

Weekly Newsletter



MARKET OVERVIEW

EUROZONE

Eurozone inflation continued to slow down in January, with 1.20% YoY versus 1.40% in December.

UNITED KINGDOM

GDP continued to slow down, printing at 1.4% in Q4 versus 1.7% in Q3 mainly because of higher imports and weaker exports.

UNITED STATES

New houses sold fell from 643k to 593k in January after having peaked at 696k in November – a level last seen in 2007.

ASIA & EMERGING COUNTRIES

In Japan, retail sales disappointed, ending January at +1.6% versus an expected +2.4%. Industrial production printed at 2.7% versus a consensus of 5.3% in January.

THEME OF THE WEEK

China – Xi who must be obeyed

SUMMARY

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China – Xi who must be obeyed

Once again, Xi Jinping has proved to be one of the boldest Chinese leaders in recent history, seeking to extend his reign indefinitely. At its next meeting starting on March 5, the National Party Congress (NPC) will be asked to abolish the limit of two 5-year terms for the President, allowing Xi to remain in power beyond 2023.

This move stands in stark contrast with Deng Xiaoping’s legacy of gradual transmission of power by way of promotion of new generations at party congresses. Never since Mao has a Chinese leader gathered so much power: Xi Jinping currently rules his Party, the military and government.

A less apparent – but no less significant – shift is the Party’s increased meddling in state affairs, which further concentrates power in Xi’s hands and gives him more leeway to suppress any opposition. Since he assumed power in 2013, Xi has steered Chinese politics towards greater Party control, reduced freedom of speech online, and a more assertive stance on the global stage.

In addition, China has recently cracked down on some Chinese tycoons who had launched aggressive buyouts overseas. This reflects both the authorities’ concerns about the impact of high leverage and weak regulations on corporate stability as well as the Party’s tightening grip on the economy.

While this more autocratic approach could prove effective, it also increases the risks of missteps. On one hand, it should help reduce excess corporate leverage and move the economy up the value chain. On the other, it makes the decision-making process more dependent on the whims of single man, reducing the role of checks and balances embedded in the Party.

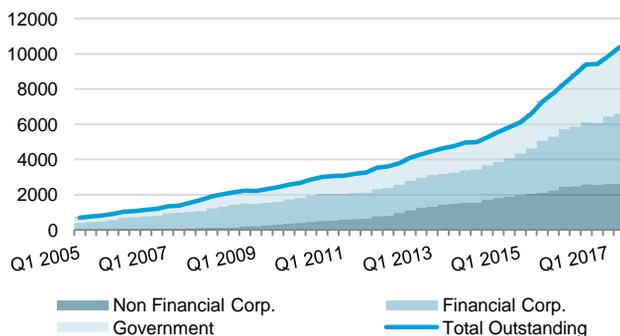
Donald Trump’s unilateral decision this week to impose tariffs on steel and aluminium imports may well trigger a response from China, even if the country is not a large exporter of either metal to the US. A tit-for-tat spat between the two superpowers is the last thing the global economy needs at present. It would exacerbate tensions within the World Trade Organisation but also on financial markets. China has already threatened to cut US Treasury bond purchases, and could also seek to weaken the yuan.

While the storm on trade could still blow over, the weather is turning cloudier in China and the authoritarian drift should encourage a little more caution on Chinese assets.

Source: Societe Generale Private Banking, Strategy, 02/03/2018

Debt inflation recorded in all sectors

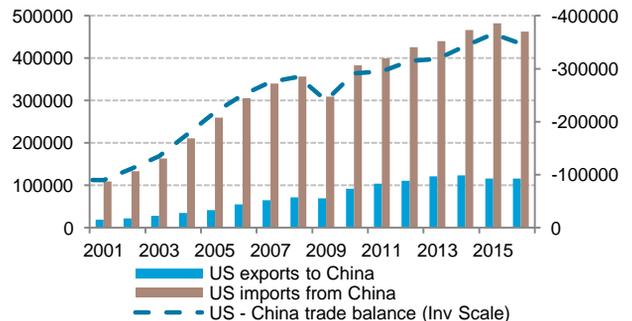
China debt per sector (USD billion)



Sources: SGPB, Thomson Reuters Datastream, 02/03/2018

Trade deficit continues to grow

US - China Trade (Million USD)



Sources: SGPB, Bloomberg, 02/03/2018

Market News

EUROZONE

Eurozone inflation continued to slow down in January, with 1.20% YoY versus 1.40% in December.

