# Weekly Update

C0 | EXTERNAL PUBLICATION

## Xi at further highs, reforms on a sliding path


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China's Communist Party congress rarely delivers surprises—one usually reads between the lines and looks at the pedigree and connections of the new appointees. However, two aspects are striking in the 19th congress:

- The Communist Party constitution will now include "Xi Jinping thought"; previously, it had this only for Mao Zedong and Deng Xiaoping. This is a clear power reinforcement for President Xi. Economic reform is now clearly put under the Party's responsibility, diluting hopes of a more market-driven economy.
- The strengthening one-man leadership of Chairman Xi Jinping is not necessarily good news for those who expected China to go the Singapore way: strong political stewardship combined with a free-market economy.

As President Xi reiterated the objective of doubling living standards of Chinese households between 2010 and 2020, he suggested that growth will take precedence over reform. Growth rebalancing will be part of the recipe, but Chinese leaders deem that sustained growth is essential for political stability and dominance of the Communist Party, playing down the need for reforms.

The State will run the industry reshuffle, but many observers have already identified that reduction of overcapacity in several sectors has not led to privatization of inefficient and large state-owned enterprises (SOEs); in fact, more often than not, smaller private-owned firms have been taken over by their state-owned competitors.

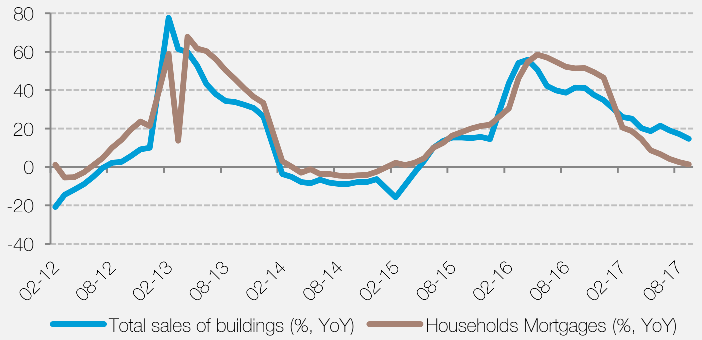
Meanwhile, political authorities are likely to keep a heavy hand on the development of the service sectors. As US tech companies know it well, entering the Chinese market is either impossible or challenging at best with China imposing entry barriers or strongly supporting domestic firms, e.g. Google versus Baidu, WhtasApp versus WeChat, and Amazon versus Alibaba; Facebook is officially prohibited in China.

Foreign investment will continue to be welcome, but overseas investors should expect more guidelines to steer foreign money to places where national interest is served best. In brief, foreign firms will find it harder to enter and make profit. At the same time, China will continue to chase investment opportunities that strengthen its economic power and status. The One Road One Belt initiative is both a political and an economic tool to promote Chinese interests domestically as well as overseas.

From an investor standpoint, this stance has several implications. It reduces the risk of an economic downturn in the short run, but market reforms will probably take a backseat as the power continues to fine-tune growth. This raises long-term risks. As President Xi's growing dominance could mean extension of his mandate beyond the remaining five-year term, the tradition of collegial decision will take a reverse course. One-person rule is more a recipe for failure than success in the modern world. With politics prevailing over economics, debt leverage may grow further, fuelling the risk of financial instability in the medium to long term.

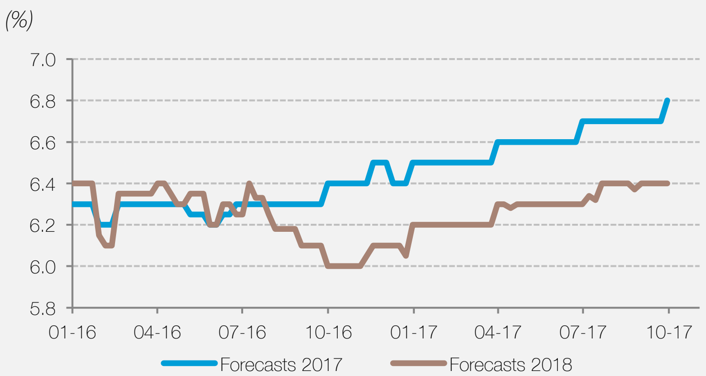
Market can relax for the time being, but one should keep an eye on the long term.

