WEEKLY MARKET OUTLOOK

30 July - 5 August 2018

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Draghi Avoids Tough Questions

As broadly expected the European Central Bank held interest rates unchanged on Thursday. The marginal lending facility and the deposit facility rates will remain at 0.25% and -0.40%, respectively. Despite enjoying solid economic growth, Mario Draghi's did not change his tune as he declared that the euro zone still needs "significant monetary policy stimulus". The ECB is still expected to maintain its €2.4 trillion bond-buying program until the end of the year, while interest rates should remain on hold "through the summer" of 2019. During the question-and-answer session, journalists tried to get more clarity about the signification of "through the summer". Draghi didn't budge as he refused to provide a clearer deadline. It shows that the ECB is eager to keep its leeway should things don't turn out as expected. Finally, the central bank didn't provide further information regarding the reinvestment process of cash from its bond-buying program. Draghi said the matter was not discussed by the Governing Council.

However, the market knew very well that the ECB won't provide further information about monetary policy tightening. The main topic of the day was the deterioration in trade relations between the US and the European Union. Indeed, higher tariffs by the US could dampen economic growth in the euro area. Again, Draghi refused to comment – he just acknowledge that the positive outcome from Juncker-Trump discussion is "a good sign" - and said that the ECB "took note" and that it was "too early to assess the actual content".

Draghi's cautiousness triggered a broad based dollar rally. During the press conference, EUR/USD fell more than 0.70% to 1.1640. Even the disappointing economic data from the US - June durable goods orders rose 1%m/m versus 3% expected, excluding transportation the gauge rose 0.4%m/m versus 0.5% anticipated - didn't prevent the dollar index to surge more than 0.60% to 94.76. The publication of second quarter GDP growth, which is supposed to be "terrific", will be the main event on Friday. A weaker reading could trigger a dollar correction, especially after the recent appreciation of the greenback. In the longer term, trade war discussions will remain the main driver in the FX market. Given uncertainties in the current US-China trade war, investors are not done with range trading for the summer.

Economics

Mexico's Trade Deal With The US Will Take Time

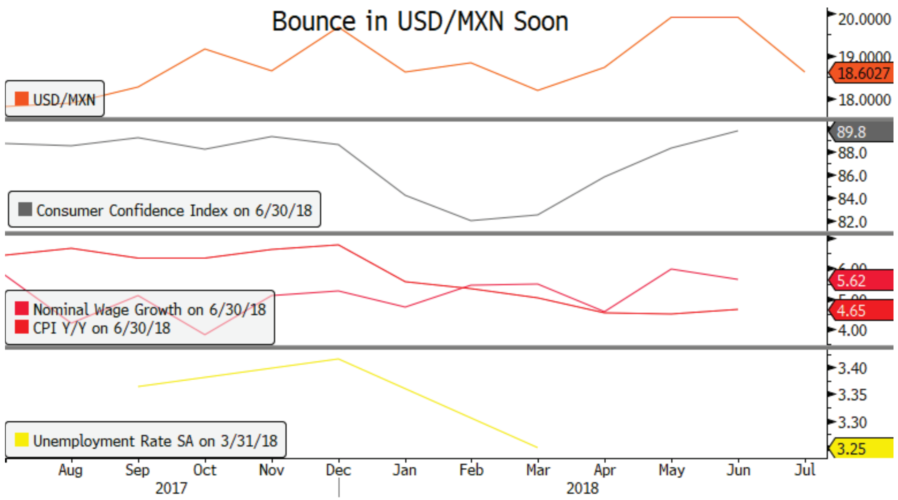
Mexican election on 1. July 2018 gave reason to President-elect Andrés Manuel López Obrador (referred as AMLO), known as the great favorite of election surveys, winning with a majority of 53.20% of total votes. Additionally, AMLO’s National Regeneration Movement (MORENA) party detains the absolute majority in the National Congress, including the Senate and the Chamber of Deputies of over 37%, becoming the most powerful party of the country. Thanks to its three-party coalition composed of the three largest party in Mexico (including National Action Party and Institutional Revolutionary Party), AMLO’s MORENA government has free hands to make the necessary reforms without facing fierce opposition.

Receiving congratulations from President Trump, AMLO is maintaining a good relation with US President Trump. Indeed, representatives of newly elected government already attempted to important ministerial negotiation meetings with US legislators. Despite increasing efforts on the side of exiting Mexican government to find an acceptable NAFTA arrangement with both US and Canadian counterparts, Trump seems much more prompt to negotiate with President-elect AMLO alone on the matter. For now, discussions between both correspondents mainly focused on illegal immigration from Mexico to the US rather than trade. On that topic, AMLO and Foreign Minister Marcelo Ebrard appear to play the game, as they recently sent a proposal in that sense.

Although both Mexican administrations (in and out) would favor a trilateral agreement over bilaterals, Trump’s preference is quite different.

Going forward, Mexican economy enjoys a positive economic outlook. Nominal wage growth lies at 16-year high (+6%), unemployment rate remains at historical lows and private consumption maintains its positive course.

Considering the fact that Mexican peso remains the strongest EM currency (year-to-date USD/MXN: -4.60%) amid end-June Banxico rate hike due to higher inflation and AMLO’s presidential victory, USD/MXN collapsed by -10% from mid-June entry point. Trading at 2-months low, the pair is expected to bounce back along 19 in the near term, as Fed’s monetary policy meeting is approaching.



Themes Trading

Oil Recovery

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Since inception	▲ 5.28%
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Return day	0.00%
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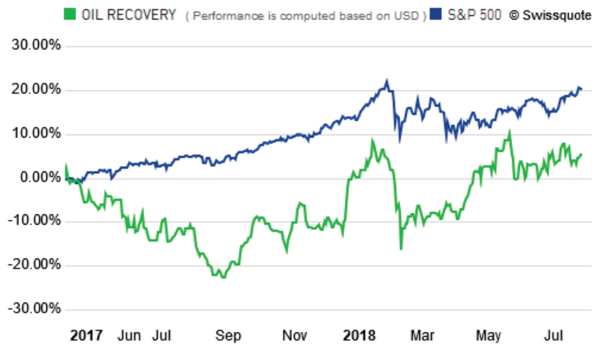

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