Consumer confidence eased down from 1.40 to 0.1 in February. However, the index remains above its historical standards.

Alike most economies, the eurozone is seeing manufacturing confidence ease down. The index eroded from 60.60 in January to 58.6 this month. Expectations were initially for a sharper correction.



No key event this week

UNITED KINGDOM

GDP continued to slow down, printing at 1.4% in Q4 versus 1.7% in Q3 mainly because of higher imports and weaker exports.

Manufacturing confidence declined in February, from 55.3 to 55.2.



No key event this week

UNITED STATES

New houses sold fell from 643k to 593k in January after having peaked at 696k in November – a level last seen in 2007.

Initial jobless claims beat surveys last week, printing at 222k while expectations were for 230k.

The leading indicator still bodes well for the US economy, with 1.0 in January versus 0.6 in December.

US GDP growth hit 2.50% QoQ in Q4.



This week's key events

7 Mar Trade balance (in bn\$)

Period Prev. Cons.

Jan -53.1 -52.5

ASIA & EMERGING COUNTRIES

In Japan, retail sales disappointed, ending January at +1.6% versus an expected +2.4%. Industrial production printed at 2.7% versus a consensus of 5.3% in January.

In China, manufacturing confidence fell from 51.3 in January to 50.3 in February.



No key event this week

Market Performance

MARKETS AT A GLANCE

Interest rates							Government bonds*						
	Last	1wk	3mth	YTD	12mth		1wk	3mth	YTD	12mth			
EONIA (EUR)	-36 bp	1 bp	→	-7 bp	-2 bp	-1 bp	United States (3-7yr)	0.4%	↑	-1.4%	-1.2%	0.0%	
3mth Euribor (EUR)	-33 bp	0 bp	→	0 bp	0 bp	0 bp	United Kingdom (3-7yr)	0.3%	↑	-0.9%	-1.0%	-1.3%	
3mth Libor (USD)	202 bp	8 bp	↑	53 bp	33 bp	93 bp	Germany (3-7yr)	0.2%	↑	-1.2%	-0.6%	-1.8%	
3mth Libor (GBP)	58 bp	2 bp	↑	6 bp	6 bp	23 bp	Japan (3-7yr)	0.0%	→	0.0%	0.0%	-0.1%	
10-year US Treasury bond	280 bp	-11 bp	↓	44 bp	39 bp	34 bp							
10-year German bond	64 bp	-1 bp	↓	34 bp	22 bp	36 bp							
10-year French bond	80 bp	-7 bp	↓	29 bp	13 bp	-14 bp							
10-year UK bond	149 bp	-8 bp	↓	23 bp	26 bp	37 bp							
Credit							Equities**						
		1wk	3mth	YTD	12mth		Last	1wk	3mth	YTD	12mth		
BAML EURO Corp. IG		0.18%	↑	-0.8%	-0.3%	1.9%	MSCI AC World	512	-1.2%	↓	2.1%	0.1%	17.0%
BAML EURO Corp HY		0.11%	↑	-0.4%	-0.3%	4.5%	Eurostoxx 50	3 399	-1.0%	↓	-3.3%	-2.7%	3.6%
BAML GBP Corp IG		0.37%	↑	-0.7%	-1.6%	2.0%	DAX	12 191	-2.2%	↓	-5.2%	-5.6%	1.0%
BAML US IG		0.44%	↑	-1.8%	-2.2%	3.1%	CAC 40	5 263	-0.9%	↓	-0.8%	-0.9%	9.5%
BAML US HY		0.04%	→	-0.2%	-0.5%	3.6%	S&P 500	2 678	-0.9%	↓	1.8%	0.5%	14.0%
JPM Global EM Sov. Plus		0.01%	→	-1.1%	-2.0%	6.4%	FTSE 100	7 176	-0.9%	↓	-0.8%	-5.9%	1.1%
							SMI	8 792	-2.0%	↓	-5.2%	-6.3%	5.2%
							Topix	1 740	-0.3%	↓	-3.0%	-4.2%	14.4%
							IBOV Brazil	85 378	-1.5%	↓	18.2%	11.8%	27.5%
							MICEX Russia ***	2 298	-1.7%	↓	9.1%	8.9%	11.6%
							MSCI EM	1 192	-0.7%	↓	7.3%	3.2%	30.3%
							SENSEX 30 India	34 047	0.7%	↑	3.8%	0.8%	19.0%
							Hang Seng (H-K)	31 044	0.3%	↑	7.0%	4.0%	35.5%
							Shanghai Composite	3 274	0.2%	↑	-1.3%	-1.0%	0.8%
Exchange rates							Commodities						
	Last	1wk	3mth	YTD	12mth		Last	1wk	3mth	YTD	12mth		
EUR/USD	1.23	-0.5%	↓	3.2%	2.1%	16.3%	Brent	\$64	-3.9%	↓	-0.4%	-4.3%	12.5%
EUR/CHF	1.16	0.5%	↑	-0.5%	-1.3%	8.6%	Gold	\$1 305	-1.8%	↓	1.7%	0.1%	4.8%
GBP/USD	1.38	-1.3%	↓	2.3%	2.0%	12.0%	Silver	\$16	-1.9%	↓	-0.6%	-4.1%	-11.5%
USD/JPY	106.24	-0.5%	↓	-5.2%	-5.7%	-6.6%							
USD/BRL	3.25	0.0%	→	-0.2%	-1.8%	5.2%							
USD/CNY	6.36	0.1%	↑	-3.9%	-2.3%	-7.6%							
USD/RUB	56.82	0.7%	↑	-3.5%	-1.5%	-2.5%							

