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— Nova Investment Club —

Central Banks Take Center Stage

Market Update 1st Half July 2017



Central Bank Policy Takes Center Stage

Bi-Weekly Market Review

July 3rd, 2017 to July 14th, 2017

Market Moves

	-1W	-3M	YTD
S&P 500	1.41%	0.88%	5.60%
DJI	1.04%	1.23%	5.79%
NASDAQ	2.59%	1.90%	8.74%
MSCI World	2.04%	0.51%	6.52%
MSCI EM	3.31%	1.81%	5.87%
Russell 2000	0.92%	0.79%	6.21%
Euro Stoxx 600	1.79%	-0.60%	2.25%
FTSE 100	0.37%	-1.28%	0.69%
NIKKEI 225	0.95%	1.18%	9.18%
HANG SENG	4.14%	1.98%	8.77%
US 10Y Yield	-0.05%	9.71%	4.22%
EU 10Y Yield	4.19%	164.16%	219.25%
GER 10Y Yield	4.19%	164.16%	219.25%
JPY 10Y Yield	-4.60%	18.57%	167.74%
UK 10Y Yield	0.38%	41.32%	25.60%
PT 10Y Yield	-0.25%	10.75%	-18.87%
JPY/USD	1.22%	-2.63%	-3.05%
EUR/USD	0.61%	2.25%	8.08%
GBP/USD	1.61%	2.72%	4.76%
Brent Crude	4.71%	4.06%	-12.49%
Gold	1.47%	-3.56%	-4.54%

*Source: Bloomberg

Weekly note:

Portugal's richest man, Américo Amorim, known as the "the king of cork", died last Thursday 13th, aged 82. The Portuguese billionaire had stepped down from his executive duties in October.

Global stocks gained after a steady last week. US stocks rallied, and the Dow Jones index scaled to a new all-time high on Janet Yellen's dovish statements during a congressional testimony. The rally was also supported by the job market, as the US economy generated an above-consensus 222,000 new jobs in June, although wages improved by only 2.50% compared to last year (below expectations). In Europe, stocks followed the bullish investors' sentiment leading to a 2.37% weekly gain in Stoxx 600 index. Asian equity markets had their strongest week since March, with all major indices closing with gains.

Federal Reserve Policy: Janet Yellen told Congress on Wednesday that the central bank expects to continue increasing interest rates gradually, and to start trimming its massive bond holdings due to the encouraging state of US economy. However, she added the Fed wouldn't rush tightening monetary policy as inflation remains persistently below the long-term target. Many economists believe the Fed will still raise rates one more time this year.

The US debt market recovered from last week's losses, with the 10 year closing the week at a 2.33% yield. In Europe, all major sovereign debt yields rose, showing that markets have been anticipating the expected ECB decision to begin scaling back quantitative easing. The German 10Y yield closed the week at 0.59% (the highest since January 2016).

The Bank of Canada raised interest rates for the first time in seven years, pushing the country's currency to further gains against all major peers. The US dollar extended its downward trend, tumbling to a 10-month low. The British pound appreciated as much as 5.01% against the dollar and the Japanese yen also returned to gains, after four negative weeks.

Snapchat and Blue Apron were in the spotlight due to their respective post-IPO losses of value. Snapchat is now worth less than half of its highest valuation ever (recorded as a private company).

The UK unemployment rate fell to a 43-year low of 4.50% in June. Although wages grew by 2.00% they failed to keep up with the 2.90% rate of inflation that Great Britain is currently experiencing. Wednesday's wage numbers showed that real wages fell for 4th consecutive month. Since last summer's Brexit referendum, prices have been increasing thanks to the depreciating pound, with food prices hiking particularly quickly.

Brazil's Economy finally showed some signs of growth after two years of a brutal recession. GDP grew at a 1.00% rate during Q1 of 2017, with a 4.00% increase in industrial production over the past year. Regardless of Brazil's attempts to emerge from financial crisis, its political instability continues. Brazil's current president Michel Temer (who replaced the impeached president Dilma Rousseff not even a year ago) has been accused of authorizing bribes. Rousseff's predecessor, Lula da Silva, was sentenced to 10 years in prison over the Petrobras case. The former president is still said to be in the race for the 2018 presidential elections. The Real has lost nearly half of its value since 2011 and the 10Y Brazilian debt is yielding 10.50%.

WTI crude futures dropped as much as 4.10% last week following an OPEC exports increase in June and news that Russia is against deepening the production cut agreement. Further this week, indication that OPEC plans to cap Libya and Nigeria's production, alongside with declining inventories, drove oil prices to recover, closing above \$46 per barrel.

Upcoming next week: European Central Bank and Bank of Japan policy meetings. China releases its second quarter GDP growth, and inflation numbers come into focus on UK, New Zealand and Canada.