10 JULY 2017

Highlights of the G20 Summit

By Florence Tan, Tae Hyon Ahn, Celestee Tan

G20 Leaders released a joint communique after the summit on 7-8 July in Germany. The communique included some level of agreement on international trade and investment. Differences were also evident, as 19 countries (all ex-US) reaffirmed the commitment to the 2015 Paris Climate Change Agreement.

Read more on page 2 >

Market Performance

Global equities as measured by MSCI World Index closed almost flat on the week (0.01%).

In the US, the Dow Jones Industrial Average increased 0.30%, the S&P 500 Index ticked 0.07% higher, and the Nasdaq Composite rose 0.21%.

European equities, as measured by the Stoxx Europe 600 Index, gained 0.21% while Japanese stocks lost ground (Nikkei 225: -0.52% and Topix: -0.30%).

Emerging Markets underperformed with the MSCI EM index down 0.82%, led by MSCI Emerging Europe (-0.43%), MSCI Latin America (-0.07%), and MSCI Asia ex Japan (-0.84%). Within Asia, the Sensex 30 Index was the top performer, ending at 31360.63 points with a weekly gain of 1.42%.
Highlights of the G20 Summit (Continued)

International Trade and Investment

• The Communique affirmed “the crucial role of the rules-based international trading system” and “the principle of non-discrimination”, but no longer suggested for the World Trade Organization (WTO) to be “playing the central role”, as the 2016 Communique had done.

• The Communique vowed to “continue to fight protectionism including all unfair trade practices”, “recognize the role of legitimate trade defense instruments in this regard” and “strive to ensure a level playing field”, while the 2016 version expressed unequivocal “opposition to protectionism on trade and investment in all its forms” and did not mention trade remedies.

• An August 2017 deadline was also set for information sharing and cooperation on addressing excess capacity in the steel industry, with concrete policy proposals due in November 2017 and follow-ups in 2018.

• Overall, these statements are consistent with Citi’s expectation that the US could pursue trade remedies and trade enforcement more aggressively and note that the US’s Section 232 conclusions about the national security case for restricting steel and aluminum imports is due soon.

• Meanwhile, the EU and Japan announced an agreement in principle for a free trade deal.

Climate change

• The joint statement notes “the decision of the United States of America to withdraw from the Paris Agreement”. But the other leaders decided to forge ahead by the other 19 countries releasing a separate statement reaffirming the commitment to the agreement of 2015, which they called “irreversible”.

• French President Macron separately announced that France will host another conference on climate change on 12 Dec 2017. Citi analysts had anticipated the possibility of a separate agreement, which may be politically opportune for the US (to indicate its intentions to shift away from multilateralism) as well as the other countries that would be keen to show that they do not rely on US leadership.
Solid US Job Growth but Wages Disappoint

The US economy added 222K jobs in June, well above median at 178K. Despite strong payroll numbers, weak wage growth may make the Fed marginally more inclined to wait for signs of rising wage and price pressure before hiking.

- Private sector payrolls increased 187K, while government added a large 35K jobs. The bulk of job gains was in services (+162K), as education and health (+45K), leisure and hospitality (+36K) and professional and business services (+35K) saw sizeable additions.

- Average hourly earnings advanced 0.2% MoM in June. This led to a below-consensus YoY reading of 2.5%, while May was revised down from 2.5% to 2.4%. The unemployment rate edged higher to 4.4% (4.36% unrounded), above consensus and Citi expectations for 4.3%. The participation rate picked up from 62.7% to 62.8%.

“Longer term US yields continued to move higher as payrolls indicated solid growth.”

- Longer term US yields continued their move higher as payrolls indicated solid growth. The 10-year US Treasury yield was up 2 basis points at 2.39% last Friday, the highest since mid-May and its seventh advance in eight sessions.

- Citi analysts doubt that the US 10-year bond yield can rise very far, at least in 2H17. Their year-end forecast for the 10-year yield stands at 2.10%. In their view, at the current level of 2.386%, US 10-year yields are much higher than what is being offered by other developed market government bonds. This together with the high credit rating of US Treasuries, is likely to attract greater institutional demand.

- Compared to the negative yields from Japanese Government Bonds, Japanese pension funds and insurance companies are likely to find US Treasuries attractive. Healthy investor demand is expected to limit the rise in US yields.
Disclaimer

“Citi analysts” refers to investment professionals within Citi Research (“CR”), Citi Global Markets Inc. (“CGMI”) and voting members of the Citi Global Investment Committee. For important disclosures concerning companies covered by Citi’s Equity Research analysts, please refer to the link: https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

This document is based on information provided by Citigroup Investment Research, Citigroup Global Markets, Citigroup Global Wealth Management and Citigroup Alternative Investments. It is provided for your information only. It is not intended as an offer or solicitation for the purchase or sale of any security. Information in this document has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the information, consider its appropriateness, having regard to their objectives, financial situation and needs. Any decision to purchase securities mentioned herein should be made based on a review of your particular circumstances with your financial adviser.

Investments referred to in this document are not recommendations of Citibank or its affiliates. Although information has been obtained from and is based upon sources that Citibank believes are reliable, we do not guarantee its accuracy and it may be incomplete and condensed. All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Past performance is no guarantee of future results. Investment products are (i) not insured by any government agency; (ii) not a deposit or other obligation of, or guaranteed by, the depository institution; and (iii) subject to investment risks, including possible loss of the principal amount invested. All forecasts are expressions of opinion, are not a guarantee of future results, are subject to change without notice and may not meet our expectations due to a variety of economic, market and other factors.

The document is not to be construed as a solicitation or recommendation of investment advice. Subject to the nature and contents of the document, the investments described herein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested. Certain investments contained in the document may have tax implications for private customers whereby levels and basis of taxation may be subject to change. Citibank does not provide tax advice and investors should seek advice from a tax adviser.

Citibank N.A., London Branch is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of regulation by the Prudential Regulation Authority are available from us on request. Our firm reference number with our UK regulators is 124704. Citibank Europe plc is authorised by the Central Bank of Ireland and by the Prudential Regulation Authority. It is subject to supervision by the Central Bank of Ireland, and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. Citibank Europe plc, UK Branch is registered as a branch in the register of companies for England and Wales with registered number BR017844. Its registered address is Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. VAT No.: GB 429 6256 29. Citibank N.A., London Branch is registered as a branch in the UK at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. Registered number BR001018. Citibank Europe plc is registered in Ireland with number 132781, with its registered office at 1 North Wall Quay, Dublin 1. Citibank Europe plc is regulated by the Central Bank of Ireland. Ultimately owned by Citigroup Inc., New York, USA. In Jersey, this document is communicated by Citibank N.A., Jersey Branch which has its registered address at PO BOX 104, 38 Esplanade, St Helier, Jersey, JE4 8QB. Citibank, N.A., Jersey Branch is regulated by the Jersey Financial Services Commission. Citibank N.A. is incorporated with limited liability in the USA. Head office: 399 Park Avenue, New York, NY 10043, USA. © Citibank N.A. 2017. CITI, CITI and Arc Design are registered service marks of Citigroup Inc. Calls may be monitored or recorded for training and service quality purposes.