0.5% (+0.2% in euros). EM (+1.3%) and Japan (+1.3%) outperformed, as did Euro area (+0.7%). US was flat (+0.1%).
- **Commodity prices** were down 1.9%. Energy prices corrected 3.8%, even with lower stocks in the US. Agricultural and precious metals prices also fell, while industrial metals prices rose.
- **Currencies:** the EUR was little changed against the USD at 1.12 (+0.1%). The pound dropped 0.6% and the yen depreciated 0.4% against the USD. The EM index dropped 0.9%.

## Government bonds

- European bonds** were up 0.4%. Noncore countries European bonds were up 0.4%, with yields little changed. 10yr yields were down 3bp to 0.25% in Germany, -3bp to 0.6% in France, -3bp to 1.39% in Spain and -6bp in Italy, with news that ECB officials had suggested further tapering will not be discussed until September at the earliest, with the ECB said not convinced of price stability without support from monetary.
- US bonds** were up 0.2%, with yields also moving sideways. 2yr yields dropped 1bp to 1.34% and 10yr yields were down 2bp to 2.15%. Fed members were active, but messages were mixed.
- Fed Dudley pointed to more tightening, with good US growth prospects and inflation to quicken, while saying US financial conditions have not tightened with Fed hikes.
- Fed Kashkari said the Fed should wait for more inflation data, to confirm deceleration is transitory.



| Government bond yields |           |         |         |         |
|------------------------|-----------|---------|---------|---------|
|                        | 22-Jun-17 | 1WK Chg | MTD Chg | YTD Chg |
| <i>Europe</i>          |           |         |         |         |
| EA average yields      | 1.07      | -0      | -8      | 6       |
| GE 10yr yields         | 0.25      | -3      | -5      | 4       |
| FR 10yr yields         | 0.60      | -3      | -13     | -9      |
| IT 10yr yields         | 1.91      | -6      | -30     | 9       |
| SP 10yr yields         | 1.39      | -3      | -17     | 0       |
| PT 10yr yields         | 2.96      | 9       | -10     | -81     |
| <i>US</i>              |           |         |         |         |
| US average yields      | 2.27      | 1       | -2      | -18     |
| UST 2yr yields         | 1.34      | -1      | 6       | 15      |
| UST 10yr yields        | 2.15      | -2      | -6      | -30     |

## Corporate Bonds and EMD

- **Credit** benefited from the positive impact of the underlying yield curve but returns were negatively impacted by spread widening, namely in the HY space.
- EU IG was up 0.2%, benefiting from narrower spreads.
- EU HY was flat, with spreads widening marginally (+3bp).
- US HY underperformed, down 0.5% with spreads widening due to the drop in oil prices. US HY has been resilient to the drop in oil prices in the last couple of months, but started to be impacted this week with oil prices falling below \$45pb.
- **EMD in USD** was down 0.5%, impacted by spread widening (+12bp), with the fall of energy prices impacting sentiment towards producer countries and also with EM currencies depreciation

| Corporate Spreads (bp) |           |         |         |         |
|------------------------|-----------|---------|---------|---------|
| Cash                   | 22-Jun-17 | 1WK Chg | MTD Chg | YTD Chg |
| US\$ High Grade        | 118       | 0       | -1      | -12     |
| US\$ High Yield        | 387       | 15      | 13      | -35     |
| EUR High Grade         | 102       | -2      | -4      | -18     |
| EUR High Yield         | 299       | 3       | -15     | -91     |
| <i>Synthetic EU</i>    |           |         |         |         |
| iTRAXX Main 5yr        | 54        | -3      | -8      | -18     |
| iTRAXX Crossover       | 234       | -3      | -19     | -55     |
| iTRAXX Fin Sen         | 56        | -6      | -14     | -38     |
| iTRAXX Fin Sub         | 139       | -11     | -18     | -82     |

