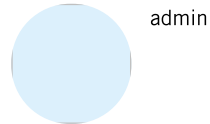




PERSPECTIVES

# Notes from the Trading Desk - Europe

May 3, 2016



*Franklin Templeton's Notes from the Trading Desk offers a weekly overview of what our professional traders and analysts are watching in the markets. The European desk is manned by eight professionals based in Edinburgh, Scotland, with an average of 15 years of experience whose job it is to monitor the markets around the world. Their views are theirs alone and are not intended to be construed as investment advice.*

## Monday, May 2, 2016

Last week brought a dampening of global risk-appetite and a continued focus on currency moves. Asian stock markets were also lower after the Bank of Japan (BOJ) surprised markets with its lack of action in the monetary policy meeting, leading the Japanese yen to its biggest weekly gain since 2008.

## The Digest

### Central Banks and Currency Continue to Drive Markets



The big focus for the week was the [BOJ's monetary policy meeting](#) on Thursday (April 28), at which the central bank surprised investors by leaving policy unchanged. Additional action had been widely expected given the recent surge in the Japanese yen, with much speculation over the potential measures that could be implemented. BOJ governor Haruhiko Kuroda advocated the effects of the current easing programme and negative rates, and added that more time was needed for the central bank to assess the impact of the [policy change](#) put in place back in late January. Another important takeaway was the decision to extend the timeframe for reaching the 2% inflation target by six months.

Following the meeting, the already-strengthened yen rallied further, closing the week up against the US dollar. The continued strength in the yen will likely not make things easy for the BOJ and raises questions over when and how the central bank might intervene in an attempt to weaken the currency. There were also doubts about whether any such action would actually be effective in dampening the yen's strength.

The BOJ wasn't the only central bank event of the week; the US Federal Reserve (Fed) also left policy unchanged last week (April 27) in a far less interesting move, with the markets factoring in a 0% probability of a rate hike ahead of the meeting. The focus was on the [accompanying statement](#), in which the Federal Open Market Committee (FOMC) failed once again to include an assessment of the balance of risks. This was viewed as dovish by many, as including such a risk assessment would likely send too strong a signal that the Fed is closer to tightening. One of the more hawkish takeaways, in our view, was the omission of explicit commentary on any downside risk.

With the yen strength came US dollar weakness, which acted as a tailwind for the commodity space. Commodities rallied despite some concerns about China's stabilisation and what this means for policy easing from the People's Bank of China (PBOC).

Oil was the standout performer on the week, with the price of crude oil showing ongoing resilience against the lack of accord in Doha, where members of the Organization of the Petroleum Exporting Countries (OPEC) failed to reach an agreement in April, and shaking off concerns over a push from Saudi Arabia to gain market share. The dovish tone of the Fed, a weaker dollar, falling US Treasuries and the BOJ's lack of action has peaked safe-haven interest, with the price of gold moving to a 15-month high. The BOJ's inaction led to thoughts that the European Central Bank (ECB) would also choose not to act in the future, which sent the euro higher on Friday. Along with some month-end profit taking, this saw euro area markets come under pressure.

## **Around The World**



## **Last Week**

## Look Out For... (May 3 to May 9):



### Tuesday, May 3

- Holiday in Japan - Constitution Day
- European Commission Publishes Spring Economic Forecast
- South Korea Consumer Price Index [Link](#)
- New Zealand Employment Change [Link](#)

### Wednesday, May 4

- Holiday in Japan - Greenery Day
- Early close in Sweden at 13:00 - Ascension Day's Eve
- ECB Non-Monetary Policy Meeting [Link](#)
- Eurozone Retail Trade [Link](#)
- US Trade Balance [Link](#)
- US Factory Orders [Link](#)
- US Nonfarm Productivity [Link](#)
- Canada Trade Balance [Link](#)
- Australia Retail Sales [Link](#)
- Australia Trade Balance [Link](#)

### Thursday, May 5

- Holiday in Japan and South Korea - Children's Day
- Holiday in Finland, Sweden, Norway and Switzerland - Ascension Day
- US Fed Presidents James Bullard, Robert Kaplan, Dennis Lockhart and John Williams Panel Discussion on "International Monetary Policy and Reform in Practice" at Stanford University
- Canada Building Permits [Link](#)

### Friday, May 6

- US Nonfarm Payroll [Link](#)
- Canada Labour Force Survey [Link](#)
- Brazil CPI [Link](#)
- Reserve Bank of Australia Quarterly Statement on Monetary Policy [Link](#)

### Monday, May 9

- German Factory Orders [Link](#)
- BOJ Minutes from Monetary Policy Meeting (March 14-15) [Link](#)

## Europe

The European stock markets closed lower on the week with weakness across the core and periphery. Greece was the worst performer as talks with creditors continue.

On the macro front in Europe, it was a mixed week of releases, although one of the brighter spots was the improving [first-quarter eurozone gross domestic product \(GDP\)](#) data. The first reading of GDP was up 1.6% year-on-year, although the [UK economy](#) saw weaker growth of 0.4% although in line with estimates. Another positive takeaway saw a strong M3 credit report, a measure of an economy's money supply, showing a significant pickup in the bank lending trend. However, the [European Commission](#)'s reading on euro-area economic sentiment fell for three running months at the beginning of the year, and euro-area [consumer prices](#) were flat in April. Finally, inflation data during the week garnered significant headlines as the eurozone slipped back into deflation in April with prices dropping to 0.2% year-on-year.

