“Testing times ahead?”

Prices on the global equity markets declined only moderately at the beginning of the past week; in fact, the markets largely shrugged off diplomatic tensions, particularly in the Middle East. Nevertheless, there was a certain sense of caution ahead of the “Super Thursday” with its key events, even though oil prices did not come under major pressure. Investors retreated to safe havens such as Japanese yen, US Treasuries or gold and focused increasingly on defensive sectors, even though the volatility index (VIX) remained at its historically low level.

Despite the recent increase in political uncertainty, the global economy still looks set to grow at an above-potential rate during the second half of 2017. Supported by the developed and emerging markets, the global macro data recently improved again, if somewhat more slowly and with increasing divergences at the country level. While macro data for the US and the UK weakened recently, they remained strong in the euro area, in Japan and in several emerging markets. Which (monetary) policy events might affect investors’ risk appetite in the near future?

- European Central Bank (ECB): Arguments for a normalisation of euro-area monetary policy have recently become more convincing. We continue to expect the ECB to make its first rate step in 2018, and expectations of a tapering from the beginning of 2018 should intensify during the remainder of the year as the cyclical recovery continues.

- Elections in the UK: While a Tory majority seemed a foregone conclusion recently, the Labour Party has caught up in the last few days. It is doubtful, however, whether the early elections will pave the way for a “softer” Brexit.

- France: Parliamentary elections will be held at the coming weekend. According to the most recent surveys, President Macron and his “En Marche!” movement will gain a majority. Such an outcome would be another favourable signal for Europe and should calm the markets.

- However, early elections in Italy in autumn might lead to another increase in uncertainty and, in turn, financial market volatility.

The Week Ahead

In the US, the following data from the real economy will take centre stage during the coming calendar week:

“Added value or a mere marketing tool? What does ESG mean for investments? (Part 1)"

“Sustainability”, in the broadest sense of the term, has long ceased to be a new concept for investors. It encompasses, among other things, “corporate social responsibility” (CSR) and “environmental, social and governance” (ESG) criteria. But what does all this mean for investing?

Allianz Global Investors Insights: “Why We’re Constructive on Oil”

Not many investors have been bullish on the price of oil recently, but Allianz Global Investors has had a constructive view of the industry for more than a year. Here are five reasons why we think the price of oil will turn around – and why investors should consider positioning themselves to take advantage of the opportunity.

Chart of the Week: Global equity markets have now returned to a neutral level (according to the indices of relative strength)
The US labour market data should remain healthy, even though the employment report for May was considerably below the expectations and wage growth remains moderate. However, this is unlikely to keep the Federal Reserve (Fed) from hiking the Fed funds rate by another 25 bp at the next FOMC meeting on Tuesday/Wednesday.

On Wednesday, consumer prices for May will be released. While core inflation (excluding energy and food) is likely to remain unchanged in year-on-year terms, headline inflation might slow down somewhat due to lower energy prices and basis effects.

The housing market looks set to send positive signals on Thursday and Friday, as will the leading indicators of the New York and the Philadelphia Feds (both on Thursday), which should point to continued growth, if perhaps at a somewhat slower pace.

In the euro area, the ZEW expectations index (due on Tuesday) and European industrial output figures (Wednesday) will be released, and in the UK, consumer prices (Tuesday) and the monetary policy decision of the Bank of England and retail sales (both on Thursday) are on the agenda. Retail sales will probably show British consumers’ response to the decline in disposable incomes. However, it is uncertain whether consumption will slow down in the long run.

In Asia, investors will keep an eye on the rate decision of the Bank of Japan (BoJ). While the central bank is unlikely to change its monetary policy stance, it might hint at the future course of Japanese monetary policy at the press conference. In China, the focus will be on money supply data (due on Monday) and current activity data (Wednesday).

As the regulations for the real estate market become more restrictive, growth looks set to weaken in the coming quarters, with money supply and lending growth slowing.

Understand. Act.

Market participants reduced their risk exposure ahead of the coming events – in particular, call options were reduced on the European options market – and started to take profits. Starting from an overbought level, the global equity markets have now returned to a neutral level according to the indices of relative strength (see also our Chart of the Week). The figures of the American Association of Individual Investors suggest that the share of undecided investors has increased considerably. However, investors’ risk appetite might return quickly if the (monetary) policy events retreat into the background and positive fundamentals predominate again.

Wishing you that you always see your way clear

Stefan Scheurer
Director, Global Capital Markets & Thematic Research

Upcoming Political Events 2017

June:
11 / 18 Jun Parliamentary elections in France
13 – 14 Jun FOMC meeting
15 Jun BoE meeting, minutes; Eurogroup meeting
15 – 16 Jun BoJ meeting
Mid–Jun US: Dodd-Frank Act Stress Testing (DFAST)
22 – 23 Jun Eurogroup and ECOFIN meetings
22 – 23 Jun European Council meeting

July:
Jul Humphrey-Hawkins Testimony
1 Jul Estonia takes over EU Presidency

→ Overview political events 2017

Other publications:

“China’s Second Long-March”
As China is changing its growth model from an export-oriented to a more domestic driven model, a new question arises: What will the economy look like in the future? Read more in our latest publication.

Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

→ to our publications
→ to our twitter feed
Calendar Week 24:

Monday

- Japan:
  - Machine Orders (Apr) (-0.7% y/y)
  - PPI (May) (2.1% y/y)
  - Machine Tool Orders (May P) (34.7% y/y)
- China:
  - M0 Money Supply (May) 6.0% y/y (6.2% y/y)
  - M1 Money Supply (May) 17.9% y/y (18.5% y/y)
  - M2 Money Supply (May) 10.4% y/y (10.5% y/y)
- France:
  - Bank of France Business Sentiment (May) (104)
- Italy:
  - Industrial Production, wda (Apr) (2.8% y/y)

Tuesday

- China:
  - Foreign Direct Investment CNY (May) (-4.3% y/y)
- UK:
  - CPI (May) (2.7% y/y)
  - CPI Core (May) (2.4% y/y)
  - PPI Input, nsa (May) (16.6% y/y)
  - PPI Output, nsa (May) (3.6% y/y)
  - House Price Index (Apr) (4.1% y/y)
- Germany:
  - ZEW Survey Current Situation (Jun) (83.9)
  - ZEW Survey Expectations (Jun) (20.6)
- Eurozone:
  - ZEW Survey Expectations (Jun) (35.1)
- US:
  - PPI Final Demand (May) (2.5% y/y)

Wednesday

- China:
  - Retail Sales (May) 10.8% y/y (10.7% y/y)
  - Industrial Production (May) 6.5% y/y (6.5% y/y)
  - Fixed Assets Ex Rural, ytd (May) 8.8% y/y (8.9% y/y)
- Japan:
  - Capacity Utilisation (Apr) (-1.6% m/m)
- UK:
  - Jobless Claims Change (May) (19.4k)
  - Average Weekly Earnings 3m (Apr) (2.4% y/y)

Thursday

- Japan:
  - BoJ Policy Rate (Jun 16) (-0.10%)
- Eurozone:
  - EU27 New Registrations (May) (-6.6% y/y)
- Italy:
  - Trade Balance (Apr) (£5121bn)
- US:
  - Housing Starts (May) 3.7% m/m (-2.6% m/m)
  - Building Permits (May) -0.8% m/m (-2.5% m/m)
  - University of Michigan Sentiment (Jun P) (97.1)

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