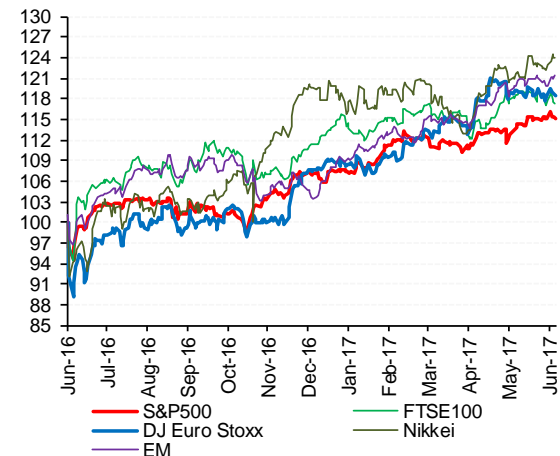
### JPM EMBI SPREAD CHANGE, BP

| \$US                    | 22-Jun | 1W | MTD | 3M  | 6M  | YTD | 1Y   |
|-------------------------|--------|----|-----|-----|-----|-----|------|
| EMBI Global Diversified | 315    | 12 | 10  | 5   | -26 | -26 | -72  |
| LATIN                   | 378    | 13 | 12  | 6   | -24 | -24 | -68  |
| EUROPE                  | 314    | 12 | 10  | 6   | -26 | -26 | -71  |
| AFRICA                  | 416    | 21 | 25  | 5   | -21 | -21 | -139 |
| MIDDLE EAST             | 390    | 17 | 27  | 49  | -37 | -37 | -174 |
| ASIA                    | 178    | 7  | 1   | 4   | -34 | -34 | -65  |
| ARGENTINA               | 423    | 19 | 16  | -19 | -32 | -32 | -72  |
| BRAZIL                  | 294    | 11 | 12  | 30  | -36 | -36 | -72  |
| MEXICO                  | 262    | 15 | 7   | 7   | -34 | -34 | -31  |
| RUSSIA                  | 187    | 16 | 22  | 26  | 1   | 1   | -48  |
| TURKEY                  | 298    | 10 | 11  | -16 | -62 | -62 | 4    |
| POLAND                  | 60     | 8  | -14 | -26 | -50 | -50 | -70  |
| HUNGARY                 | 122    | 4  | -10 | -16 | -46 | -46 | -102 |
| SOUTH AFRICA            | 283    | 20 | 22  | 14  | 7   | 7   | -54  |
| CHINA                   | 141    | 1  | -1  | -4  | -18 | -18 | -35  |
| MALAYSIA                | 138    | 0  | -7  | -4  | -59 | -59 | -94  |

## Equity markets

- **Global equities** were up 0.5% (+0.2% in euros), with little economic data released this week.
- **US equities** ended the week flat, with mixed sector performance. **Euro area equities** were up +0.7%, still benefiting from the positive impact from Macron winning legislative elections with absolute majority, on expectations of structural reforms in France. **UK equities** were up 0.2% (-0.4% in euros). **Japan outperformed** (+1.3%). **EM equities** were up +1.3%, with EM Asia outperforming on news China A-Shares will be included in MSCI indexes in 2018.
- **Sector wise**, healthcare outperformed (+3.6%), with news of a proposal to replace Obamacare indicating additional spending and of a proposal to extend US drug patent protection in foreign markets. IT recovered, and was up +1.6%. Energy was down 1.6%, as oil prices fell. Cons Staples also underperformed with retailers penalized by the Amazon bid for Whole Foods and also a cut in profit outlook from Kroger. Financials were down 0.6%, despite news that all US banks passed the first round of stress tests.

Global equity markets performance indexed 1Y



Source: Bloomberg

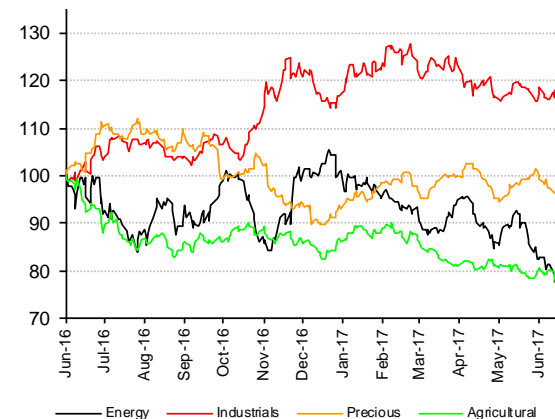
| MSCI Global Sector Returns                        |      |      |       |
|---------------------------------------------------|------|------|-------|
| % Chg in local currency, through Thursday's close |      |      |       |
|                                                   | 1Wk  | MTD  | YTD   |
| <b>Information Technology</b>                     | 1.6  | -0.1 | 19.5  |
| <b>Health Care</b>                                | 3.6  | 5.1  | 16.7  |
| <b>Financials</b>                                 | -0.6 | 2.1  | 5.2   |
| <b>Energy</b>                                     | -1.6 | -2.6 | -11.9 |
| <b>Utilities</b>                                  | -0.4 | 0.1  | 11.8  |
| <b>Telecom</b>                                    | -0.6 | -1.4 | -0.8  |
| <b>Materials</b>                                  | 0.3  | 0.5  | 5.6   |
| <b>Industrials</b>                                | -0.0 | 1.3  | 10.6  |
| <b>Consumer Staples</b>                           | -1.0 | -1.2 | 10.1  |
| <b>Consumer Discretionary</b>                     | 0.1  | -0.3 | 9.6   |



