

# Market Snapshot

Tuesday, 17 July 2018

## Investors weigh earnings against trade tensions

### THE DAY AHEAD

- The UK announces June's claimant count change, May's unemployment rate, average earnings, as well as April's employment change.
- The US releases June's capacity utilisation, industrial production, and manufacturing production.
- Federal Reserve Chairman Jerome Powell to testify on Capitol Hill.

### OVERVIEW

- Slumping tech shares lead most US stocks lower, as investors continue to weigh earnings against a backdrop of trade tensions.
- Europe equities fall; Deutsche Bank AG posts better-than-expected preliminary earnings.
- One China hedge fund doubles down, even as market selloff deepens losses.
- Oil drops amid signs of mounting supply from Saudi Arabia to US.
- The pound gains as traders await Brexit progress, economic data.
- [Click here to watch DBS CIO Hou Wey Fook's video, where he shares how to navigate choppy waters in 3Q18.](#)
- [Click here to see our Asset Allocation strategy for 3Q18.](#)
- [Click here to read our full CIO Insights 3Q18 report.](#)

### DEVELOPED MARKET EQUITIES

#### US

Slumping tech shares led most US stocks lower, as investors continue to weigh earnings against a backdrop of trade tensions. The dollar and Treasuries declined.

The Nasdaq Composite Index fell for the first time in three days – by 0.26% to 7,805.72 – led by drops in Tesla Inc (-2.75%), Hasbro Inc (-2.25%), and Dish Network Corporation (-2.47%). The S&P 500 Index slipped 0.10% to 2,798.43, as losses in energy shares offset gains in financials. But the Dow Jones Industrial Average rose 0.18% to 25,064.36.

Earnings were better-than-expected from the likes of Bank of America Corporation (+4.31%) and BlackRock Inc (-0.62%), while there was an upbeat early release from Deutsche Bank AG, but it did little to spur equities. Ten-year Treasury yields rose, while the greenback declined against most peers following strong upward revisions to US retail sales.

The Trump Administration is hitting back at a number of countries for what it considers unjustified retaliatory tariffs that were imposed as a response to the steel and aluminium duties the US applied on its closest allies in the name of national security.

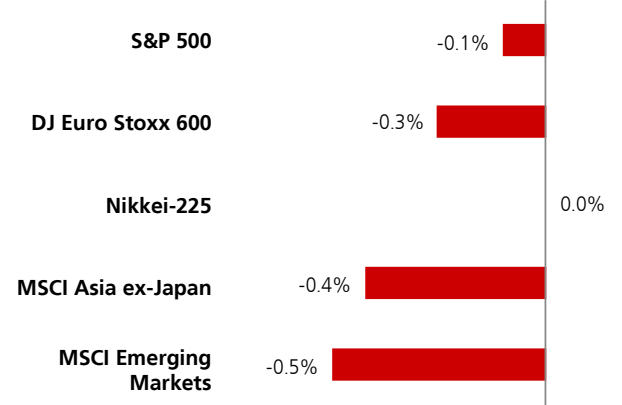
The US Trade Representative said it launched formal challenges against China, the European Union (EU), Canada, Mexico, and Turkey at the World Trade Organization (WTO) on Monday (16 July). They come in response to retaliatory measures taken by these countries on American-made products earlier this year.

"The actions taken by the President are wholly legitimate and fully justified as a matter of US law and international trade rules. Instead of working with us to address a common problem, some of our trading partners have elected to respond with retaliatory tariffs designed to punish American workers, farmers and companies," US Trade Representative Robert Lighthizer said in an emailed statement.

A European Commission spokesman said that while the bloc's decision to retaliate was proportionate and WTO-compatible, the US is entitled to seek an independent review in which the EU will explain and defend its position.

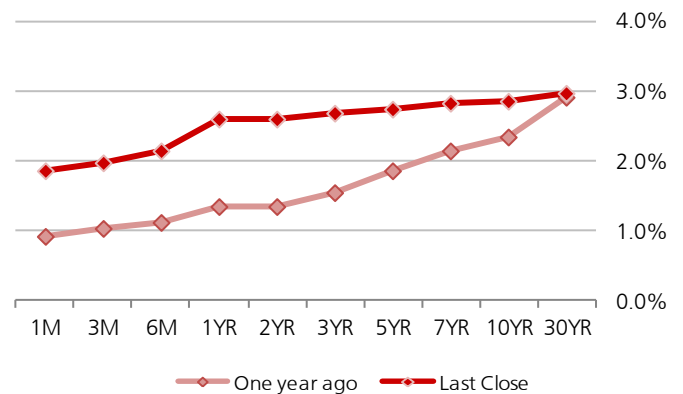
### EQUITY MARKETS

Shown in local currency terms.



