

Tuesday, 10th October 2017

Morning Round Up

German coalition talks kick off

Angela Merkel is to kick off coalition talks with the Greens and liberal Free Democrats after her party agree to resolve a long running dispute over refugee policy. Germany will now not let in more than 200k refugees a year in the latest compromise between the CDU and its Bavarian sister party the CSU. The deal will now form the basis for beginning talks with the FDP and the Greens. The CDU and CSU will start negotiations separately with these parties on October 18th followed by roundtable talks two days later. The three groups do not share many political guiding principles so it is too early at this stage to predict how it will go. But this development is likely to be welcomed by markets.

Market's OPEC doubts resurface

Following on from a recent meeting between Saudi Arabia and Russia, Saudi Aramco announced the deepest customer allocation cuts in its history, to begin in November. However, there were no definitive statements from either Russia or Saudi that they would be extending or deepening the cuts. The recent rally in oil has lost its momentum. Some action must follow as the markets had already priced in a cut extension at the minimum. If OPEC does not act we could see oil trade back down into the lower \$40 a barrel range. US producers continue to ramp up production and are bringing down cost of production per barrel as they become increasingly more efficient.

Catalonia's day of reckoning

The Catalan regional parliament sits today with President Carles Puigdemont due to address it at 6pm. The parliament is expected to consider a declaration of independence in the wake of the recent referendum. Attention will now focus on Puigdemont and whether or not he declares unilateral independence or backs down in an attempt to bring Madrid to the negotiation table. If it is the former Spanish Prime Minister Rajoy has said it may result in intervention by Spanish security forces and reassertion of central government control. Rajoy has so far refused to enter discussions as the Catalan leaders do not accept the authority of Spanish courts. Madrid have been highlighting the potential negative economic impact of independence. Mr Puigdemont speaks at 6pm today.

IBEX Price Chart



Source: Bloomberg, CF Research October 2017

Key Upcoming Events

26/10/2017—ECB Meeting

Market View

Asian and US markets traded in a range as investors await the start of earnings seasons. This kicks off in earnest towards the end of this week with major US financials reporting. The biggest move overnight was with the onshore yuan after the Bank of China reinforced its fixing rates and its governor called for a more market based FX regime. Iron ore continue to depreciate as worries over China demand and new supply coming on stream weigh on metal prices. Focus today will be on the Spanish stock market in the run up to Barcelona's regional parliament meeting along with the IMF and World Bank Fall meetings.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	22761	-12.60	-0.06%	15.17%
S&P	2545	-4.60	-0.18%	13.66%
Nasdaq	6580	-10.45	-0.16%	22.23%

Nikkei	20,824	132.80	0.64%	8.94%
Hang Seng	28,465	138.86	0.49%	29.39%

Brent Oil	55.92	0.13	0.23%	-1.58%
WTI Oil	49.68	0.10	0.20%	-7.52%
Gold	1287	3.24	0.25%	12.18%

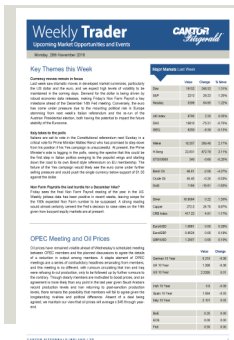
€/\$	1.1771	0.0031	0.26%	11.92%
€/£	0.8941	0.0007	0.08%	4.76%
£/\$	1.3164	0.0022	0.17%	6.68%

	Yield	Change
German 10 Year	0.45%	0.003%
UK 10 Year	1.37%	0.012%
US 10 Year	2.36%	0.004%

Irish 10 Year	0.69%	-0.001%
Spain 10 Year	1.69%	0.011%
Italy 10 Year	2.13%	0.016%

Source: Bloomberg, CF Research October 2017

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