Markets & Investing

FINANCIAL TIMES

The day in the markets

What you need to know

- Oil prices extend gains with Brent at a fresh four-year high
- Italian bonds remain volatile ahead of tomorrow's budget deadline
- Argentine sovereign bond yields surge and peso falls 5% before paring losses

Argentina's peso fell and its 10-year dollar denominated bond yield briefly surged beyond 9.4 per cent yesterday following the resignation of Argentine central banker Luis Caputo.

Selling abated as the benchmark yield eased back to 9.15 per cent and the peso was off 4.4 per cent at midday in New York.

Oil prices continued to hover around $82 a barrel, with Brent crude having reached $82.55 earlier in the session following the decision of producers not to increase production, its second four-year high in two days.

Ehsan Khoman, head of MENA research and strategy at MUFG, said: "We see material near-term risks that oil could reach as high as $100 per barrel, potentially damaging global economic growth and increasing inflation."

Italian sovereign bonds remained choppy ahead of a presentation tomorrow by Giovanni Tria, Italy's finance minister, who will announce formal borrowing and growth targets ahead of the government's draft budget expected in October.

After an initial slide in yields, Italian 10-year bonds firmed at 2.87 per cent, down 7 basis points. The yield on two-year Italian debt fell 5bp, to 0.82 per cent.

The 10-year Treasury yield pulled back from a test of its 31.26 per cent high seen in May.

On Wall Street, the S&P 500 was up 0.1 per cent and confined to a narrow range. The oil sector was up 0.7 per cent and remains the best performing big sector this month, up 3.9 per cent.

Eurozone equity markets closed with modest gains. The Euro Stoxx 50 rose 0.3 per cent, led by tech and the financials sector. London's FTSE 100 rose 0.7 per cent and offset a firmer pound. The currency climbed 0.4 per cent to $1.3166, nearing $1.32 once more following a tumultuous last week after the EU's Salzburg summit.

Michael Ingram, chief market strategist at WH Ireland, said: "More positive news flow on Brexit coming out of Berlin and the backwash from Mario Draghi's hawkish take on eurozone inflation yesterday is supporting sterling and the euro respectively."

Kate Beioley

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	**S&P 500**	**Eurofirst 300**	**Nikkei 225**	**FTSE100**	**Shanghai Comp**	**Bovespa**
Level	2921.65	1505.56	23940.26	7507.56	2781.14	77788.02
% change on day	0.08	0.54	0.29	0.66	-0.58	-0.25
Currency	**$ index (DXY)**	**$ per €**	**Yen per $**	**$ per £**	**Rmb per $**	**Real per $**
Level	94.078	1.179	112.870	1.316	6.875	4.130
% change on day	-0.114	0.000	0.298	0.152	0.531	1.789
Govt. bonds	**10-year Treasury**	**10-year Bund**	**10-year JGB**	**10-year Gilt**	**10-year bond**	**10-year bond**
Yield	3.099	0.542	0.126	1.487	3.681	11.647
Basis point change on day	2.050	3.400	0.020	1.500	-1.100	2.600
World index, Commods	**FTSE All-World**	**Oil - Brent**	**Oil - WTI**	**Gold**	**Silver**	**Metals (LMEX)**
Level	347.76	81.85	72.08	1202.75	14.32	3013.20
% change on day	0.16	0.52	-0.28	0.34	-0.10	-0.40

Yesterday's close apart from: Currencies = 16:00 GMT; S&P, Bovespa, All World, Oil = 17:00 GMT; Gold, Silver = London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets

Biggest movers

%	US		Eurozone		UK	
Ups	Abiomed	5.54	Tenaris	5.52	Next	7.69
	Cf Industries Holdings	3.92	Saipem	5.34	Randgold Resources Ld	4.60
	D.r. Horton	2.65	Aegon	4.00	Just Eat	4.14
	Gartner	2.53	Ses	3.61	Glencore	3.48
	Mosaic (the)	2.52	Sap	3.42	Intertek	3.40
Downs	Centurylink	-8.08	Bay.motoren Werke	-5.39	Int Consolidated Airlines S.a.	-3.96
	Cboe Global Markets	-4.56	Lufthansa	-5.21	Easyjet	-3.44
	Smith (a.o.)	-4.51	Iliad	-3.87	Smurfit Kappa	-2.30
	Microchip Technology	-4.20	Evonik Industries	-2.70	Pearson	-1.80
	Qorvo	-3.49	Continental	-2.49	London Stock Exchange	-1.69

Prices taken at 17:00 GMT. Based on the constituents of the FTSE Eurofirst 300 Eurozone. All data provided by Morningstar unless otherwise noted.

Wall Street

Facebook shares were under pressure yesterday after the company confirmed the departure of the co-founders of its popular Instagram app.

The stock fell as much as 3.2 per cent ahead of the bell before trimming those losses to 1.6 per cent.

Instagram chief executive Kevin Systrom and chief technical officer Mike Krieger said late on Monday that they would leave the hugely popular photo-sharing app, which was acquired by Facebook for $1bn six years ago.

The sudden exit is widely seen as a blow for Facebook, which has seen the departure of a number of senior executives in recent months following a long-running controversy over fake news and data privacy.

Michael Kors confirmed it would buy Milanese fashion house **Versace** for €1.83bn ($2.12bn) including debt, in a move that would put the high-end label in the hands of a company best known for entry-level luxury. The deal marks the most ambitious attempt yet by Michael Kors to create a US rival to European luxury conglomerates LVMH, Kering and Richemont.

Its shares, which closed 8.23 per cent down on Monday, steadied yesterday, down 0.4 per cent. *Pan Kwan Yuk*

Eurozone

A survey showing confidence among French manufacturers had deteriorated in September, as industrialists cut their expectations about how much they would produce, sent the shares of some groups lower yesterday.