### US TREASURY YIELD CURVE

Shows the yield to maturity of current US bills, notes, and bonds.



Source: DBS CIO Office, Bloomberg, as of the last business day.

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Equity Markets

Canada, China, the EU, Mexico, and Turkey have imposed retaliatory tariffs on USD23.4b worth of US goods in response to Trump's tariffs on steel and aluminium. – **Bloomberg News**.

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## EUROPE

The Stoxx Europe 600 Index fell 0.25% to 384.05 on Monday (16 July).

Deutsche Bank AG surprised markets with better-than-expected preliminary earnings. Much of the gains in the second quarter seemed to come from one-off items while trading income fell sharply. That called into question the bank's assertion that the figures demonstrate the lender's resilience.

The earnings surprise was a rare piece of good news for Deutsche Bank investors that have seen the shares trading at a record low, a tumultuous management reshuffle, and a plan to reduce its global presence in its fourth major strategic overhaul in three years. New Chief Executive Officer Christian Sewing is cutting thousands of jobs and paring back businesses in the US and Asia after recent attempts to restore profitability ended up eroding revenue. He is scheduled to provide detailed earnings on 25 July.

Deutsche Bank shares rose 7.28% on the news, paring losses this year to 35%. Before Monday, the lender had been the worst-performing large bank stock in Europe in 2018. – **Bloomberg News**.

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## JAPAN

Japan's Nikkei 225 Index was slightly higher in early Tuesday (17 July) trading, up 0.19% to 22,640.00. The country's markets were closed on Monday (16 July) for Marine Day.

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## ASIAN EQUITIES

### CHINA & HONG KONG

One China hedge fund is adding to stocks in the nation even as a rout deepened losses in its portfolio, and prompted some peers to duck for cover.

Springs China Opportunities Fund is using the "panic selloff" to increase its holdings of "oversold and undervalued" companies, it told investors in a letter. The letter was sent after the fund lost an estimated 17% this year through 6 July.

The Shanghai Composite Index has dropped as much as 12% since the end of May, as the trade spat with the US escalated into tit-for-tat tariffs and China's crackdown on shadow banking led to record defaults and higher borrowing costs. The benchmark lost 0.61% to 2,814.04 on Monday (16 July). Chinese stock indices are among the worst-performing major global gauges tracked by Bloomberg this year.

Many investors have been retreating as China's stocks have tumbled. Morgan Stanley's Asia hedge fund clients cut their net leverage by about 25 percentage points from multi-year highs in January to 45%, the New York-based bank's prime brokers wrote in a 3 July note. Managers including Singapore-based FengHe Fund Management have cut allocations to Chinese stocks while Kingsmead Asset Management, another Singapore-based firm, now shuns stocks in the world's second-largest economy.

Still, some investors are spotting opportunities. China's sovereign wealth fund is seeking permission to invest in domestic stocks for the first time, people familiar with the matter said. China equity funds attracted fresh money for the week ending 4 July, the 15th consecutive week of net deposits, according to EPFR Global.

Returns of equity indices around the world, in local currency terms.

	Index	Close	Overnight	YTD
<b>US</b>	DJIA	25064.36	0.18%	1.40%
	S&P 500	2798.43	-0.10%	4.67%
	NASDAQ	7805.72	-0.26%	13.07%
<b>Europe</b>	Euro Stoxx 600	384.05	-0.25%	-1.32%
Germany	DAX	12561.02	0.16%	-2.76%
France	CAC-40	5409.43	-0.36%	1.82%
UK	FTSE100	7600.45	-0.80%	-1.14%
<b>Asia</b>	MSCI A&J	668.67	-0.43%	-6.28%
Japan	Nikkei-225	22597.35	0.00%	-0.74%
China	SHCOMP	2814.04	-0.61%	-14.91%
Hong Kong	Hang Seng	28539.66	0.05%	-4.61%
Taiwan	TWSE	10817.45	-0.43%	1.64%
South Korea	Kospi	2301.99	-0.39%	-6.71%
Indonesia	JCI	5905.16	-0.65%	-7.09%
Malaysia	KLCI	1726.67	0.28%	-3.90%
Singapore	STI	3232.79	-0.85%	-5.00%
India	Sensex	36323.77	-0.60%	6.66%
<b>Emerg. Mkt</b>	MSCI EM	1070.24	-0.50%	-7.61%

## Government Bonds

Benchmark yields of major 10-year government bonds.