Performance should not be seen as a guarantee of future returns. Source: Datastream, 02 March 2018, .

*Government bonds = 3-7 year returns. **Equities; total return in local currency. ***Price return for MICEX equity index.

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.

CURRENCIES & COMMODITIES

	Thursday close
EUR/USD	1.23
GBP/USD	1.38
USD/RUB	56.8
AUD/USD	0.78
EUR/CHF	1.16
USD/CNY	6.36
USD/CAD	1.28
USD/JPY	106
Brent	\$63.8
Gold	\$1305

Source: Datastream. On 02 March 2018, . Projections of future performance rely on internal calculations and the opinions of Societe Generale Private Banking can change anytime. Performance should not be seen as a guarantee of future returns.

** Starting from the publication day of the Letter.

Splitska banka structured products (pricing as of 02.03.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	92,19%
2	XS1202851223	5Y USD PHOENIX DOUBLE PLUS	Košarica rudarskih i naftnih kompanija	USD	4%/8% p.a.	14/05/2020	111,91%
3	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	100,55%
4	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	94,98%
5	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	96,54%
6	XS1334783617	AUD CAPPED & FLOORED FLOATER NOTE	AUD-BBR-BBSW	AUD	2,10% p.a.	29/04/2019	99,12%
7	XS1367217558	USD FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,50% p.a.	01/07/2021	97,56%
8	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	98,10%
9	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	98,72%
10	XS1574509565	3Y EUR PH+ SECURITY WORST OF 70% CA FP MEO GY BN FP 1.50% PQ 22042020	WO Carrefour, Metro, Danone	EUR	1,50% p.q.	22/04/2020	93,63%
11	XS1574472384	3Y EURQ PH + WO 50% HUI SX5E 1.10% PQ 21042020	WO Eurostoxx 50, HUI	EUR	1,10% p.q.	21/04/2020	94,96%
12	XS1706791214	3Y EUR PHOENIX PLUS 60% WO EDF BNP CO 1,91%	WO EDF BNP CO	EUR	1,91% p.q.	04/12/2020	93,20%
13							
14							
15							

Important: There is limited availability of structured products on secondary market so availability should be checked before every transaction.