Property markets are experiencing  a downturn




Sources: Societe Generale Private Banking, Bloomberg (data as of 27/10/2017)

China GDP growth forecasts have been revised up




Sources: Societe Generale Private Banking, Bloomberg (data as of 27/10/2017)

## This week and next

EUROPE

- The ECB announced that it would reduce its monthly net asset purchases from €60bn to €30bn beginning January 2018. Principal payments from maturing securities bought under the asset purchase program (APP) will be reinvested.
- Business confidence continued to improve in October across the region: The German IFO Business climate index hit an all-time high of 116.7, above market expectations; the French INSEE Manufacturing confidence index stayed at 111 in October; and the Italian ISTAT Manufacturing confidence improved further from 110.5 to 111, hitting its highest level since May 2007.
- In Germany, the producer price index edged up in September from 2.6% YoY to 3.1%.

| Next week's key events | | Per. | Prev. | Cons. |
|---|---|---|---|---|
| 31 Oct | Eurozone unemployment rate | Sep | 9.1% | -- |
| 31 Oct | Eurozone GDP QoQ | Q3 A | 0.6% | -- |
| 31 Oct | Eurozone Economic confidence | Oct | 113.0 | -- |

UNITED KINGDOM

- Preliminary estimates show that real GDP grew 0.4% QoQ in Q3 after a 0.3% uptick in the previous quarter. The growth was led by services and a jump in industrial output, while construction dropped. On a YoY basis, GDP expanded 1.5%, as in Q2, but the pace was weaker than in 2016.
- The index of services (representing the change in gross value added for the services industries) decreased slightly in August from 0.5% 3M/3M to 0.4%.

| Next week's key events | | Per. | Prev. | Cons. |
|---|---|---|---|---|
| 30 Oct | Mortgage approvals | Sep | 66.6k | -- |
| 1 Nov | Markit PMI Manufacturing | Oct | 55.9 | 56.2 |

UNITED STATES

- Existing home sales rose 0.7% MoM in September to 5.39m. New home sales skyrocketed, rising 18.9% MoM, confirming the uptrend that started in 2011.
- The Richmond Fed Manufacturing index printed downward from 19 to 12 in October, lower than expectations.
- Durable goods new orders jumped 2.2% MoM in September after +2.0% the previous month. Excluding transportation, durable orders rose 0.7% for the second month, suggesting positive momentum in investment expenditure.

| Next week's key events | | Per. | Prev. | Cons. |
|---|---|---|---|---|
| 30 Oct | Personal spending | Sep | 0.1% | 0.8% |
| 1 Nov | ISM Manufacturing | Oct | 60.8 | 59.0 |
| 3 Nov | Change in nonfarm payroll | Oct | -33k | 308k |

ASIA & EMERGING COUNTRIES

- In Japan, the preliminary PMI manufacturing index inched down in October from 52.9 to 52.5.
- Japanese inflation remained stable at 0.7% YoY in September.

| Next week's key events | | Per. | Prev. | Cons. |
|---|---|---|---|---|
| 31 Oct | Japan: Jobless rate | Sep | 2.8% | 2.8% |
| 31 Oct | China: Manufacturing PMI | Oct | 52.4 | 52.2 |
| 1 Nov | China: Caixin PMI composite | Oct | 51.4 | -- |

Sources: Datastream, Bloomberg, 27 October 2017, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank

## Our 6-month targets

CURRENCIES & COMMODITIES

| | Thursday close | 6mth target |
|---|---|---|
| EUR/USD | 1.17 | 1.20 |
| GBP/USD | 1.32 | 1.28 |
| USD/RUB | 57.8 | 60 |
| AUD/USD | 0.77 | 0.72 |
| EUR/CHF | 1.16 | 1.18 |
| USD/CNY | 6.64 | 7.1 |
| USD/CAD | 1.28 | 1.37 |
| USD/JPY | 114 | 115 |
| Brent | $58.7 | $55 |
| Gold | $1273 | $1225 |

*Forecast figures are not a reliable indicator of future performance*

# Question time

Past performance should not been seen as a guarantee of future returns.