	Latest yield	Previous yield	Change (bps)
US	2.86%	2.83%	3.11
Germany	0.36%	0.34%	2.30
Japan	0.04%	0.04%	0.00
China	3.49%	3.50%	-0.50
Taiwan	0.84%	0.84%	-0.06
South Korea	2.54%	2.56%	-1.40
Indonesia	7.54%	7.49%	4.30
Singapore	2.42%	2.45%	-3.55
India	7.80%	7.79%	0.80

## Commodity futures

Prices of one-month futures contracts, grouped by commodity type.

	Close	1-day change	1-yr high	1-yr low
WTI crude (\$/bbl)	68.06	-4.15%	75.27	45.40
Gold (\$/oz.)	1239.70	-0.12%	1365.40	1227.50
Copper (\$/ton)	6174.00	-0.75%	7330.50	6132.85
Corn (cents/bu.)	341.75	3.48%	412.25	328.50
Soybean (cents/bu.)	829.50	1.90%	1071.00	810.50
Wheat (cents/bu.)	488.50	1.45%	554.00	386.50
Coffee (cents/lb)	110.30	0.36%	156.95	106.90
Sugar (cents/lb)	330.30	1.10%	428.60	310.50

Source: Bloomberg, as at the close of the last business day.

YTD refers to year-to-date returns.

Meanwhile, China's stock exchanges said they will not allow mainland investors to buy shares with weighted-voting rights in Hong Kong, sending Xiaomi Corporation shares slumping.

The bourses will also bar trading in foreign companies and stapled securities via the Hong Kong stock link, according to a statement by the Shanghai Stock Exchange, which said many investors do not understand the risks associated with new products. Xiaomi tumbled as much as 9.6% before paring declines to 1.9% at the close.

The move comes before the three classes of shares are included in the city's Hang Seng Composite Index in the third quarter, which would otherwise have made them eligible for the stock connect.

Hong Kong opened the door for companies with weighted-voting rights in April, with rules designed to lure Chinese tech firms. The new regulations allowed the type of structure favoured by founder-led tech companies, which enable leaders to keep control even after going public. Dual-class shares, as they are commonly known, were previously banned in the city, and are not permitted in China's stock market. – **Bloomberg News.**

Hong Kong's Hang Seng Index was little changed at 28,539.66.

### **REST OF ASIA**

Malaysia is inching closer to regaining its lead over Singapore's economy after trailing for a third straight year. The nation's gross domestic product (GDP) was USD314.5b in 2017, about USD9.4b less than Singapore's USD323.9b, according to data from the World Bank. That deficit is set to shrink to just over USD2b next year as forecasts see Malaysia's economy expanding by about 5.5% in 2018 vs. a 3.1% increase in Singapore, according to median estimates of economists surveyed by Bloomberg. – **Bloomberg News.**

Australia's S&P/ASX 200 Index lost 0.34% to 6,220.00 on Tuesday (17 July) morning. The gauge finished Monday (16 July) trading 0.43% lower at 6,241.52.

South Korea's Kospi Index lost 0.09% to 2,299.84 in early Tuesday trade, after dropping 0.39% to 2,301.99 the previous session.

The Taiwan Stock Exchange Weighted Index (Taiex) retreated 0.43% to 10,817.45.

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## **COMMODITIES**

After touching a 40-month high just two weeks ago, oil has fallen by more than 10% as global trade anxiety combined with a Saudi offer of added crude for Asia to boost market volatility.

Futures in New York fell 4.2% on Monday (16 July) following last Wednesday's (11 July) 5% tumble, results that together ramped up a measure of volatility to its highest in about a year.

The latest decline comes as Saudi Arabia is offering more crude cargoes to Asian customers, according to people familiar with the matter. In the US, President Donald Trump was said to be considering tapping the nation's emergency oil supply to tame rising fuel prices. Between them, the kingdom and the US pump about one-fifth of the world's crude.

"It very much seems like a continued reaction to potential supply increases," said one Toronto-based commodity strategist. "The combination of the supply-side effect and the potential for less demand as a result of trade woes that we're seeing, are prompting people to take some of the long bets off oil right now."

As Saudi Arabia took steps to fulfil its pledge to offset supply losses from other Organization of the Petroleum Exporting Countries (OPEC) states, Russian Energy Minister Alexander Novak said the cartel and its allies could boost output by more than 1m barrels a day if needed. At the same time, investors focused on the trade tensions between the US and China that could threaten energy demand.

