

WEEKLY MARKETS ROUND-UP

Executive Summary

17th July 2023

Top news: Softer CPI, risk assets blow-off and a weaker Dollar – last Wednesday, the US CPI came out surprisingly weaker than expected, rising +0.2% M-o-M for Headline and Core Inflation (i.e. ex Food & Energy), while +0.3% was expected for both. The Y-o-Y comparison is now down to 3% for Headline and 4.8% for Core. While these figures are still some ways away from the 2% FED targets, they are certainly improving, and most risk assets rallied aggressively on the back of the news. The US Dollar, on the other hand, dropped severely (see next page). The week finished off on Friday with rather strong readings in US Consumer Sentiment while the first earnings releases from JPM, C, WFC and UNH all beat expectations. Next week will see further earnings releases from the likes of BAC, MS, LMT (Tuesday), NFLX, TSLA, IBM (Wednesday), JNJ (Thursday) and AXP (Friday), several important US Housing and Manufacturing data, while a meeting of G20 finance ministers and central bankers will take place on Monday and Tuesday in India.

Equity: Equity markets still saw strong performance last week with the S&P500 rising circa 2%, the Nasdaq100 more than 3% and the EuroStoxx50 recuperating recent losses and rising almost 4%. Several leading indexes (see table) remain Overbought, and we still expect some retracement into late July before renewed strength into late Summer.

Fixed Income: the retest up in US and EuroZone yields stalled last week and the 10Ys US and Bund yields dropped 25 and 15 basis points respectively. This loss of upside momentum, fueled by the lower inflation data, may trigger a reversal down in yields over the next few months, although, for now, the trends are still pointing up (table below).

FOREX: the US Dollar Index dropped a hefty -2.4% last week and has broken down to a 14 months low. Several pairs are now Overbought vs it and may see some short term retracement, but the current dynamics (dwindling interest rates differentials vs most other regions) should keep the Dollar under pressure probably for a few more months.

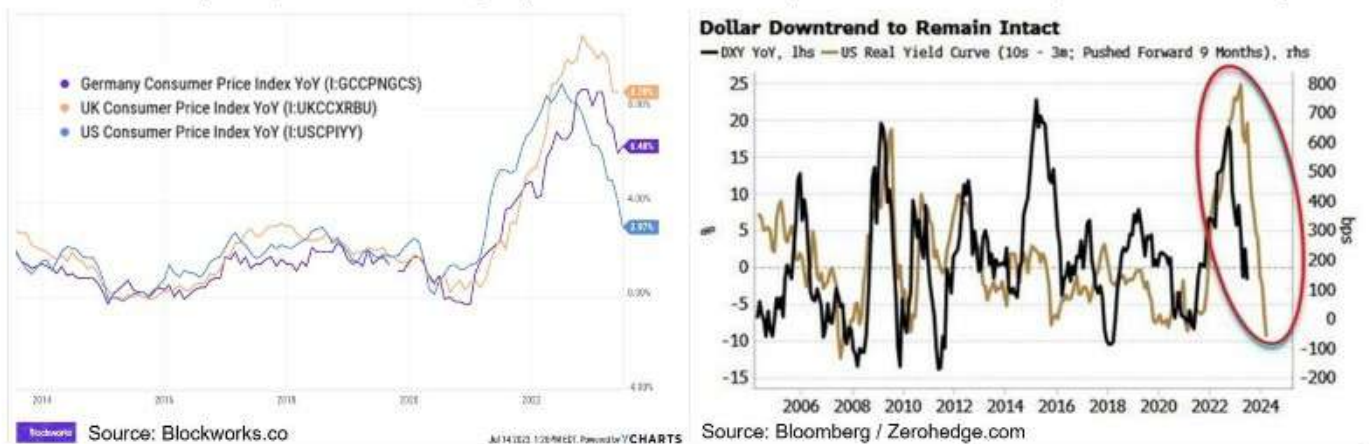
Commodities: Brent reached 81.7 USD/b. last week, up 11% since June. It may test 90 over the next couple of months as the Dollar weakens. Gold could be resuming higher already, probably into the Fall, and perhaps towards new highs.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance	Trend	Exaggeration
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	4 505	Oct-22	3 577	26,0%	Jul-23	4 510	-0,1%	17,3%	up	slightly OB
Nasdaq100 Index	USD	15 566	Dec-22	10 679	45,8%	Jul-23	15 572	-0,0%	42,3%	up	slightly OB
Dow Jones Industrials Index	USD	34 509	Sep-22	28 726	20,1%	Nov-22	34 590	-0,2%	4,1%	neutral	neutral
EuroStoxx50	EUR	4 400	Sep-22	3 279	34,2%	Apr-23	4 409	-0,2%	16,0%	neutral	neutral
Swiss Market Index	CHF	11 110	Sep-22	10 073	10,3%	May-23	11 595	-4,2%	3,5%	neutral	neutral
Nikkei225	JPY	32 391	Jan-23	25 717	26,0%	Jul-23	33 753	-4,0%	24,1%	up	slightly OB
Shanghai Composite	CNY	3 238	Oct-22	2 893	11,9%	May-23	3 395	-4,6%	4,8%	neutral	neutral
US 10Y Treasury Yield	%	3,83%	Aug-22	2,58%	1,2%	Oct-22	4,25%	-0,4%	-0,0%	up	neutral
German 10Y Bund Yield	%	2,48%	Aug-22	0,76%	1,7%	Mar-23	2,75%	-0,3%	-0,1%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	101	Nov-22	92	10,0%	Aug-22	119	-15,2%	3,7%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	107	Oct-22	98	10,0%	Aug-22	113	-4,9%	4,2%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	9,3%	Aug-22	76	-0,9%	5,2%	neutral	slightly OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	87	Oct-22	76	14,8%	Aug-22	88	-1,4%	5,3%	neutral	neutral
EUR/USD		1,12	Sep-22	0,96	17,0%	Jul-23	1,12	0,0%	4,9%	neutral	neutral
GBP/USD		1,31	Sep-22	1,07	22,6%	Jul-23	1,31	-0,3%	8,3%	neutral	slightly OB
USD/JPY		139	Jan-23	128	8,6%	Oct-22	150	-7,5%	5,8%	up	neutral
USD/CHF		0,86	Jul-23	0,86	0,3%	Nov-22	1,01	-14,9%	-6,8%	neutral	slightly OS
AUD/USD		0,68	Oct-22	0,62	10,3%	Feb-23	0,71	-4,2%	0,3%	neutral	slightly OB
Brent Oil (per Barrel)	USD	80	Jun-23	72	11,2%	Jul-22	110	-27,4%	-7,0%	down	neutral
Gold Spot (per Ounce)	USD	1 955	Sep-22	1 624	20,4%	May-23	2 050	-4,6%	7,2%	neutral	neutral

* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

US Dollar focus: strong drop following softer CPI

Disinflation has been impacting the US Dollar since the CPI started to recede from H2 last year. The softer CPI released last week (+0.2% M-o-M for Headline and Core CPI vs +0.3% expected) has dealt it another blow (new 14 months lows vs the Pound and the Euro). Indeed, while both UK and EuroZone CPI data are also falling, they are doing so less quickly and with several months lag to the US (left-hand graph). This discrepancy implies that both the BoE and ECB probably need to push several more hikes to tame inflation, while the FED may afford just one more, on the 26th of July, and then pause again. This forthcoming squeeze in US to UK/EuroZone interest differentials is having a negative impact on short term / interest seeking flows into the US Dollar. Disinflation can also affect the long term appeal of US Investments. Indeed, while the Fed Funds Rate was hiked aggressively over the last 5 quarters, short term real yields followed them up. Now that inflation is receding, they are rising even further. Too much tightening on the short end could dampen longer term real rates and lower prospects for future real GDP growth, thus impacting expectations for future returns and slowing longer term foreign inflows into US assets. The right-hand graph does indeed compare the Dollar Index to the US 10Y-3M real rate spread. Historically, it has preceded US Dollar moves by about 9 months, which according to its recent drop could lead the US Dollar lower for a few more months at least. A reversal may then come as the ECB and BOJ reach their own rate hike peaks (probably still several months away), if the FED starts cutting its Fed Fund Rates (not expected until next year) or if US inflation then proves stickier than expected later on this year.



Notes:

- Trend last 6 months:** this Primis original algorithm, weighs the slope of the trend over the last 6 months vs the slope of the trend over the last 3 months yet factorised by the Fibonacci retracement ratio (0.618). Values are normalised using the average price over each period. If this combined slope is above +0.05% the trend is then "up", below -0.05% then "down", otherwise it is "neutral".
- Overbought (OB) / Oversold (OS) measures:** this Primis original algorithm is computed by comparing the difference between the 8 days moving average and the 100 days combined with the 3 days vs the 15 days one and normalises this difference by dividing it by the 1 year standard deviation (circa 260 open market days). Values above 225% or under -225% are Overbought "OB", resp. Oversold "OS", values above 100% or under -100% are "slightly OB", resp. "slightly OS", otherwise there is no relevant exaggeration and the situation is then "neutral".

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