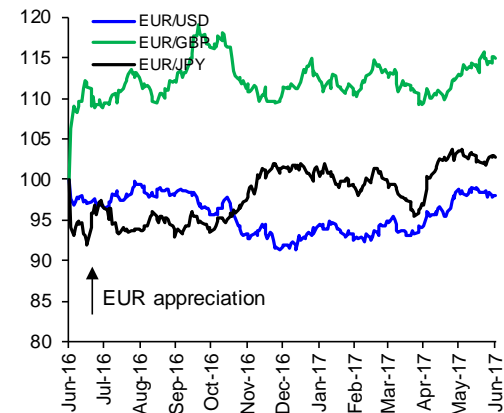
## Commodities and currencies

- **Commodity prices** were down 1.9%, impacted by the drop in energy prices, precious metals and agricultural prices.
- Energy prices were down 3.8%, even with lower/ better than expected inventories in the US. Investors continued to question the impact of OPEC cuts and of increase in US production. News that Libya is increasing production also did not help.
- Industrial metal prices were up 1.9%.
- Precious metal prices were down 0.6%
- Agricultural prices dropped 3.4%.
- **Currencies:** the EUR was little changed against the USD, with both currencies indexes appreciating (EUR index +0.3% and USD index +0.2%).
- The Pound depreciated 0.6% to 1.27 against the USD, with dovish speech from the BoE governor and the start of Brexit negotiations.
- The yen depreciated 0.4% to 111.27.
- EM currencies were down 0.9%, as oil prices dropped below \$45pb.

DJ UBS Commodity Indices (Indexed 1Y)



EUR vs major currencies (indexed 1-year back)



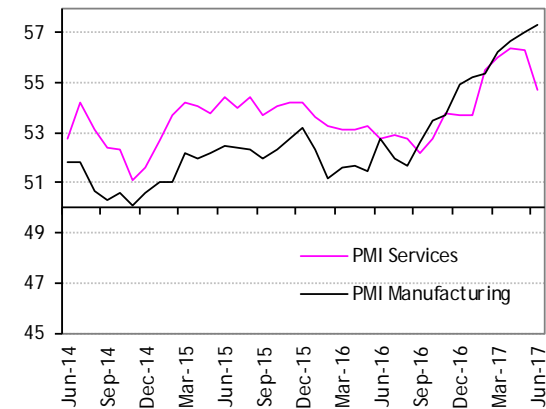
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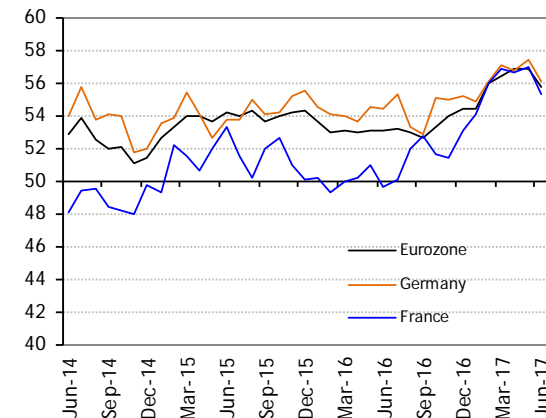
## Euro area economy data releases

- In the **Euro area**, the composite PMI fell 1.1pt to 55.7 in June, remaining at a robust level. The services PMI softened from 56.3 to 54.7 in June while manufacturing PMI improved to a new cyclical high (+0.3pt to 57.3).
- Germany composite PMI eased 1.3pt to 56.1, driven by a moderation in the services PMI, from 55.4 to 53.7 in June. The manufacturing PMI was little changed, remaining strong at 59.3 (-0.2pts).
- France composite PMI dropped 1.9pts to 55.3, also driven by a weaker services PMI, down from 57.2 to 55.3 in June. The manufacturing PMI rose from 53.8 to 55.0
- Consumer confidence improved to -1.3 in June, with improving EU labor market supporting sentiment.
- Construction output was up +0.3% mom in April (+3.2% yoy)

