

# WM Daily

## Caught our attention (Chief Investment Office Wealth Management)

### **Brexit: Hastening the end result, not deciding it**

The UK Parliament is to be suspended. This doesn't increase the risk of a no-deal Brexit, in our view, but it is likely to bring the issue to a head sooner.

**- Tariff tone shift or airy hope?** US stocks posted their best gain in two weeks Thursday (SPX +1.3%), as markets framed comments from China's Ministry of Commerce spokesperson Gao Feng as more conciliatory. President Trump added to optimism, mentioning a scheduled US-China call on Thursday to reporters. However, a closer examination at what Gao said suggests more ambiguity; the quote on calling for a pause on new tariffs was balanced against the threat of "ample means for retaliation", and on balance, the comments appeared largely in line with previous language. *We expect more market volatility around trade, and have taken measures to neutralize part of the event risk on trade until more clarity emerges. This weekend could offer some more certainty, with the US trade representative set to begin collecting a 15% tariff on some USD 125 billion of Chinese imports, starting on Sunday at 12:01 EDT.*

**- Tech tensions unresolved.** While more even-keel messaging from China is calming markets, US-China tech headlines suggest turbulent waters ahead. US prosecutors are said to be examining additional IP theft allegations against China's Huawei, according to a [WSJ report](#). The paper [also reported](#) inter-agency efforts in China to survey and catalogue domestic tech sector reliance on US suppliers and tech, which is linked to a "unreliable entity list" of foreign firms that could face restrictions in China. This follows reports Huawei has yet to win approval for Google services on its next flagship phone, and that Google is "aggressively" shifting production of its flagship handset to Vietnam from China. *Risks to the global economy and markets have increased following the escalation in the trade conflict between the US and China. We are tactically underweight equities versus bonds.*

**Conte to lead new coalition.** On Thursday, Italy's former prime minister Giuseppe Conte agreed to lead the unlikely coalition government between the M5S and the Democratic Party (PD). The prospect of political stability attracted yield-hungry investors, sending Italy's 10-year bond yield down 10 basis points and narrowing the 10-year Bund-BTP spread to a 15-month low. *We think the two parties will find it easier to agree on a coalition agenda given their policy consistency in areas such as fiscal measures, EU relations, and a green economy. Markets will likely react positively given the chance of stronger fiscal discipline and a pro-EU stance.*

## Thought for the day

UK Prime Minister Boris Johnson's government has announced that Parliament will be prorogued (suspended) from mid-September. It will resume on 14 October with a new legislative agenda to be presented in a Queen's speech. While there is nothing controversial about such an event in normal times, these are not normal times.

Sterling has been on the defensive against the US dollar and the euro since the news broke on Wednesday, with markets initially viewing the move to prorogue Parliament as an attempt to force through a no-deal Brexit. But it is not clear that this is the case:

- Members of Parliament will have time to debate Brexit both before and after this period. But, in effect, it will limit the time the opposition MPs have to legislate against a no-deal Brexit.
- On 27 August, opposition leaders agreed to a legislative strategy to prevent a no-deal Brexit, so the prorogation announcement should be seen in this context. The suspension doesn't mean the opposition cannot pursue their legislative agenda (indeed, some observers have interpreted this move as acceptance that Parliament could do this); it just makes the task harder.
- The opposition may instead have to examine the legislative route more closely, or ultimately push for a vote of no confidence in the government to prevent a no-deal Brexit. A no-confidence vote is risky, as the opposition will need to draw on the support of Conservative Party MPs. They may be reluctant to offer this support if Labour Party leader Jeremy Corbyn insists on heading any caretaker government.

**In our view, the risks of a no-deal Brexit on 31 October have not increased, but the situation should come to a head sooner.** The currency market appears to be pricing a 50% chance of a no-deal Brexit in October, which we consider too high. The pound is also very undervalued in purchasing power parity terms. In our FX strategy, **we overweight the British pound versus the US dollar**. Within international developed market stocks, **we are tactically neutral on UK equities**. The longer-term risk-return outlook for UK equities looks uncertain, in our view.

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## Market Insights (Commentary Sales)

### . FX/PM:

The **USD** extended gains after President Donald Trump said Thursday that the U.S. and China are scheduled to have a conversation about trade, helping alleviate concern about the rising tension between the two countries. Meanwhile, Treasury's \$32 billion 7-year auction flopped; its bid-to-cover ratio was the lowest since issuance resumed in 2009. Treasuries extended losses after the sale, through the 30-year clawed back.

The **USD** was the second-best performer within the Group-of-10, trailing only the **CAD**, while the **SEK** and **NOK** lagged.

