

## Macro Comment and Overnight Roundup

psigma

Tuesday 19<sup>th</sup> September 2017

### US

- **US stocks closed higher on Monday**, as investors looked ahead to the Federal Open Market Committee two-day policy meeting which begins today. Wall Street also welcomed a big defence industry deal.
- The **Dow Jones industrial average** gained 63 points and posted its 5th straight record close. Boeing and Caterpillar contributed the most to the gains. The index finished the session at 22,331.
- The **S&P 500** also closed at an all-time high of 2,503, rising 0.1%, as financials led advancers.
- The **Nasdaq composite** hit an intraday record, before closing 0.1% higher at 6,454.
- The three major indexes also posted record highs last week, with the S&P breaking above 2,500 for the first time at Friday's close.
- The **CBOE Volatility Index (VIX)**, widely considered the best gauge of fear in the market, hit 9.88, its lowest level since 8th Aug.
- Market participants are largely expecting interest rates to remain unchanged, when the decision is announced tomorrow evening. However, **Wall Street is expecting the Fed to announce the unwinding of its \$4.5tn balance sheet**. The Fed accrued the vast majority of its huge portfolio during the financial crisis.
- **US Treasury yields rose broadly on Monday**. The benchmark 10-year yield traded at 2.23%. The short-term two-year yield, which is more sensitive to changes in monetary policy, traded at 1.39%.
- Meanwhile, shares of **Orbital ATK** rose about 20%, after the company announced it is being bought by defence giant Northrop Grumman. In a release, the two companies said Northrop would pay \$9.2bn in cash and debt. Orbital shareholders will receive all-cash consideration of \$134.50 a share, a 22% premium to its Friday close of \$110.04. In a note last week, JPMorgan analyst Seth Seifman said acquiring Orbital "could strengthen" Northrop, noting: "Northrop is among the leaders in military satellites (including classified) and we could see OA's capabilities helping here."
- The deal comes two weeks after **United Technologies announced its acquisition of Rockwell Collins for \$30bn**.
- Overall, **defence stocks have outperformed the broader US stock market**. The iShares US Aerospace & Defence exchange-traded fund (ITA) has risen more than 20% this year. The S&P 500, meanwhile, has gained about 11.7%.

## Europe

- **European stocks closed higher on Monday**, as global investors returned to perceived riskier assets amid cooling geopolitical tensions.
- **The pan-European Stoxx 600 ended the day up 0.3%**, with most sectors and major bourses trading in positive territory.
- **Portuguese stocks outperformed**, after the Eurozone country returned to an investment grade rating after more than five years. Standard & Poor's became the first of the so-called big three credit rating agencies to upgrade Portugal to investment grade status on Friday. The country's PSI 20 index was up more than 1.5%, on track for its biggest one-day gain since mid-July.
- Looking at individual stocks, **EDF** surged to the top of the benchmark on Monday morning, after Goldman Sachs raised its stock recommendation to "buy" from "neutral". Shares of the French utility firm were up almost 2% higher on the news.
- **Ryanair** fell towards the bottom of the European index after the airline announced plans to cancel between 40 and 50 flights per day until the end of October, disrupting hundreds of thousands of planned journeys. The continent's largest airline, in terms of passenger numbers, was down almost 2%.
- Speaking in at the IMF's headquarters in Washington, **Bank of England Governor Mark Carney said Brexit was likely to push up interest rates and reiterated interest rates were likely to rise in coming months.**

## Asia

- **Asian indexes largely stumbled on Tuesday**, ahead of the US Federal Reserve's September meeting, as investors awaited clues from the central bank on future monetary policy.
- **Japanese markets were an outlier**, however, soaring after reopening after a public holiday.
- Japan's Nikkei 225 rose 1.6%, as markets played catch-up following the long weekend. Exporters, trading houses and retailers notched gains as the dollar held onto overnight gains against the yen.
- **In Australia, the S&P/ASX 200 advanced 0.1%**, with the heavily-weighted financials sub-index climbing 0.3%.
- **South Korea's benchmark Kospi index shed 0.1%**, with tech stocks giving up some gains made in the previous session. Samsung Electronics fell 1%, after rising to a record high on Monday.
- **Greater China markets edged down.** The Hang Seng Index slid 0.1% and mainland markets pared earlier gains. The Shanghai Composite lost 0.3% and the Shenzhen Composite traded 0.1% lower.
- In corporate news, Chinese search company **Baidu** announced over the weekend it had hired Herman Yu as its chief financial officer. Yu was formerly the CFO of Weibo, a microblogging platform. In a statement addressing the appointment, Baidu CEO Robin Li said the company was looking forward to entering "the next stage of growth in the AI [artificial intelligence] era."
- Meanwhile, the institutional tranche of Chinese online insurer **ZhongAn Online Property and Casualty Insurance's** IPO was oversubscribed. The insurance company is expected to debut on the Hong Kong exchange 28th Sept.

- In economic news, the **Reserve Bank of Australia's minutes showed the central bank was positive about resilience in the country's jobs market, but expected wage growth to remain slow.** The RBA was also concerned about household debt levels and strength in the Australian currency.

## Bonds

- **10yr and 30yr US treasuries** are currently trading at 2.22% and 2.79% respectively.
- **10yr UK gilts** closed with a yield of 1.30%.
- **German 10yr bund** yields closed at 0.50%.
- **10yr Italian and Spanish bond yields** closed at 2.05% and 1.56% respectively.

## Commodities

- The **WTI crude oil** price is \$50.14.
- **Brent crude** is \$55.59.
- The **gold price** is \$1,308.
- The **silver** price is \$17.16.
- The **COMEX copper price** is \$2.96..

## Currency

- The **Yen** is trading at 111.75 against the US dollar.
- The pound is trading at 1.35 against the **US dollar**.
- The pound is trading at 1.13 against the **Euro**.

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