## EQUITIES
What are your insights from the US earnings season?

25 October 2017

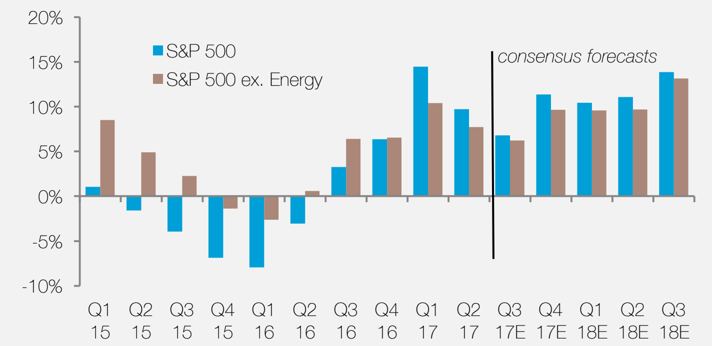
The US earnings season is in full swing and one-third of the S&P 500 companies have reported Q3 results so far. Preliminary results are good: sales and earnings-per-share (EPS) of a large number of companies (73% and 77% of companies, respectively) beat consensus estimates. Based on the companies that have reported, Q3 earnings grew 6.8% YoY, surprising positively by 3.2% on average, and top line increased 4.8%. Seven out of eleven sectors delivered positive EPS growth, with Energy and Information Technology sectors contributing the most.

Earnings growth slowed to 6.8% YoY in Q3 compared with 9.7% YoY in Q2. The main explanation is the negative impact of the destruction caused by this summer's hurricanes on the Insurance sector. Excluding Financials, EPS grew 8.3%.

In coming quarters, EPS growth should remain solid on the back of strong economic growth, a weaker dollar (the DXY index has dropped 8.8% year-to-date) and improving oil prices after the 2014-15 slump. Moreover, the potential tax reform should provide additional boost to corporate profits next year. Overall, S&P 500 EPS are expected to grow 9.7% in 2017 and 12.4% in 2018, a key support to the equity market.

S&P 500: solid earnings growth

*Earnings-per-share growth, % YoY*




*Sources: Societe Generale Private Banking, Bloomberg (data as of 25 October 2017)*

## CURRENCIES
What is your view on the Turkish lira?

25 October 2017

Despite supportive growth data and a sharp rebound in manufacturing activity since early 2017, Turkey remains a fragile economy. Current account deficit has hardly reduced, still hovering around 4% of GDP, whereas the fiscal deficit has worsened slightly. Double-digit inflation has forced the central bank to keep a rather hawkish stance. Political tensions, exemplified by the referendum in Kurdistan, persist. External debt recently topped 50% of GDP for the first time in history, exposing the country to rising US yields and to a reversal in global investors' risk appetite.

Given the lira's current weakness, we keep a neutral view on the currency, expecting USD/TRY to be around the current spot level (3.80) over a 12-month horizon.

Our constructive view on the EUR/USD (1.25 over a 12-month horizon) too implies a likely weakening of the lira against the single currency.

# Market performance

Past performance should not been seen as a guarantee of future returns.

## Interest rates

| Interest rates | Last | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|---|
| EONIA (EUR) | -36 bp | 0 bp | ➡ | 0 bp | -4 bp | -1 bp |
| 3mth Euribor (EUR) | -33 bp | 0 bp | ➡ | 0 bp | -1 bp | -2 bp |
| 3mth Libor (USD) | 138 bp | 2 bp | ⬆ | 6 bp | 38 bp | 49 bp |
| 3mth Libor (GBP) | 42 bp | 3 bp | ⬆ | 14 bp | 6 bp | 2 bp |
| 10-year US Treasury bond | 245 bp | 13 bp | ⬆ | 17 bp | 1 bp | 66 bp |
| 10-year German bond | 43 bp | 3 bp | ⬆ | -6 bp | 32 bp | 42 bp |
| 10-year French bond | 70 bp | 5 bp | ⬆ | -11 bp | 2 bp | 38 bp |
| 10-year UK bond | 143 bp | 12 bp | ⬆ | 15 bp | 19 bp | 28 bp |

