

The monthly newsletter: May 2018 - June 2018

[Story of the month for April :](#)

Sentiment deteriorated in May amid increasing trade tensions, the government-building process in Italy and the permanent see-saw on the meeting between the US and North Korea.

On the bond side positive returns were found on some government bonds like the UST, the Bund or the OAT, or even the Gilt, apart from that most returns have been negative across the board and Financials underperformed Non-Financials significantly. The recent culmination of factors increasing the uncertainty left sentiment vulnerable. On the equity side EM were the biggest losers, here especially due to a higher USD and rising oil prices whilst developed markets closed the month in positive area.

The United States opened its embassy in Jerusalem, a move that has delighted Israel and infuriated Palestinians. The new embassy is located in a compound that cuts across the 1949 Armistice Line that separated West Jerusalem from No Man's Land, which Israel captured in the 1967 Six Day War and has held under occupation ever since. Since then, violence has soared along the Gaza frontier in recent weeks. After Egyptian intervention the Israel-Gaza border went into ceasefire after the most intense flare-up of hostilities between Palestinian militants and Israel since the 2014 war. A Palestinian official though said that the mediation and terms of the "understanding" did not go beyond "a restoration of calm by both sides".

Britain proposed on Thursday a compromise solution for the Irish border issue that would see Britain staying tied to the EU's customs union for up to another year after an almost two-year transition period. EU negotiator Michel Barnier stated in a conference that this posed a number of questions that had to be answered. "Let me be very clear. Our backstop cannot be extended to the whole UK. Why? Because it has been designed for the specific situation of Northern Ireland," he said.

U.S. President Donald Trump's cancellation of the summit demanding that North Korea unilaterally gives up its nuclear weapons threatened to further strain U.S.-China already in a trade dispute that had been arranged with Beijing's pressure on isolated Pyongyang. The United States and China are also increasingly at odds in the disputed South China Sea. Many South Koreans were fuming after the cancelation of a historic summit, feeling they had been cheated of a chance of a lifetime to live in peace. After all this excitement a top North Korean official was headed to New York for talks with U.S. Secretary of State Mike Pompeo. The latest indication now is that an on-again-off-again summit will be held on the set date of June 12th in Singapore.

Even though Russia will hold the Soccer World Championship in June which in itself is very controversial it is not coming to peace with the world. The Netherlands told Moscow that it will hold the Russian state legally responsible for the downing of Malaysia Airlines Flight 17 in July 2014, after investigators concluded that a Russian army missile system was used in the attack. "It is the first time the finger points to one specific country," Prime Minister Mark Rutte told reporters after an emergency cabinet meeting. "Russia didn't cooperate with the international legal requests in relation to the investigation," Rutte said, referring to the probe carried out by prosecutors from Australia, Malaysia, Belgium, Ukraine and the Netherlands.

Last month already Trump tweeted that OPEC "artificially" boosted oil prices. With his decision to pull out of the Nuclear treaty with Iran and coming sanctions on especially oil deliveries from Iran the oil price not only reacted very volatile in the last couple of weeks, but it slowly but surely is climbing up the ladder. Saudi Arabia and Russia are now discussing raising OPEC and non-OPEC oil production by some 1 million barrels a day, sources said. Raising production would ease 17 months of strict supply curbs amid concerns that a price rally has gone too far, with oil having hit its highest since late 2014 at \$80.50 a barrel this month.

A senior official at Iran's state-owned oil supplier met with Chinese buyers to ask them to maintain imports after U.S. sanctions kick in, three people familiar with the matter said, but failed to secure guarantees from the world's biggest consumer of Iranian oil.

On the environmental side of life: ecoRobotix, a Swiss developer, has designed a solar-powered robot is made to scan rows of crops with its camera, identify weeds and zap them in his test-phase with jets of blue liquid from its mechanical tentacles. The so called Weeder could reduce the amount of herbicide farmers use by 20 times. The company said it is close to signing a financing round with investors and is due to go on the market by early 2019.

Top battery makers are seeking ways to reduce cobalt content in lithium-ion batteries as prices of the mineral have multiplied over the recent years and the spread of electric vehicles is expected to result in cobalt shortages eventually. Tesla Inc's battery cell supplier Panasonic Corp now said it is aiming to develop automotive batteries without using cobalt in the near future. "We have already cut down cobalt usage substantially," said Kenji Tamura, who is in charge of Panasonic's automotive battery business.

The Trump administration has launched a national security investigation into car and truck imports that could lead to new U.S. tariffs similar to those imposed on imported steel and aluminum in March.

Strategy/next steps:

The month of June the Dow Jones has climbed again over the 25'000 barrier and most developed countries rose on due to a rising appetite for risk which was supported by positive economic numbers.