West Texas Intermediate (WTI) crude tumbled 4.15% to settle at USD68.06 a barrel – the lowest level in three weeks. Brent crude sank 4.63% to end the session at USD71.84 a barrel, closing below its 100-day moving average for the first time since March – marking a bearish signal. – **Bloomberg News.**

## **CURRENCIES**

The pound picked up Monday (16 July) against a weaker dollar, with further gains seen dependent on the progress of the UK's Brexit plans and whether data will cement the odds of a Bank of England interest-rate increase.

Sterling's moves could be influenced by any response from UK lawmakers or the European Union to the British Prime Minister's "white paper," published Thursday (12 July), on her vision of the country's future relationship with the bloc. Traders will also watch tier-one data releases this week (ending 20 July) covering employment, consumer prices, and retail sales.

The pound recovered most of last week's (ended 13 July) losses by Monday, after US President Donald Trump made conciliatory remarks Friday (13 July) on the potential for a trade deal with the UK following a meeting with his British counterpart. Sterling had been hurt by Trump's criticism of Theresa May over Brexit, and the resignation of two of her senior ministers. – **Bloomberg News.**

The British pound gained 0.10% to USD1.3235. The euro rose 0.22% to USD1.1711. The Japanese yen rose 0.08% to 112.29 per dollar.

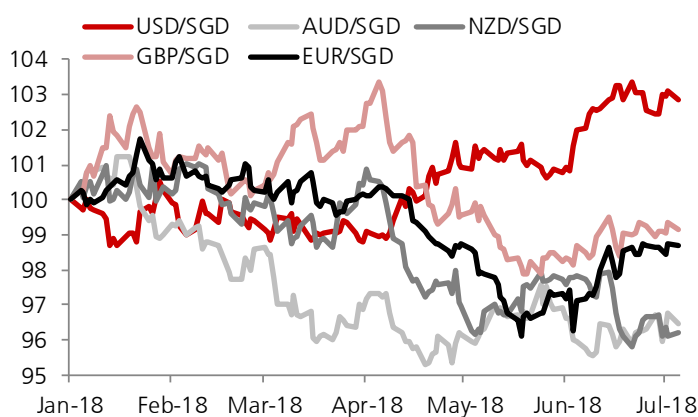
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*Source: Bloomberg News, DBS Group Research and Vickers (DBS), Dow Jones Newswires, Reuters, Agence France-Presse, CNBC, Marketwatch.com*

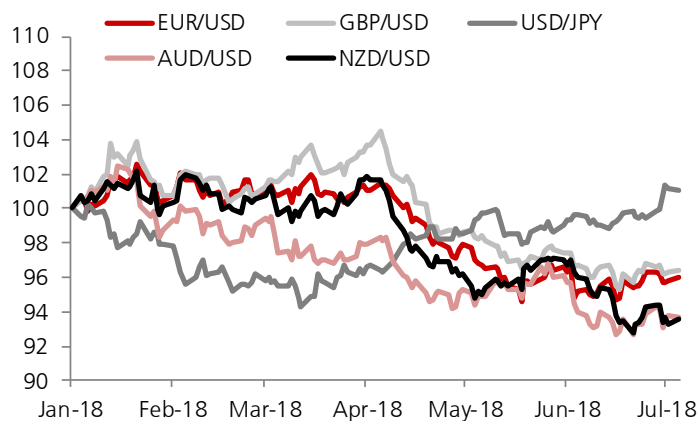
**FX Round-up (as of New York close)**

	Last	Overnight change	Day high	Day low
EUR/USD	1.1711	0.22%	1.1725	1.1676
GBP/USD	1.3235	0.10%	1.3293	1.3217
USD/JPY	112.29	-0.08%	112.56	112.11
AUD/USD	0.7419	-0.07%	0.7442	0.7402
NZD/USD	0.6777	0.36%	0.6793	0.6754
USD/CAD	1.3136	-0.18%	1.3165	1.3110
USD/SGD	1.3621	-0.27%	1.3671	1.3609
AUD/SGD	1.0107	-0.32%	1.0147	1.0096
NZD/SGD	0.9231	0.11%	0.9249	0.9213
GBP/SGD	1.8026	-0.19%	1.8093	1.8005
EUR/SGD	1.5950	-0.04%	1.5983	1.5926
AUD/NZD	1.0948	-0.36%	1.0982	1.0941
USD/IDR	14394	0.11%	14416	14387
USD/INR	68.5713	0.06%	68.7137	68.4850
XAU/USD	1240.93	-0.27%	1245.64	1238.42

Source: Bloomberg, as of last business day.

**SGD Against Major Currencies**

Source: Bloomberg, as of last business day.

**USD Against Major Currencies****Disclaimers and Important Notice**

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