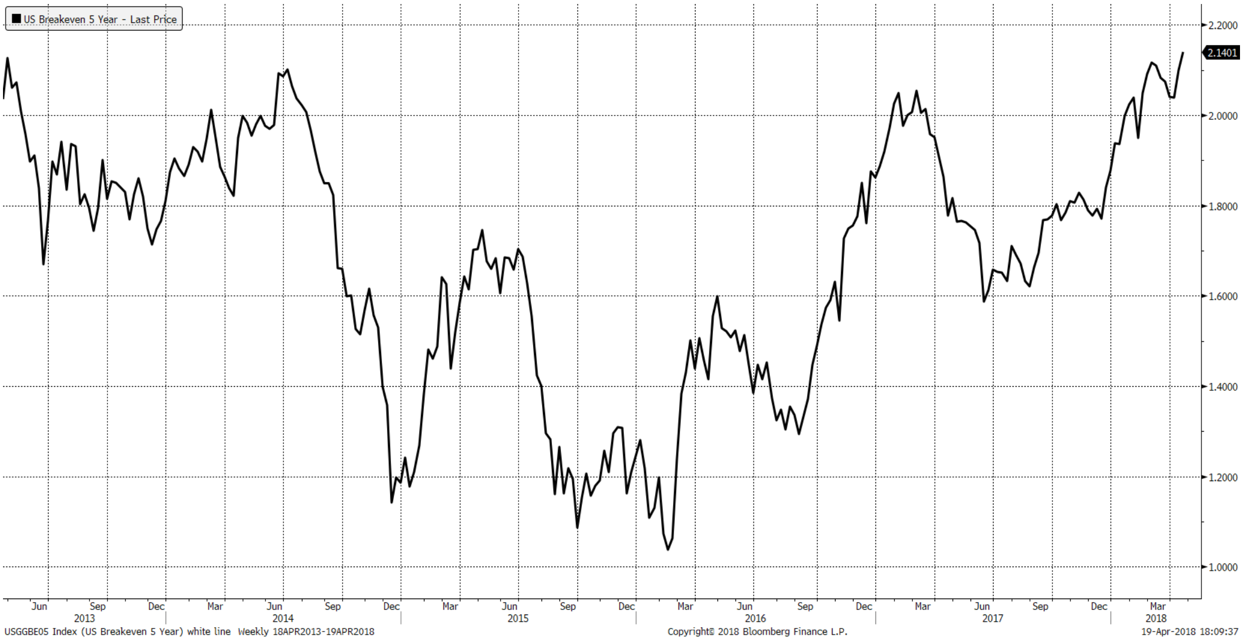
NewScape
CAPITAL GROUP

THE WEEK AHEAD

Welcome to Newscape's weekly round up of the markets, accompanied with a note from our CIO Charlie Morris on what to keep an eye out for in the week ahead.

Chart of the week – US 5-year break-evens increase



Break-even rates refer to the difference between the yield on nominal fixed-rate bonds and the real yield on inflation-linked bonds. Break-even rates are the market's measure of inflation over a given time horizon.

Overview

<u>Inflation slowdown</u>

- U.K. inflation grew at its slowest rate in March for the first time in a year.
- Consumer Price was down from 2.7 percent in February to 2.5 percent in March.
- The latest figures have cast doubt over interest-rate increases, with the BOE's recent forecast of 2.8% not being met.

<u>Oil inventories down</u>

- Latest Inventory data highlighted reductions in US inventories, causing Crude to rise to its highest levels since 2014.
- Nationwide Crude Inventories decreased 1.05 million barrels last week in the US.

Metal Sparks Fly

• The price of aluminium has risen more than 30% since the start of month and nickel has surged to a three year high, pushing the Bloomberg's commodity index to its highest level since 2015.

• The rally was triggered by US sanctions against United Co. Rusal and fears of further actions in the metal markets.

China Slices Reserve Ratio

• The People's Bank of China stated it would reduce the reserve-requirement ratio on large commercial lenders by 1 percentage point, to be in effect April 25th.

• Research analysts predict it will boost profits of listed Chinese banks by 0.6 percent and raise their net interest margins by 0.9 basis points.

Outlook

No sooner than stocks tried to rally, inflation expectations surged along with the oil price and metals. Aluminium surged as a direct result of the sanctions against Rusal. Yet the rally in oil is more sinister. No one is quite sure what's driving it, just that it's made a three-year high and seemingly has no intention of heading back south.

Higher inflation has spooked the bond market. For a moment this year, it seemed that there would be yet another flight to bonds. But this proved to be the shortest bond rally since 1980 and the trend has reaffirmed itself. The cost of borrowing is rising along with inflation. Traditional assets, that have benefit from monetary stability, are now too expensive and are starting to feel the pain. Consumer stocks, industrials and property have had it too good for too long. We believe now it is time for the cyclicals. The likes of gold, energy and the industrial metals, not only offer good value, but are known to perform when the bond market turns nasty. We haven't yet spotted flares walking down Jermyn St, but it is beginning to feel like the 1970s.

Upcoming Economic Data

Event	Date
German Markit Manufacturing PMI Flash	23/04/2018
Australian Inflation Rate YoY Q1	24/04/2018
US New Home Sales March	24/04/2018
Korean GDP Growth Rate YoY Q1	26/04/2018

Pick of the Week

Top Film pick – "THERE WILL BE BLOOD". Watch Daniel Day-Lewis' descent into madness, as he evolves from a humble prospector into a deranged oil baron. A chilling performance, truly deserving of his Oscar for Best Actor.

Top TV pick – "PEAKY BLINDERS". In 1919, the mafia of Birmingham is run by the Shelby brothers and their gang; the infamous Peaky Blinders. Watch them fight off the police and anyone who stands in their way. A thrilling drama starring Cillian Murphy.