The better-than-expected Chinese PMI China that were announced on the last day of May was the third consecutive increase. The driver has been accelerating export orders pointing to foreign trade being a driver of economic expansion. The US administration announced already new tariffs on USD 50bn of Chinese imports last week. With these news, the trade tensions certainly will not change for the better. End of last week China announced that his May imports which jumped 26% while export growth increased by 12.6%, suggesting both domestic and international demand have thus far weathered trade frictions with the US. This is one of the reasons why China probably also offered to buy nearly \$70bn of US products to fend off trade tariffs. (WSJ)

Most drivers have been and are of a political nature. First, on the positive side, a new government was formed with its new Prime minister Giuseppe Conte and two deputy Premiers - Di Maio and Salvini—thus equals in his cabinet. It will need to be seen who is the leader behind the scenes. According to Finance Minister Tria, leaving the European Union is out of the question. The government is "determined to avoid any market conditions that could lead to withdrawal." He promised debt reduction but has called for infrastructure investment to be excluded from the deficit. BoI Governor Visco said uncertainty over politics is bringing investments to a standstill. Overall, this should provide scope for some more – at least short term – upside, benefitting not only Italian issuers but all European peripheral bonds.

Second, in Spain, Prime Minister Mariano Rajoy faced a no-confidence vote in parliament, and an absolute majority supplemented by Catalan separatists and Basque nationalists, supported the vote of no-confidence put forward by the Socialists. He, who led Spain out of a financial crisis and back to growth and survived a decade of mass protest over his austerity program was ousted over a corruption scandal (one of his former treasurers was sentenced for 33-years of jail). This happened on the same day when in Italy a new anti-establishment, populist government took control in Italy highlighting the upheaval that is going around in Europe (Brexit, Poland and Hungary disintegrating democracy, etc.). Pedro Sánchez, a 43-year-old fairly unknown former economics professor, was sworn in as Spain's new prime minister the next day. He will govern with just 84 MP's in a 350-seat parliament and has promised to address the "pressing social needs" of Spain's citizens. How long will he survive? Analysts already warn that parliamentary consensus will be in short supply, making significant social reforms hard to achieve.

And third, the trade conflict with the US is again in focus following President Donald Trump's decision on June 1 to impose a duty of 25% on imported steel and 10% on imported aluminum from the EU, Canada and Mexico on a deadline postponement that approached without any result. Talks however, seem to continue, in an attempt to convince US Commerce Secretary Wilbur Ross to grant extended relief from the duties. With respect to the latter, the EU answered it would impose retaliatory tariffs of EUR 2.8bn on imports from the US as soon as 20 June. The EU already indicated that it would target consumer, agricultural and steel products in many key Republican constituencies. While the news is neutral for European steel and aluminum issuers, a spiral of measures and counter-measures could affect risk sentiment.

In Canada, which has the presidency of the G7 for 2018, held the G7 summit end of last week. Criticism from Canadian Prime Minister Trudeau, but also other G7 leaders created doubts that President Trump would appear. Trump did appear and demanded Russia's resumption to the G7 which was only supported by Italy. Finally, the G7 meeting left fuming partners. Donald Trump withdrew his support for the communiqué with a "simple" tweet hours after the official press conference, calling Trudeau "very dishonest and weak," provoking fierce backlash by the other six countries. It came shortly after Canadian Prime Minister Justin Trudeau called US steel and aluminum tariffs "insulting" and pledged to proceed with previously announced retaliatory tariffs in a closing press conference.

Diesel gate has not stopped taking his tolls, Even though as it appears, Volkswagen is not in the spot light anymore, the target has moved to Daimler - emission allegations and impending US tariffs are putting the company under strong pressure. Especially as the Ministry of Transport revealed that 774'000 vehicles from Daimler were fitted with defeat devices Europe-wide. After a meeting with Zetsche, the CEO of Daimler said that it is ordered to recall 238'000 vehicles in Germany alone. The recent German court ruling in Germany to allow cities to impose restrictions on diesel –powered vehicles imposed at first by the City of Hamburg. Not only will it negative on new registrations of diesel cars in Germany but will also put additional pressure on the prices of used diesel cars. With the diesel issue expanding to other countries across Europe where several cities are considering to ban older models or introduce a surcharge, diesel sales will diminish and continue to suffer from further price dampening. How this will affect the whole automobile sector, but especially the German one, is to be seen.

Investors this week will need to be cautious ahead of the central bank meetings this week - the US Fed, ECB and BOJ are all scheduled to meet on Wednesday, Thursday and Friday respectively.

US President Donald Trump held peace talks in a landmark meeting with North Korea leader Kim Jong Un on Tuesday in Singapore. After the meeting Trump tweets meetings have gone better "than you might expect" and sees "fantastic progress". Both are said to sign an agreement to acknowledge progress and pledge to keep momentum going.

