



## WORLD BREAKING NEWS

# Trade worries keep world stocks subdued

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World stocks have made little progress as worries over global trade tensions weighed, while the US dollar consolidated recent bumper gains after the Federal Reserve reaffirmed the outlook for more rate hikes.

The MSCI world equity index, which tracks shares in 47 countries, traded flat in percentage terms. Europe's pan-European STOXX 600 index was down 0.3 per cent as the euro held firm.

As the Fed policy meeting threw up no surprises with rates left unchanged, the focus shifted back to simmering trade tensions between the United States and China, as well as the ongoing first quarter earnings season.

In Europe, earnings disappointments from medical technology company Smith & Nephew and postal services provider Bpost soured the mood as the stocks fell 6.3 per cent and 10.5 per cent respectively, while German drug and crop chemicals maker Bayer flagged a stronger euro in its update.

E-Mini futures for the S&P 500 traded flat, with overnight results from Kraft Heinz, Tesla and Spotify in focus.

So far it has been a strong earnings season, with the year-on-year blended earnings growth estimate coming in at more than 25 per cent in the first quarter for S&P 500 companies, according to Thomson Reuters I/B/E/S data, while the equivalent figure for the MSCI EMU index (European Economic and Monetary Union) is 14.6 per cent in dollar terms.

The negative mood carried over from the Asian trading session, where shares slipped as hopes waned for real progress in Sino-US trade talks, following reports the Trump administration is considering executive action to restrict

some Chinese companies' ability to sell telecoms equipment in the United States.

"The risk at the moment is that the increasing uncertainty could create ambiguity in executives' heads, it makes corporate decision-making more difficult and then (leads to) a decline in investment," Alastair George, chief investment strategist at Edison Investment Research, said.

Edison's George added that the impact from trade tensions was hypothetical at the moment, though.

Talks between US Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He are due to kick off later on Thursday.

However, a breakthrough was viewed as highly unlikely, especially as the US embassy said the delegation would leave as early as Friday evening.

MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.5 per cent, while South Korean stocks stumbled 0.7 per cent.

Hong Kong's Hang Seng index ended 1.3 per cent lower, but Chinese shares bucked the trend. The blue chip CSI 300 was up 0.8 per cent, but not far from an eight-month low hit in April.

The Fed policy meeting ended with no change, as expected, while the central bank expressed confidence a recent rise in inflation to near target would be sustained, leaving it on track to raise borrowing costs in June.

"The statement carried only modest changes in wording, but they were meaningful nonetheless, highlighting that the Fed is optimistic on the outlook and intent on continuing to raise rates at a gradual pace," said Westpac analyst Elliot Clarke.

Yet the Fed also emphasised the inflation target was "symmetric", suggesting it was not inclined to speed up its tightening plans.

"The Fed sees little reason to be concerned with inflation marginally above its 2.0 per cent target, particularly after such a long period of underperformance," Clarke said.

Westpac, like the market, expects two more hikes this year.

The Fed statement was not quite as hawkish as some had wagered on and caused a dip in the dollar, though sentiment remained bullish given US rates were still clearly heading higher while those in Europe and Japan lagged far behind.

The euro was last at US\$1.1974, having hit a 15-week trough at US\$1.1936 on Wednesday, close to the low for the year at US\$1.1915.

The single currency trimmed gains after Euro zone inflation unexpectedly slipped in April, while Euro zone bond yields hit two-week lows. Germany's Bund yield fell to 0.55 per cent, below six-week highs hit last week.

The dollar also scored a three-month peak on the yen at 110.05 overnight, before edging back to 109.400.

Against a basket of currencies, the dollar index was trading at 92.545, after

reaching the highest since late December at 92.834.

Oil prices retreated with Brent crude futures slipped down to US\$72.95 a barrel, while US crude was at US\$67.88.

Spot gold was up 0.6 per cent at US\$1311.74 an ounce.

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