LOM OFFSHORE FINANCIAL SERVICES

Monthly Global Market Commentary
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Optimism Boosts Equity Markets
By Nan Wang

The U.S. equity market had a strong week with the S&P 500, the Russell 2000 and Nasdaq Composite all reaching record highs. Federal Reserve chief, Jeremy Powell's speech gave markets confidence that the central bank will not accelerate the pace of rate hikes. The global equity markets had a positive week with the MSCI World stock index up just over one percent, while the recently lagging emerging market stock index increased by more than two percent.

Last week, after months of intensified trade tension between the world's two largest economies, China sent representatives to the U.S. to resume trade talks. As of last Thursday, the U.S. imposed tariffs on an additional $16 billion of Chinese imports, while China retaliated with the same amount. The two countries have now slapped duties on $100 billion of goods since early July, which economists estimate will have a negative 0.5% impact on global trade. As a result of less exports to the U.S. and Europe, China's trade surplus in the first seven months of this year has narrowed to $166 billion, from $232 billion in the same period last year.

After weeks of discussion, the U.S. and Mexico have not reached a final agreement on the North American Free Trade Agreement (NAFTA). Negotiations will continue into next week with the goal of signing a deal by the end of the month. The U.S. agreed to keep the current 2.5% tariff instead of 25% for cars made at existing factories. Issues remaining include the sunset clause, which would end the deal after five years and dispute settlement mechanisms. Canada needs to be included in the discussion for these issues since they affect all three countries.

Last Friday, at the Economic Policy Symposium in Jackson Hole, Fed Chairman Jerome Powell gave a speech about monetary policy in the changing economic environment. Despite President Trump's criticism of the Fed's hawkish policy, Powell commented that the strong U.S. economy supports continued gradual rate hikes. The Fed head discussed risk management strategy to balance between the economy overheating and premature tightening. The market is still pricing in a high probability of another rate increase in September. The possibility of a fourth hike this year in December will depend on economic impact from the trade war, employment progress and the inflation rate.

The Fed chief commented he sees little sign of inflation accelerating above the central bank's two percent target, interpreted by currency traders as more dovish than expected which adding selling pressure on the U.S. dollar. On the same day, the People's Bank of China (PBOC) announced a plan to resume what it calls the "counter-cyclical factor" in yuan fixing, which gives authorities more control over the exchange rate and restrains the influence of market pricing. Offshore yuan jumped 1.4% on Friday, the biggest rally since January 2016. Since escalation of trade war in mid-June, the yuan has depreciated more than six percent against the greenback.

Even though the two days of trade discussion did not come to a resolution, PBOC's move to strengthen Renminbi could suggest China's willingness to ease the tensions between the two countries. President Trump has criticized on multiple occasions that weak Chinese yuan is boosting Chinese exports and hurting Chinese imports from the U.S. While China does not expect to reach a trade agreement before the U.S. mid-election in November, any development on the topic will remain a key market driver for the next several months.

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Stock Market Performance

	8/24/18	W-o-W	M-o-M	Y-o-Y
DJIA	25,790	0.5%	2.2%	18.4%
S&P 500	2,875	0.9%	1.9%	17.9%
MSCI World	2,162	1.1%	0.5%	11.4%
S&P/TSX	16,356	0.2%	-0.2%	8.5%
BSX	2,928	-0.1%	7.2%	49.4%
FTSE100	7,577	0.3%	-1.7%	2.3%
DAX	12,395	1.5%	-2.3%	1.8%
CAC	5,433	1.6%	0.0%	6.2%
Nikkei	22,602	1.5%	0.4%	16.8%
Hang Seng	27,672	1.7%	-3.5%	0.6%
Shanghai	2,729	2.3%	-6.1%	-16.6%

Key Rates and Prices

Currencies	8/24/18	Month ago	Year ago
EUR	$1.16	$1.17	$1.18
GBP	$1.28	$1.31	$1.28
JPY	¥111.24	¥111.20	¥109.56
CAD	$0.77	$0.76	$0.80
CHF	$1.02	$1.01	$1.04
AUD	$0.73	$0.74	$0.79
Fixed Income			
3M LIBOR	2.32	2.33	1.32
3M Treasury Bill	2.09	1.99	1.02
2Yr Treasury Note	2.62	2.64	1.33
10Yr Treasury Note	2.81	2.95	2.20
Fed Funds Rate	2.00	2.00	1.25
Commodities			
Gold/oz.	1,205.90	1,224.55	1,286.29
Silver/oz.	14.82	15.47	16.98
Copper/lb.	2.77	2.86	3.04
Oil	68.72	68.52	47.43

Global Economic Calendar (August 27th — August 31st)

Mon: Two-Year Note Auction (US)
Wed: GDP (US)
Thurs: Jobless Clains (US); GDP (Canada)
Fri: Consumer Sentiment (US)

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