

# global weekly

Investment  
Communication  
30 September 2016

## A turbulent week

Volatility has increased in the European financials sector, on market worries around Deutsche Bank. Energy prices rallied on supporting news from OPEC.

### Macro update

On Wednesday, 28 September, there was an extraordinary meeting of the organization of petroleum-exporting countries (OPEC). In a press release, OPEC said that it opted for a production target ranging between 32.5 and 33.0 million of barrels per day (mb/d). This should accelerate the ongoing drawdown of the stock overhang and bring the rebalancing forward. This statement came as a surprise to financial markets. As a result, oil prices rallied sharply, as did the currencies of oil-exporting countries.

However, doubts remain whether this will actually lead to lower oil supply. The target range of between 32.5 and 33.0 mb/d would be taking into account the production increase in the first half of this year. In November last year, the ceiling was 31.5 mb/d and the new target range is still above this. The new range is slightly below the production in August though. Moreover, this 'agreement' still needs to be ratified, which is scheduled at the next meeting on 30 November. Also, there needs to be an agreement on quotas for the individual countries, which could be a challenge.

This uncertainty will likely cap oil prices in the near term. We see more upward potential for oil prices in the fourth quarter of this year and in 2017, because of a better balance between supply and demand.

### Equity index performance in local currency

	Value	One week change (%)	Year-to-date (%)
MSCI ACWI	417.7	-0.6	4.6
S&P 500	2151.1	-1.2	5.2
AEX Index	443.6	-2.4	0.4
EuroStoxx 50	2991.6	-3.4	-10.3
DAX Index	10405.5	-3.8	-4.9
Nikkei 225	16449.8	-1.8	-13.6
Hang Seng Index	23324.0	-1.5	6.4

Performance data as of Friday, 30 September 2016

Source: Bloomberg

### Equities update

Equity markets had a very volatile week. They declined at the beginning, recovered halfway, but retreated again at the end of the week. All major indices lost ground. Europe was hardest hit, followed by Japan. The US and China managed to limit their losses, declining slightly more than one percent.

While last week markets responded positively to central bank statements, the mood changed this week. This put pressure on the financials sector. Sentiment around financials further deteriorated as a result of negative news about specific banks. Deutsche Bank remained under pressure after the US Justice Department proposed a USD 14 billion settlement related to a residential mortgage-backed securities probe. Analysts expect Deutsche Bank to eventually pay a much lower fine (EUR 4-6 billion), but that too would further weaken the bank's balance sheet. Rumours about the German government preparing rescue plans for Deutsche Bank were denied by both parties. The other big German bank, Commerzbank, also came with bad news, announcing that it wants to suspend its dividend.

In the US, headlines remain negative for Wells Fargo, as the bank is involved in a scandal around fake accounts.

News related to mergers and acquisitions included rumours around Twitter, which is being targeted by several parties, including Google and Salesforce. It seems, however, that Walt Disney is Twitter's most concrete potential suitor. SABMiller shareholders supported the USD 104 billion take-over of AB InBev, while Pfizer decided not to pursue a break-up. Swedish music streaming company Spotify (not listed) is in talks to acquire its German competitor SoundCloud, the Financial Times reported.

The earnings season will start two weeks from now. Nike and BlackBerry, however, already reported fiscal results. Both companies disappointed. Nike's results sparked renewed concerns about the company's ability to maintain growth due to increasing competition, while BlackBerry will stop making smartphones. The energy sector got a boost after the OPEC reached a production agreement. Important to mention is that the deal still has to be confirmed at a meeting later this year. This week, we made no changes to our equity positioning; we maintain our neutral stance.

### Bond markets update

The corporate bond market was shaken by the news around Deutsche Bank. Fixed-income markets were still digesting the latest meetings of the main central banks, when Deutsche Bank appeared in the headlines. In June, Deutsche Bank was declared by the International Monetary Fund to be the riskiest of all globally significant banks. Since that time, its prospects have further dimmed, following a proposed USD 14-billion settlement.

This sparked a considerable decline in its bond prices and added to the current challenges for the financials sector. The sector in general has been negatively affected by the postponement of rate hikes in the US, uncertainty around Brexit and the future of the European financial landscape, pressure on margins, stiff competition and increased regulatory scrutiny.

We do not believe that Deutsche Bank's current woes represent systemic risk to the financial system. We also do not expect the bank to become insolvent from the effects of the proposed amount of the litigation settlement. Instead, we expect the fine to be negotiated lower and for the bank to start trying to raise capital.

### Government bond yields

	Yield (%)	One week (bp)	One year (bp)
US Treasuries 2-year	0.724	-3.2	9.3
German Bunds 2-year	-0.705	-2.9	-45.0
Japan 2-year	-0.269	-4.5	-28.4
US Treasuries 10-year	1.545	-7.4	-49.2
German Bunds 10-year	-0.144	-6.1	-73.0
Japan 10-year	-0.09	-4.0	-44.1

### Spreads

Index	Spread (bp)	One week (bp)	One year (bp)
CDX NA IG	78.27	2.07	-14.55
iTraxx Euro 5-year	72.74	1.99	-17.83
JPM EMBI+	351.11	13.43	-108.50

Performance data as of Friday, 30 September 2016

Source: Bloomberg

### Currency outlook

Currency markets remain muted, with major currencies mostly range-trading, because of a lack of new drivers and opposing existing drivers. The US dollar is experiencing intra-day movements, but little else.

### Asset allocation

The asset allocation continues to consist of an underweight allocation to bonds and a neutral allocation to equities. Within stocks, those of emerging-markets Asia are preferred over US and European equities. Real estate and commodities are overweight. There is a neutral stance to hedge funds.

### Published this week

#### Market worries around Deutsche Bank

Deutsche Bank, Germany's largest lender and a globally systemically important bank, has been dealing with a series of negative issues.



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