**USD/JPY** rose ~0.3% to 106.49 vs session high of 106.68

**AUD/USD** fell 0.1% to 0.6727, pulling back from gains of as much as 0.3%

**NZD/USD** fell 0.4% to 0.6309, near session low of 0.6304

- **Fixed Income:**

**Italian** Government bonds had again a strong performance yesterday and yield levels reached new lows post alliance of PD and 5 Stelle to form a new government. The **Euro corporate** sector saw subdued secondary flows and bonds traded broadly unch/+1bp, with the market still trying to digest the supply over the past several sessions. In **financials**, there has been some weakness on UK names as the market is still digesting Johnson's move to prorogue the parliament ahead of the Oct 31 **Brexit** deadline. **Euro High Yield** had a firm session with cash up +0.25 to +0.5pts with the market waiting for new issuance and risk-on sentiment. **XOVER** moved -8/9bps tighter. In this sphere, results were the main focus of the market, with **Lecta** bonds up +0.5pts after publishing Q2 results. Though, the situation reversed quickly in the afternoon after the company communicated it will hire Evercore, Rothschild as to weigh strategic alternatives for the business. In **EM**, the most important news of the day came from **Argentina** post news of government trying to re-profile short term local debt. Bonds lost between -2 to -4pts across the curve.

- **Equity:**

**US stocks** rose amid trade tension between the US and China eased. China's Commerce Ministry spokesman Gao Feng said Thursday that the US and China remain in communication over possible talks in September, and he also added "the question that should be discussed now is about removing the new tariffs to prevent escalation."

**S&P 500** rose 1.27% to 2,924.58, while **Nasdaq** increased 1.48% at 7,979.39. Ten of the 11 S&P 500 sectors ended higher; Industrials and Technology sectors were top gainers, while Consumer Staples sector was the top losers. VIX lost 7.6% at 17.88.

**Dollar General +10.68%**; better-than-expected sales and profits in 2Q and lifted outlook for the FY19.

**Walt Disney +0.94%**; sold its stake in the YES Network for \$3.47 billion.

**Guess? +20.48%**; earnings beat and raised profit forecast for its fiscal year and said it expects minimal effects from further tariffs between the U.S. and China.

**Best Buy -7.99%**; weaker-than-expected revenue, though it beat earnings-per-share forecasts.

**Abercrombie & Fitch -15.10%**; flat same-store sales and trimmed its sales outlook citing the impact of tariff on Chinese goods on its profit margin.

**Dollar Tree -1.94%**; sales beat estimates but profit fell short of expectations. The retailer issued full-year earnings guidance that is below analyst forecasts.

**H&R Block -9.34%**; revenue miss and gave lower end of guidance.

**Euro Stoxx 50** gained 1.37% at 3,411.33 while in Asia, **Nikkei** gained 1.12%, **CSI300** gained 0.81%, and **HSI** gained 0.93% at midday.

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# Market Data

30.08.2019 08:15

## Exchange rates

EUR/USD	1.1045	-0.14%
GBP/USD	1.2189	0.06%
USD/CNY	7.1516	0.10%
USD/CHF	0.9872	0.08%
USD/JPY	106.3500	-0.15%
EUR/CHF	1.0904	-0.05%
GBP/CHF	1.2033	0.14%
AUD/USD	0.6713	-0.27%
EUR/GBP	0.9062	-0.19%

## Equities

S&P 500	2924.6	1.27%
SMI	9838.5	0.82%
EURO STOXX 50	3411.3	1.37%
DAX	11838.9	1.18%
HS China Ent Index	10093.0	1.00%
NASDAQ 100 Index	7702.3	1.51%
FTSE 100	7184.3	0.98%
Nikkei 225 Index	20704.9	1.19%

## Commodities

Gold USD/OZ	1530.95	0.23%
Crude Oil	56.71	1.67%
Brent Crude Oil	61.08	0.98%
Silver USD/OZ	18.38	0.55%

## Rates

LIBOR 3M USD	2.12413	0.32 bps
LIBOR 3M EUR	-0.45486	1.69 bps
Germany Generic Govt. 10Y Yield	-0.73982	1.91 bps
USA Generic Govt. 10Y Yield	1.47564	-1.29 bps

# Market Outlook

## Macro Data

DE:Retail Sales
FR:CPI
FR:PPI
CH:KOF Swiss Leading Indicator
EZ:HICP Flash
EZ:Unemployment Rate
US:Consumer Sentiment

## Time (CET)

7:00 AM
7:45 AM
7:45 AM
8:00 AM
10:00 AM
10:00 AM
3:00 PM

## Companies

Campbell Soup Co

## Event

Earnings Release

### Publication data

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