

Wednesday, 20th March 2019

Morning Round Up

Fed looks to avoid crossed signals at policy meeting

Only two things will really matter when Federal Reserve Chairman Jerome Powell strides to the podium for his press conference on Wednesday after the end of the US central bank's latest two-day policy meeting: Dots and bonds. Expectations that Powell and his colleagues will leave the Fed's benchmark overnight interest rate unchanged in a range of 2.25% to 2.50% and stick to their pledge of a "patient" approach to monetary policy is effectively a given. The big reveal, though, will be whether policymakers will have sufficiently lowered their interest-rate forecasts to more closely align their notorious "dot plot," a diagram showing individual policymakers' rate views for the next three years in little blue-shaded circles, with that pledge of patience. And, just as importantly, what new details will they share on a plan to stop culling the Fed's holdings of nearly \$3.8 trillion in bonds? Dissatisfaction with Powell's remarks in December regarding the balance sheet threw markets into a spin and helped lead to the Fed's pause on rates a month later. Since then, the US central bank chief has explicitly said one of his aims is to avoid "needless market disruptions." Traders currently expect there will be no rate-hikes this year, and are even building in bets for a rate-cut in 2020. Any gap between that view and the Fed's could send markets lower. So too could a sharp drop in policymakers' rate-hike expectations, especially if coupled with a softer economic outlook.

Short EU equities "most crowded" trade in BAML survey

Fund managers have named bearish bets in European equities as the "most crowded" trade in Bank of America Merrill Lynch's (BAML) survey for the first time in its history, suggesting sentiment for one of the world's most shunned markets may have troughed. Investors have pulled cash from European stocks over the past year, betting the market would be weaker compared with the United States and other regions as Eurozone economic growth slows and Britain's chaotic exit from the European Union raises worries about disruption to its economy. Short European equities replaced long emerging markets, which held the title for just one month. The shift in investor views reflects broader uncertainty about the direction of financial markets as the Federal Reserve and ECB keep interest rates on hold amid signs that growth is slowing. It also suggests that fund managers believe the gloom that has seen \$30bn leave European equities so far this year may have been overdone. In a note at the weekend, Morgan Stanley said it believes Europe is set to surprise on the upside as issues that weighed on growth in the second half of last year start to fade. A slowdown in China, the world's No. 2 economy, topped the list of biggest tail risks, ousting the trade war, which had been at the forefront of investor concerns for the previous nine months, according to the survey.

FedEx misses estimates on weaker global growth

FedEx reported Q3 earnings after the bell yesterday, the stock proceeded to trade 5.6% lower in aftermarket trading. Revenue and earnings for the quarter missed expectations and management lowered guidance for full year numbers. Revenue was up \$0.5bn on a year over year (yoy) basis to \$17bn (est. \$17.66bn) for the quarter, while earnings were lower yoy at \$3.03 per share (est. \$3.12). Guidance for full year revenue of \$70bn (est. \$71bn) with adjusted earnings per share (EPS) in range between \$15.10-\$15.90 (est. \$15.50-\$16.6) both disappointed investors. Management cited "slowing international macroeconomic conditions and weaker global trade growth trends" for weaker revenues. The company's focus will switch to improving efficiencies by taking some cost reduction measures. These include, a voluntary employee buyout program, constrained hiring, and limiting discretionary spending.

Source: Bloomberg, CF Research March 2019

Key Upcoming Events

20/03/2019 FOMC Interest Rate Decision
 21/03/2019 BOE Interest Rate Decision
 21/22/03/2019 European Council Meeting
 29/03/2019 UK leaves the European Union

Market View

US markets finished flat yesterday as investors await this afternoon's Federal Reserve statement and press conference. Asian markets continued in the same vein, with Japan finishing higher while China was lower. European markets are broadly negative this morning. Futures point to a positive open this afternoon in the US. The US 10Y Treasury is trading at 2.59% this morning. The Fed will take centre stage later, as investors will look for guidance on the Chairman's view on the Balance Sheet. Brexit rumbles on as the Government scrambles to counter act the unexpected hurdle posed by the Speaker of the House.

Market Moves

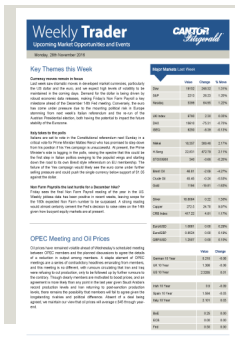
	Value	Change	% Change	% Change YTD
Dow Jones	25887	-26.72	-0.10%	10.97%
S&P	2833	-0.37	-0.01%	12.99%
Nasdaq	7724	9.47	0.12%	16.41%
Nikkei	21609	42.07	0.20%	7.96%
Hang Seng	29321	-145.31	-0.49%	13.45%
Brent Oil	67.6	-0.01	-0.01%	25.65%
WTI Oil	58.89	-0.14	-0.24%	29.69%
Gold	1302	-4.35	-0.33%	1.54%
€/\$	1.1343	0.00	-0.08%	-1.08%
€/£	0.8575	0.00	0.22%	-4.62%
£/\$	1.3229	0.00	-0.29%	3.72%

	Yield	Change
German 10 Year	0.092	-0.01
UK 10 Year	1.176	-0.01
US 10 Year	2.5943	-0.02

Irish 10 Year	0.691	0.00
Spain 10 Year	1.161	-0.01
Italy 10 Year	2.51	0.0160

Source: Bloomberg, CF Research March 2019

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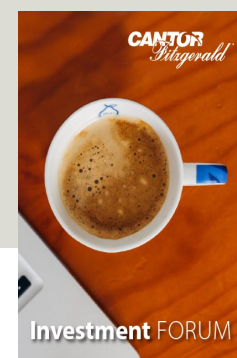
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