Ongoing concerns over the Brexit saga—the United Kingdom's vote of its continued membership of the European Union (EU)—were reflected in the continued recovery of the pound, which climbed up against both the US dollar and the euro during the week.

Last week, it was announced that Spain will have another general election on June 26 (three days after the Brexit vote) following the failure of political rivals to form a government since the inconclusive December election. However, it is not clear whether a new general election will give a meaningfully different outcome to what occurred in December, with neither the centre-left nor the centre-right able to form a coalition.

Greece remains in the headlines after weeks of gridlock over the conclusion of the first bailout review, although there appeared to be some convergence between Athens and its creditors following intense meetings among eurozone finance ministers. EU officials said all parties are close to a deal on a package of bailout reforms and are now working to agree on further contingency steps by May 9, which must be delivered by Athens in exchange for debt-relief negotiations.

The ECB was also in the spotlight during the week as the rift between some German lawmakers and the ECB intensified during the week, amid reports that the country's parliament wants to invite ECB President Mario Draghi to explain the central bank's accommodative policy in order to ascertain the implications for German savers.

## Americas

In the United States, besides weak annualised [US GDP growth](#), several other data points also pointed to softness in the economy. [March durable goods orders](#) increased 0.8% month-on-month, well short of the consensus for an increase of 1.9%. Details were also lacklustre as [core capital goods](#) orders were flat and [core capital good shipments](#) increased only slightly. On the housing front, [new home sales](#) fell 1.5% and pending home sales were also worse than expected.

## Asia

In Asia, Japan's stock market was the underperformer after the surprise inaction by the BOJ. Australia closed the week with some macro weakness, especially the [consumer price index \(CPI\)](#) inflation numbers, which led the [Reserve Bank of Australia \(RBA\)](#) to cut the cash rate by 25 basis points to 1.75%. The CPI release garnered a lot of attention since it significantly missed estimates, while [Japanese CPI](#) fell by 0.3% year-on-year, the biggest drop since the BOJ launched its easing campaign three years ago. China had a relatively quiet week, although there was a continuation of macro concerns.

## Week Ahead

### Monetary Policy

The ECB, Fed and BOJ have all held their meetings recently so it is quieter in terms of central bank meetings this week.

Fed members James Bullard, Robert Kaplan, Dennis Lockhart and John Williams will speak at a conference on Thursday (May 5).

### Economic Data

The main event of this week's macro calendar will be the US nonfarm payroll employment data on Friday (May 6). The scrutiny on US data is immense, with so much focus on when the Fed will next lift interest rates. The consensus expectation is for a gain of 200,000 jobs in April. Other notable US data will be the US auto sales data (May 3) and the initial jobless claims on Thursday (May 5).

In the EU, attention will likely focus on retail sales and the economic bulletin from the ECB.

## Politics

The race for presidential nominations in the United States is drawing to a close with Hillary Clinton close to confirming the Democratic nomination, while Donald Trump will be looking to win Indiana and push towards winning the Republican nomination.

Elsewhere, discussions around the Greece bailout funds will be the main focus in Europe.

In the United Kingdom regional elections in Scotland and Wales, and the London mayoral elections take place on May 5.

## Views You Can Use

### Insight from Our Investment Professionals

#### [Colombia's Tourism Turnaround](#)



Mark Mobius

Mark Mobius explores Colombia, and finds that the government and its people have risen to meet many challenges over the past decade, working to improve the country's attractiveness to international tourists as well as investors. [Read More](#).

The Templeton Emerging Markets Group has a wide investment universe to cover—tens of thousands of companies in markets on nearly every continent! Here, in the [Emerging Markets Q1 2016 Recap: A Turn of Fortunes](#), Mark Mobius outlines what's happened in the emerging markets universe in the first three months of the year, including some key events, milestones and data points going back a bit further to offer some perspective. [Read More](#).

#### [How India Is Stepping Out of China's Shadow](#)



Sukumar Rajah

In 2015, India's gross domestic product growth surpassed that of China, and forecasters generally expect India's growth to remain robust in 2016. Favourable demographics, a bottoming corporate earnings cycle and multiple domestic growth drivers should help India to continue powering forward, according to Sukumar Rajah, managing director and chief investment officer, Franklin Local Asset Management, Asian Equity. [Read More](#).

### **Global Economic Perspective: April**



Franklin Templeton  
Fixed Income Group

The Franklin Templeton Fixed Income Group share their views on why they expect US growth to return to elevated levels later in 2016, and why they think the ECB is committed to pushing up inflation and stimulating lending. [Read More](#).

### **Oil-Price Pessimism May Be Presenting Opportunities**



Fred Fromm

While still volatile, oil prices have been edging higher in recent weeks after falling to the lowest levels since the global financial crisis of 2008-2009. Fred Fromm, vice president and portfolio manager, Franklin Equity Group, offers his view on the supply/demand situation in global oil markets, where he's spotting potential opportunities, and why he feels the predominance of investor pessimism may be sowing the seeds of a gradual recovery. [Read More](#).

### **ZIRPs and NIRPs and Unintended Consequences**



Brooks Ritchey

Monetary policy around the world has taken an unprecedented turn—with negative interest rates now the norm in several parts of the world. Brooks Ritchey, Senior Managing Director of K2 Advisors, sees scant evidence to prove this policy approach is working to stimulate economic growth. He also explores what the policy works and political theorists have to say about the subject, and why he thinks there could be unintended (negative) consequences from a negative-rate policy. [Read More](#).

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