



INCISIVE INVESTOR

WEEK ENDED 16 SEPTEMBER 2016

WEEK IN REVIEW: FEARS OF A FED RATE HIKE FINALLY FALL

Review of the week ended September 16, 2016

- US retail sales, industrial production sluggish
- China reports retail sales, industrial output up
- Global oil surplus to last another year: IEA
- US household incomes jumped in 2015

Stocks were like a yo-yo this week, one day up, the next day down. When the dust settled the S&P 500 and the Dow 30 were up a bit for the week but the NASDAQ composite was the out-performer was a gain of near 2.5%. This was due to the markets continuing to focus on central bank policy, which appears to be reaching its effective limits in places like Europe and Japan. Volatility spiked higher this week, with the Chicago Board Options Exchange Volatility Index (VIX) rising to 17 from 14.72 a week ago. US 10-year Treasury yields rose to 1.69% from 1.67% last week. West Texas Intermediate crude slumped to \$42.82 per barrel from \$46.50

Soft US data take some pressure off Fed

Try as the US Federal Reserve might to prepare the markets for an eventual hike in short-term interest rates, soft US economic data and a spike in market volatility combined to lower the odds of a move at next week's Federal Open Market

Committee meeting. While there is a meeting in early November, markets widely expect the Fed to refrain from changing policy just days before a presidential election. Sub-par August retail sales (-0.3%) and a dip in industrial production (-0.4%) were widely viewed as allowing the Fed to hold rates steady in the months ahead despite a mild uptick in consumer prices (0.2%). The advance in CPI was led by medical costs and rents.

China posts solid sales, production data

China's economy is showing signs of modest improvement, recent data show. In August, industrial output advanced 6.3% while retail sales rose 10.6%. Fixed asset investment held steady at 8.1%. Many observers remain concerned over China's debt build-up. Recent economic stabilization reduces the odds of further near-term monetary stimulus from the People's Bank of China.

Oil markets should remain in surplus into late 2017: IEA

The International Energy Agency forecast this week that the surplus in the global oil market will last into late 2017, longer than previously expected. A month ago, the agency predicted the market would return to balance this year.

US household incomes jumped last year

According to the US Census Bureau, median household incomes rose 5.2% in 2015, the largest annual rise on record. The increase was the first in seven years but remains 1.6% below the 2007 level before the recession and 2.4% below the 1999 peak. The median household income stood at \$56,516 in 2015.

Swiss National Bank retains deeply negative policy rate

The Swiss National Bank held its policy rate steady at -0.75% at its quarterly rate-setting meeting. The bank said that the negative interest rate and its willingness to intervene in the foreign

exchange market are intended to make Swiss franc investments less attractive, easing upward pressure on the currency.

Monsanto agrees to be purchased by Bayer

Seed and agrichemicals producer Monsanto has agreed to be acquired by German drug and chemical maker Bayer in a deal valued at \$66 billion, or \$129 per share, ending a months-long negotiation. Observers expect the deal to face intense regulatory scrutiny.

Agrium and Potash agree to merge

Mergers and acquisitions in the agriculture space have been plentiful of late. In addition to the Monsanto-Bayer deal, this week Canadian fertilizer companies Agrium and Potash Corporation agree to merge in a deal that would create a combined company worth \$36 billion. Potash shareholders would own about 52% of the combined company, with Agrium shareholders owning the rest.

THE WEEK AHEAD

- US housing starts and building permits are reported on Tuesday, 20 September**
- The Bank of Japan and the US Federal Reserve hold rate-setting meetings concluding on Wednesday, 21 September**
- US existing home sales data are reported on Thursday, September 22**
- ECB president Mario Draghi speaks on Thursday, 22 September**

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