

Thursday, 5th July 2018

Morning Round Up

European data turns positive

We spent the majority of Q1 writing about [poor European data](#), which weighed on the euro and European equity returns. We have been keeping an eye on Q2 data to see if Q1 poor weather was the main driver. We are pleased to report that here has been a bounce back in European data for Q1. German factory orders for June this morning came in at 2.6%, the first growth in 5 months and over double expectations of 1.1% growth. Yesterday saw the release of June PMIs for all the major economies in Europe with most beating and all still in expansionary territory. The overall EU composite PMI came in at 54.9, ahead of est. 54.8 while the services PMI was 55.2, again ahead of estimates 55. European equities have opened up this morning as a result as has the euro.

The euro also received bids on the back of a news report citing unnamed ECB officials as stating that they are uncomfortable with the market expectation of no hikes until December 2019. Following on from the [latest ECB meeting](#), the market interpreted it as fairly dovish and generally pushed back expectations for a hike. These latest comments from ECB officials are seeking to balance that outlook and the odds of a September 2019 hike have moved up to 80% on the back of this.

Lastly all German automakers are up c.3% at the open after headlines from German publication Handelsblatt that the US ambassador to Germany has told German car bosses that Donald Trump would suspend [threats to impose tariffs](#) on cars if the EU lifted duties on US cars and moved to a zero tariff regime. We are not sure if this is even possible under current WTO rules but it is a welcome comment in the midst of elevated trade risk. Donald Trump meets EU Commission President Jean-Claude Juncker later this month in Washington when we are likely to receive more clarity post their discussions.

Theresa May looks for support for third customs plan

Prime Minister May is looking to drum up support for her third customs arrangement plan ahead of a presentation to cabinet in Chequers on Friday. The plan has retained the use of technology to solve the issue of tariffs, relying on tracking to figure out where goods entering Britain end up. Tariffs on any EU bound goods would be passed on to Brussels, a point of contention for most Brexiteers. Friday will be a very important day for Mrs May's tenure, if she cannot unite the UK position, it is very difficult to see anything but a no deal Brexit scenario. If May manages to unite the cabinet, this only represents the first step. EU officials have already labelled the plan as unworkable and are unlikely to rely on a country not in the union to collect and manage an aspect of its customs operations. Mrs May is in Berlin today to meet Mrs Merkel, while it is not expected that Mrs Merkel will dismiss the plan outright, we would expect the Chancellor to drive a soft Brexit agenda. May's inability to unite the British position maintains market uncertainty. As such we expect sterling to weaken further as the likelihood of a no deal exit remains quite high.

Glencore Share Buyback

Glencore has announced a \$1 billion share buyback. The news comes just two days after the US Department of Justice (DOJ) [subpoenaed](#) Glencore as a part of a wide-ranging probe into bribery and corruption. The market has reacted well to the news of the share buyback with the stock trading up 4.5% this morning.

Source: Bloomberg, CF Research July 2018

Key Upcoming Events

06/07/2018 Implementation of US Tariffs
06/07/2018 Brexit Whitepaper

Market View

European markets opened up this morning in response to positive economic data. Asian markets were down overnight as investor sentiment towards China remains fragile. US futures markets point to a positive open after the 4th of July break. EUR/USD has strengthened to 1.169. Both the US 10 year yield and the German 10 year yield rose to 2.85% and 0.33% respectively. Trade remains the major concern with US tariffs on China coming into effect tomorrow.

Market Moves

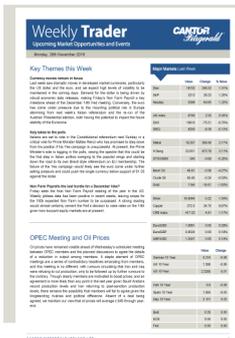
	Value	Change	% Change	% Change YTD
Dow Jones	24175	-132.36	-0.54%	-2.20%
S&P	2713	-13.49	-0.49%	1.48%
Nasdaq	7503	-65.01	-0.86%	8.68%
Nikkei	21,547	-170.05	-0.78%	-5.35%
Hang Seng	28,167	-74.42	-0.26%	-5.86%
Brent Oil	77.87	-0.37	-0.47%	16.45%
WTI Oil	73.98	-0.16	-0.22%	22.44%
Gold	1254	-0.63	-0.05%	-3.72%
€/\$	1.1692	0.00	0.30%	-2.61%
€/£	0.8829	0.00	0.20%	-0.58%
£/\$	1.3242	0.00	0.09%	-2.01%

	Yield	Change
German 10 Year	0.329	0.02
UK 10 Year	1.29	0.01
US 10 Year	2.8528	0.02

Irish 10 Year	0.825	0.02
Spain 10 Year	1.325	0.03
Italy 10 Year	2.68	0.0210

Source: Bloomberg, CF Research July 2018

Cantor Publications & Resources



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