## Credit

| Credit | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|
| BAML EURO Corp. IG | -0.1% | ➡ | 1.0 % | 2.3 % | 1.6 % |
| BAML EURO Corp HY | 0.1% | ➡ | 1.8 % | 6.8 % | 7.5 % |
| BAML GBP Corp IG | -0.9% | ⬇ | -0.5 % | 2.9 % | 3.3 % |
| BAML US IG | -0.6% | ⬇ | 0.6 % | 5.2 % | 2.7 % |
| BAML US HY | 0.0% | ➡ | 1.2 % | 7.4 % | 8.3 % |
| JPM Global EM Sov. Plus | -1.0% | ⬇ | 2.0 % | 10.4 % | 5.7 % |

## Exchange rates

| Exchange rates | Last | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|---|
| EUR/USD | 1.17 | -1.7 % | ⬇ | -0.7 % | 10.8 % | 6.8% |
| EUR/CHF | 1.16 | 0.5 % | ⬆ | 4.2 % | 8.5 % | 7.3% |
| GBP/USD | 1.32 | 0.0 % | ➡ | 0.3 % | 6.7 % | 7.4% |
| USD/JPY | 114 | 1.3 % | ⬆ | 2.5 % | -2.5 % | 9.1% |
| USD/BRL | 3.29 | 3.9 % | ⬆ | 4.8 % | 1.1 % | 4.8% |
| USD/CNY | 6.64 | 0.4 % | ⬆ | -1.6 % | -4.4 % | -1.9% |
| USD/RUB | 57.8 | 1.0 % | ⬆ | -2.6 % | -5.6 % | -8.0% |

## Government bonds*

| Government bonds* | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|
| United States (3-7yr) | -0.4 % | ⬇ | -0.5 % | 1.4 % | -0.8 % |
| United Kingdom (3-7yr) | -0.5 % | ⬇ | -0.9 % | -0.4 % | 0.0 % |
| Germany (3-7yr) | -0.1 % | ⬇ | 0.5 % | -0.7 % | -0.4 % |
| Japan (3-7yr) | 0.0 % | ➡ | 0.1 % | -0.1 % | -0.6 % |

## Equities*

| Equities* | Last | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|---|
| MSCI AC World | 494 | -0.4 % | ⬇ | 3.9 % | 19.5 % | 22.5 % |
| Eurostoxx 50 | 3 637 | 1.0 % | ⬆ | 4.5 % | 14.0 % | 22.1 % |
| DAX | 13 133 | 1.1 % | ⬆ | 6.7 % | 14.4 % | 22.6 % |
| CAC 40 | 5 455 | 1.6 % | ⬆ | 5.3 % | 15.5 % | 24.2 % |
| S&P 500 | 2 560 | -0.1 % | ➡ | 3.9 % | 16.2 % | 22.2 % |
| FTSE 100 | 7 487 | -0.5 % | ⬇ | 1.6 % | 8.4 % | 12.0 % |
| SMI | 9 200 | -0.4 % | ⬇ | 2.4 % | 15.6 % | 20.4 % |
| Topix | 1 754 | 1.4 % | ⬆ | 9.1 % | 17.8 % | 29.5 % |
| IBOV Brazil | 75 896 | -0.5 % | ⬇ | 16.7 % | 26.0 % | 18.9 % |
| MICEX Russia * | 2 047 | -1.3 % | ⬇ | 5.9 % | -8.3 % | 3.6 % |
| MSCI EM | 1 108 | -0.8 % | ⬇ | 4.8 % | 31.3 % | 24.9 % |
| SENSEX 30 India | 33 147 | 2.4 % | ⬆ | 2.5 % | 25.9 % | 20.5 % |
| Hang Seng (H-K) | 28 202 | 0.2 % | ⬆ | 5.9 % | 33.0 % | 25.7 % |
| Shanghaï Composite | 3 408 | 1.1 % | ⬆ | 4.9 % | 9.8 % | 9.3 % |

## Commodities

| Commodities | Last | 1wk | | 3mth | YTD | 12mth |
|---|---|---|---|---|---|---|
| Brent | $59 | 1.8 % | ⬆ | 15.6 % | 3.5 % | 16.4 % |
| Gold | $1 273 | -1.2 % | ⬇ | 2.0 % | 9.9 % | 0.3 % |
| Silver | $16.9 | -1.9 % | ⬇ | 3.0 % | 5.4 % | -4.3 % |

Source: Datastream, on 27 October 2017 1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

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