Eurozone PMIs



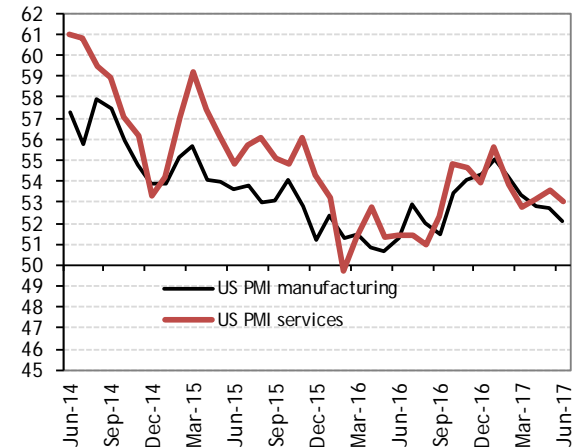
PMI Composite



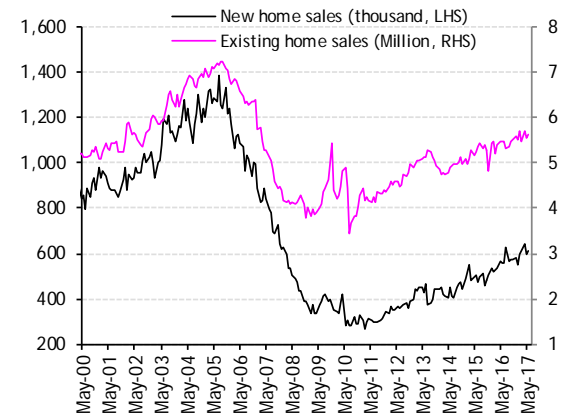
## US economy data releases

- **In the US**, the composite PMI fell from 53.6 to 53.0 in June. The manufacturing PMI was down from 52.7 to 52.1 and the services PMI also fell from 53.6 to 53.0 in June.
- Existing homes sales rose 1.1%mom in May, after -2.5% in April. New home sales increased 2.9% in May, but after falling 7.9% in April.
- Jobless claims remained low at 241k (+3k from previous week).

### US PMIs



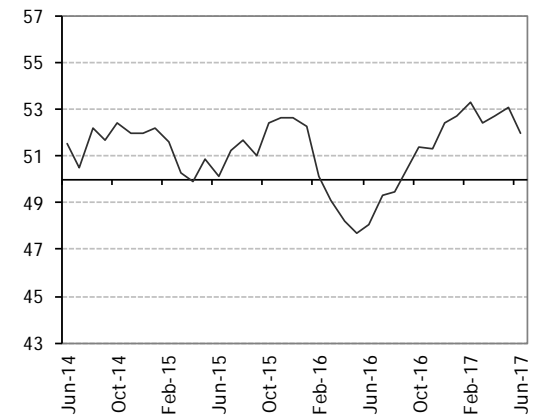
### US Existing and New home sales



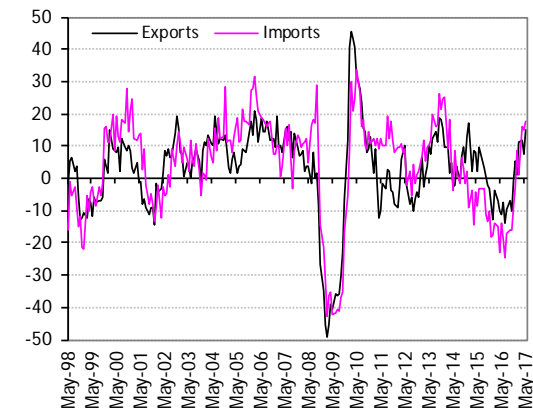
## UK, Japanese and Chinese economy

- In the UK**, no significant data released, but speeches from BoE members raised further uncertainty on monetary policy, after the split decision to maintain the interest rate last week. On the one hand, Gov Carney was dovish, given uncertainty on Brexit negotiations and Brexit impact on the economy. Carney said there is no urgency to raise rates, mentioning mixed data on consumer spending and investment, in a context of anemic wage growth. On the other hand BoE Chief Economist suggested a possible increase in rates in the 2H17, saying the risks of tightening too early decreased, as growth, and to a lesser extent inflation, showed greater resilience than expected.
- In Japan**, trade exports rose +14.9% yoy and imports +17.8% yoy in May. The manufacturing PMI fell 1.1pt to 52.0 in June.
- In China**, property prices were up 0.7% mom (10.4% yoy) in May.

JN PMI manufacturing



JN Exports and Imports (yoy %)



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