



Penn State Asset Management Group

C/D Weekly Markets Update

Week of February 4th – February 8th 2019

Weekly Markets Update

Mickey Hopkins

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	End of Week Close	End of Week Percentage Change
DJIA Futures	25,106.33	0.18%
S&P 500 Futures	2,707.88	0.05%
Stoxx Europe 600	358.07	-0.56%
Shanghai Composite	2,618.23	0.00%
U.S. 10 Year	2.63%	-0.10%
Crude Oil	\$52.72	-4.70%

Market Data as of Friday (Feb.8th) 4:00 pm EST

Report Commentary

President Trump delivered his second State of the Union address to a joint session of Congress on Tuesday February 5th in Washington DC. The President's State of the Union address had surprisingly few details on the economic agenda but he spoke optimistically about reaching a new trade deal with Chinese President XI Jinping. Most of the speech was focused on the issues that lead to the government shutdown. Trump urged congress to provide funding for the border wall and described the issue as an "urgent national crisis". A bipartisan group of lawmakers is currently working against a Feb.15 deadline to work out a compromise on agency funding or there may be the risk of another government shutdown.

The optimism about reaching a new trade deal with China in President Trump's speech was short lived. On Thursday Feb. 7th, White House economic adviser Larry Kudlow announced that the US and China were still "far away" from securing a new trade deal. This lead to a Thursday decline of more than 200 points in the blue-chip index. The Dow Jones Industrial Average fell early Friday but made a late day comeback and extended its weekly streak of gains to seven weeks. Despite ending in the green the indexes stumbled due to the renewed trade uncertainty and bearish economic data from the Eurozone. The European Commission slashed its growth forecasts for Germany down to 1.1% from 1.8% and Italy fell into a recession at the end of 2018 and will grow at the slowest pace in the EU at just 0.2%. The Bank of England shared the sentiment and expect to see a "sharper and more persistent" slowdown.

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There is some worry that a messy split between the UK and the EU could result in the UK entering into a recession. The UK is scheduled to leave the EU on March 29th, but lawmakers have rejected the departure agreement that was negotiated by the government. This increases the risk that the U.K. could leave without a trade agreement, and a transition period that would allow businesses time to adjust to the new rules. Failure to secure a smooth Brexit would hinder growth in the EU's remaining members much more than previously predicted. Italy is already in a recession and Germany is on the brink of a recession as well.

Lead Commodity Commentary

WTI Oil prices ended down **-4.70%** for the week and closed at \$52.72 a barrel. This drop in price is largely due to the renewed worries of a global economic slowdown that could have adverse effects on global demand for oil. Oil prices came under heavy pressure when policy makers at the Bank of England warned of a global economic slowdown that could be more severe than first predicted because of the insecure status of the economies within such as Germany and Italy. Crude prices went down even further after White House economic adviser Larry Kudlow said that the US and China were far away from reaching a trade deal. Since China is the second largest global consumer of oil, it was thought that if the US and China were closer to an agreement, there would be an increase in global demand for oil. Oil prices will most likely stay between the \$50 - \$55 range until a trade resolution occurs between the US and China.

On Wednesday a Libyan general took control of the country's largest oil field, the Sharara. The Sharara facilities were shut down in late 2018 after armed gunmen took control of the field, so this control of the facilities raises the likelihood that the facility will restart production which can pump about 315,000 barrels a day of crude oil. Higher production in Libya would increase the pressure on the other OPEC countries to consistently implement production cuts.

Global oil prices increased since the end of January largely because of the US decision to impose sanctions on Venezuela's state oil company, which caused crude exports to decline sharply. The oil market will not be affected largely by Venezuela though because of high global supply. One wildcard to watch for though, is Iran. Iran's oil industry is also under US sanctions and the waivers given to top buyers of Iranian oil will expire in April.

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Key Events for Next Week

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Monday (2/11):

- **CNY** Foreign Exchange Reserves (JAN) – Previous: **\$3.07T** | Forecast: \$3.06T
- **GBP** Industrial Production YoY (DEC) – Previous: **-1.5%** | Forecast: -1%

Tuesday (2/12):

- **CNY** Vehicle Sales YoY (JAN) – Previous: **-13%**
- **JPN** PPI YoY (JAN) – Previous: **1.5%** | Forecast: 1.6%

Wednesday (2/13):

- **GBP** Inflation Rate YoY (JAN) – Previous: **2.1%** | Forecast: 2%
- **USD** Inflation Rate YoY (JAN) – Previous: **1.9%** | Forecast: 1.9%
- **CNY** Balance of Trade (JAN) – Previous: **\$57.06B** | Forecast: \$36B

Thursday (2/14):

- **USD** Retail Sales YoY (DEC) – Previous: **4.2%** | Forecast: 4.5%
- **CNY** Inflation Rate YoY (JAN) – Previous: **1.9%** | Forecast: 2.1%

Friday (2/15):

- **GBP** Retail Sales YoY (JAN) – Previous: **3%** | Forecast: 3.4%
- **USD** Industrial Production YoY (JAN) – Previous: **4%** | Forecast: 3.6%

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