The manufacturing business climate index fell to 107 in September, below analysts' expectations of 109 in a Thomson Reuters poll. The figure was also down from August's reading of 110, the data published by national statistics agency Insee showed.

Business executives were slightly less optimistic about general production prospects for the sector, while the drop in expectations for their personal production was also more significant than that seen in August.

Earlier in September, a survey of French business executives found that optimism had slumped over the month, with economists at IHS Markit pointing to a "broad based slowdown" across both the manufacturing and services sectors.

Yesterday carmaker **Peugeot**, down 4.7 per cent, and construction company **Saint-Gobain**, down 0.7 per cent, were among French manufacturers to suffer losses, while others, such as **Airbus**, remained relatively flat, down just 0.3 per cent. *Camilla Hodgson*

London

Oil's four-year high helped pull the FTSE 100 to its best level in nearly a month, with **BP** and **Royal Dutch Shell** accounting for most of the daily gain.

But airlines including **EasyJet** and British Airways owner **IAG** were under pressure as worries about fuel costs exacerbated uncertainty around the implications of a no-deal Brexit.

Thomas Cook bounced off a five-year low that followed Monday's profit warning, which it blamed on the summer heatwave. Morgan Stanley said it did not expect the travel agent to breach debt covenants this year and argued that, even though 2019 earnings may not recover, the stock still looked cheap.

ITV jumped after a single block of 30m shares changed hands in mid-afternoon, equivalent to about 0.7 per cent of the total.

A profit warning from spread betting group **CMC Markets** sunk sector peers including **Plus500** and **IG Group**. CMC blamed low volatility and recently introduced European leverage limits.

Card Factory dropped after the retailer's interim results came with a smaller than expected special dividend.

Glencore was the top performer among the mining stocks after Morgan Stanley turned positive. *Bryce Elder*

Strong dollar will prove a problem for Trump as Fed turns the screw

John Plender

Markets Insight

Net short positions in US Treasuries are at record levels. Indeed, this must surely be one of the most crowded trades, perhaps the most crowded trade, in global markets. That would normally be a very good reason to question the underlying logic. But on this occasion I suspect the conventional wisdom might just be right.

The rise in Treasury yields, with the 10-year yield moving beyond 3 per cent, was driven initially by a marked rise in real yields after adjusting for inflation and technical factors including a change in the tax rules for pension funds. Yet the intensification of Trump's trade war with China is adding to bond market woes because tariffs will raise the prices of imports, with the resulting inflationary pressure leading to higher interest rates. There is a growing perception, too, that the war will be more protracted than many investors had assumed.

Equally important has been a change in perception about the intentions of the Federal Reserve. Hawkish rhetoric from Fed doves, most notably Lael Brainard, has forced markets to recognise that the Fed may play a tougher game in 2019 than most had assumed. While a rise in the policy interest rate is universally regarded as inevitable this week, the wording of the Federal Open Market Committee meeting will be forensically examined for evidence that the reassessment of Fed intentions is justified.

Meantime the labour market is changing gear. One of the more striking features of the post-crisis US recovery has been the way unemployment has fallen to its lowest level for 50 years without pushing up wages. That looks set to change. Recent data show pressure building amid signs of labour market shortages. Business everywhere is complaining about the difficulty of finding qualified workers.

Adding fuel to the fire is a fiscal policy that is clearly unsustainable. The increase in the growth rate under President Donald Trump owes a great deal to tax reductions and congressional approval for increased spending on defence and social programmes.

That growth has been won at the cost of a burgeoning fiscal deficit not far short of 5 per cent of gross domestic product in a full employment economy. With much the same relish for indebtedness that he showed in his real estate business dealings, Mr Trump has set the debt-to-GDP ratio for the US on a potentially Italian-style trajectory.

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All this amounts to a powerful case for bearishness and, to change the metaphor, taking away the punchbowl when the party is already going with quite a swing. Why, then, has the dollar recently weakened in circumstances where the yield pick-up in Treasuries is so obviously attractive relative to German Bunds, or Japanese and other developed world government IOUs? You could call it a conundrum but it is worth noting that if the trade surpluses of America's counterparties shrink, they will inevitably buy fewer US assets.

With China's economy slowing and its trade surplus declining markedly, there may be a hint of an explanation here, though note also in passing that the Chinese bilateral trade surplus with the US has still been hitting record highs, thereby further heightening trade friction between the two countries. Geopolitics may also be at work. Russia may not be alone in having significantly reduced its dollar-denominated reserves for fear that they could be frozen if the US steps up its sanctions.

Currencies always defy the best efforts of forecasters, so anything could happen. But this backdrop, with twin deficits redolent of the Reagan era, still looks conducive to dollar strength. If so, emerging markets will remain on the hook, hamstrung by excessive dollar-denominated debt. And Mr Trump will be in the uncomfortable position of fighting a trade war with an appreciating currency while confronting a Fed bent on tightening monetary conditions at a politically inconvenient time.

The president has already cautioned the Fed against further increases in interest rates. Robert Aliber of the University of Chicago argues it is inevitable that Mr Trump will threaten the Fed again, speculating he might suggest it should become a ward of the Treasury, as in the 1940s. I am sceptical. Such a move would almost certainly bring the bond vigilante movement back to life and raise government borrowing costs to an intolerable degree. Would even Mr Trump engage in so wild a move?

There will nonetheless be more pressure on the Fed from the White House, raising questions about whether the president could undermine the reserve currency status of the dollar. But even under this administration, the dollar, backed by the deepest government bond market in the world, is the best of a bad bunch beside the euro, yen or renminbi. There is no realistic alternative.

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