Market Overview:

Interest rates gov. bonds				
		Spot	1 week (bp)	1 month (bp)
USD	2 year	2.43%	-7.10	-6.10
	10 year	2.86%	-12.50	-9.50
EUR	2 year	-0.67%	-3.80	-7.50
	10 year	0.34%	-17.40	-21.90
GBP	2 year	0.61%	-13.00	-16.70
	10 year	1.23%	-13.00	-18.90

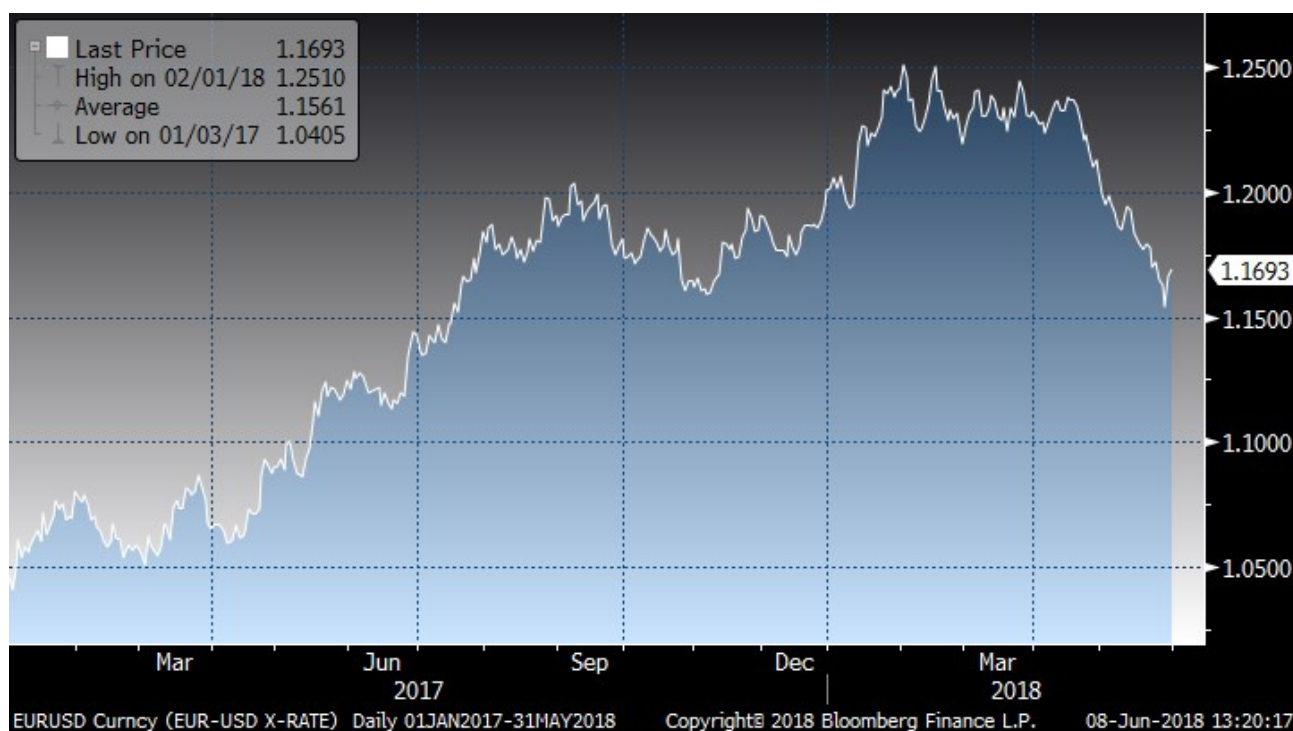
European 5 year CDS			
	Spot	1 week (bp)	1 month (bp)
Germany	13.54	0.62	3.55
France	26.83	1.15	10.13
Spain	83.65	7.63	47.08
Italy	249.94	40.43	163.93
Ireland	NA	NA	NA
Portugal	0.00		

Major stock indices			
	Spot	1 week (%)	1 month (%)
S&P	2705.27	0.31%	2.16%
Dow Jones	24415.84	0.15%	1.05%
Bovespa	76753.62	-5.04%	-10.87%
DAX	12604.89	-1.07%	-0.06%
FTSE	7678.20	-0.62%	2.25%
Hang Seng	30468.56	-1.48%	-1.10%
Nikkei	22201.82	-2.09%	-1.18%

Major Currencies			
	Spot	1 week (pp)	1 month (pp)
EUR/USD	1.1693	-121	-385
EUR/GBP	0.8794	16	19
EUR/JPY	127.23	-295	-482
EUR/CHF	1.1528	-202	-439
USD/SGD	1.3376	-14	117
USD/NZD	1.4283	-14	68
USD/CHF	0.9858	-70	-51

Source : Bloomberg

EUR/USD evolution over the last year :





Main new issues:

Table with columns: Issuer, Ticker, Coupon, Maturity, Rating, ISIN, Currency, Issue Size, Min. Increments, Ann. Date, Issue Price, Prix, Ask_Yield. Contains a comprehensive list of financial instruments and their details.

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