LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
October 14, 2019

Phase One Trade Deal
By Nan Wang

Equity markets continued to trade range bound in the first two weeks of October. Trade optimism towards the end of last week sent the S&P 500 Index to within 2% of its record high. Asian and European equities also rose on expectations for a partial trade deal. The S&P 500 index ended the week with a 0.6% gain, while the MSCI World Index gained 1.2%. The broad risk-off sentiments sent Treasury yields higher.

Last Thursday, Chinese representatives visited Washington for the first round of high-rank trade negotiations since July. On Friday morning, President Trump tweeted "good things" were happening in the meetings. His positive tone boosted investor sentiment worldwide. Later in the day, Trump said a "phase one" agreement had been reached between the two parties. According to the US side, China would increase purchases of US agricultural products and concede to certain intellectual property measures. In exchange, the US would postpone the tariff increase due next week. China's national TV only announced the two sides "agreed to make joint efforts toward eventually reaching an agreement."

The two parties will have further conversations to finalize details of the phase one trade deal. It will take three to five weeks to put the agreement in writing. Once finalized, this phase one deal would be the first major breakthrough since the trade war started 18 months ago. Even after the phase one agreement becomes official, this is more of a temporary solution which calls a cease fire for now. A broader agreement still needs to be reached in order to meet the US's primary concern of intellectual property theft and China's protectionist economy.

On the macroeconomic front, September inflation data came in below consensus expectations, mainly due to a decline in used car prices and energy prices. Overall, consumer prices were flat in September, while core prices, which exclude the volatile food and energy sector, rose 0.1% in September. Data shows that even after U.S. imposed significant tariffs on Chinese imports, inflationary pressures are well contained. Part of the reason inflation remained low despite higher import prices is due to the Renminbi devaluing relative to the greenback.

The US central bank's preferred gauge of inflation is the Personal Consumption Expenditure (PCE) index, which accounts for changes in consumer behavior. Based on September Consumer Price Index (CPI), it is uncertain whether the Fed will meet its PCE target of 2%. As the Fed serves a dual mandate of maintaining maximum employment and 2% inflation, muted inflation gives Fed officials more incentive to cut rates in their October policy meeting. Furthermore, the ongoing trade war has hurt business sentiment. Companies have been postponing investments while waiting for trade progress. Based on the present geopolitical environment and recent economic data, the current consensus is for at least one more 25 basis point (0.25%) rate reduction by the end of the year.

For the upcoming week, third quarter earnings will start to be released on Wednesday. A key economic indicator to watch will be September retail sales. As consumer spending is the biggest component of US GDP, retail data may signal a real impact of tariffs on consumer sentiment.

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Stock Market Performance

	10/14/19	W-o-W	M-o-M	Y-o-Y
DJIA	26,827	1.3%	-1.4%	5.9%
S&P 500	2,971	1.1%	-1.2%	7.4%
MSCI World	2,179	1.3%	-1.2%	5.6%
S&P/TSX	16,415	-0.1%	-1.6%	6.5%
BSX	2,035	-2.1%	-1.8%	-30.7%
FTSE100	7,213	0.2%	-2.1%	3.1%
DAX	12,488	3.2%	0.2%	8.4%
CAC	5,648	2.3%	-0.1%	10.8%
Nikkei	21,799	2.0%	-0.9%	-3.9%
Hang Seng	26,522	2.7%	-3.0%	2.8%
Shanghai	3,008	3.5%	-0.8%	15.4%

Key Rates and Prices

Currencies	10/14/19	Month ago	Year ago
EUR	$1.10	$1.11	$1.16
GBP	$1.26	$1.25	$1.32
JPY	¥108.33	¥108.09	¥112.21
CAD	$0.76	$0.75	$0.77
CHF	$1.00	$1.01	$1.01
AUD	$0.68	$0.69	$0.71

Fixed Income

3M LIBOR	2.00	2.14	2.44
3M Treasury Bill	1.67	1.96	2.27
2Yr Treasury Note	1.60	1.80	2.86
10Yr Treasury Note	1.73	1.90	3.16
Fed Funds Rate	2.00	2.25	2.25

Commodities

Gold/oz.	1,491.19	1,488.65	1,217.95
Silver/oz.	17.63	17.45	14.61
Copper/lb.	2.63	2.71	2.86
Oil	53.23	54.85	71.34

Global Economic Calendar (October 14th - October 18th)

Tues: Empire State Mfg Survery (US); Redbook (US)
Wed: MBA Mortgage Applications (US); Business Inventories (US); Treasury Intl Capital (US)
Thurs: Jobless Claims (US); Money Supply (US); Fed Balance Sheet (US)
Fri: Baker-Hughes Rig Count (US); Retail Sales (CN)