Structured products bought on secondary market (pricing as of 02.03.2018.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1245190555	3Y EUR PHOENIX PLUS 75% SX5E 2,84% P.S. 03092018	EURO STOXX 50	EUR	2.84% p.s.	03/09/2018	99,28%
2	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	98,79%
3	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	97,75%
4	XS1472027330	2Y USDQ PH+ WO 70% BMW GY DAI GY VOW3 GY 3.24% P.Q. NC2Q 140119	BMW, DAIMLER, VOLKSWAGEN	USD	3,24% p.q.	14/01/2019	100,32%
5	XS1457486402	5Y USDQ PHOENIX PLUS 60% WO RDS FP 2,25% P.Q.	WO Total Royal Dutch Shell	USD	2,25% p.q.	12/01/2022	95,73%
6	XS1562505542	3Y USD PHOENIX PLUS 70% WO RDS FP 2,26% P.Q.	WO BAYER PFIZER	USD	2,26% p.q.	20/03/2020	92,42%
7	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q 12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	88,89%
8	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	95,14%
9	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	86,94%
10	XS1555620720	3Y USDQ PH+ STEP DOWN SEC WO 75% SLB XOM RDSA 2.36% P.Q.	WO Schlumberger, Exxon, Royal Dutch Shell	USD	2,36% p.q.	26/05/2020	93,88%
11	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	84,08%
12	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	96,58%
13	XS1596972668	3Y USDQ PH+ STEP DOWN WO 70% 9201 JT CHL UN BP LN 2.60% P.Q. 16062020	JT, CHL, BP	USD	2,60% p.q.	16/06/2020	91,46%
14	XS1570747094	5Y EURQ PH+ SD SC 75% NOVN SAN PFE ROG 2.12% PQ NC2Q 270622	WO Novartis, Sanofi, Pfizer, Roche	EUR	2,12% p.q.	27/06/2022	80,12%
15	XS1447122265	1Y EUR PHOENIX PLUS 70% VK	Vallourec	EUR	9,21% p.s.	09/03/2018	109,21%
16	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	86,82%
17	XS1622812326	2Y EUR PHOENIX PLUS WO 80% CS FP BNP FP INGA NA 7.62% P.S. 21082019	WO AXA, BNP, ING	EUR	7,62% p.s.	21/08/2019	88,32%
18	XS1599668289	3Y USD PHOENIX PLUS STEP DOWN 60% SX7E 3.82% P.S. 08092020	Eurostoxx Banks	USD	3,82% p.s.	08/09/2020	103,82%
19	XS1212347006	3Y EUR PHOENIX PLUS 50% 60% WO BNP CA 1.7%PQ 28052018 NC6M	WO Carrefour, BNP	EUR	1,70% p.q.	28/05/2018	93,17%
20	XS1586136464	1Y EUR PHOENIX PLUS 70% VK FP 7.80% P.S. 10052018	Vallourec	EUR	7,80% p.s.	10/05/2018	89,34%
21	XS1242978770	3Y EUR PHOENIX PLUS WORST OF 60% FR FP ML FP VOW3 GY 2% P.Q. 12062018	WO Volkswagen, Valeo, Michelin	EUR	2,0% p.q.	12/06/2018	94,00%
22	XS1620557394	5Y EURQ PH+ SECURITY WO 75% SX5E CAC SMI 1.02% P.Q. NC4Q 29092022	WO SX5E, CAC, SMI	EUR	1,02% p.q.	29/09/2022	94,78%
23	XS1513289469	2Y USDQ PH+ STEP DOWN WO 60% GG NEM ABX 2.40% P.Q. 17052019	WO Goldcorp, Newmont mining, Barrick gold	USD	2,40% p.q.	17/05/2019	86,90%
24	XS1669740976	3Y USDQ PH+ SD WO 70% 2914 JT DAI GY VOW3 GY 2.95% P.Q. 30102020	WO Volkswagen, Daimler, JT	USD	2,95% p.q.	31/10/2020	82,86%
25	XS1658366932	4Y EUR PH+ SD SEC WO 57% RWE EOAN ENGI 1,375% P.Q.	WO EOAN, ENGIE RWE	EUR	1,375% p.q.	07/12/2021	91,25%
26	XS1669454537	1Y EUR PH+ 75% STM FP 4,80% P.S.	ST Microelectronics	EUR	4,80% p.s.	20/11/2018	91,55%
27	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	94,06%
28	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	100,16%
29	XS1706665269	2Y EUR PHOENIX PLUS WO 80% CS FP RNO FP 16.35% P.A. 20122019	Renault, AXA	EUR	16,35% p.a.	20/12/2019	99,14%
30							

GLOSSARY

Accommodative Monetary Policy: when a central bank attempts to expand the overall money supply to boost the economy when growth is slowing by lowering the interest rate or by purchasing Treasury bonds.

Basis Points: A unit that is equal to 1/ 100th of 1% and used to denote the change in a financial instrument.

Bear: an investor who believes, for any technical or fundamental reason, that a security or the broader market will decline significantly. A bear takes the appropriate steps to limit losses during the period that they believe that the security will decline.

Ibovespa Index: The Ibovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

BoC: Central Bank of Canada

BoE: Central Bank of England

BoJ: Central Bank of Japan

CPI (Consumer Price Index): measures changes in the price level of a market basket of consumer goods and services purchased by households.

Credit risk: credit risk is the chance that a bond issuer will not make the coupon payments or principal repayment to its bondholders. In other words, it is the chance the issuer will default.

Deflation: a general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending.

EPS (Earnings Per Share): the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

ECB (European Central Bank): created in 1998, the European Central Bank determines the monetary policy to be adopted within the Eurozone. To do so, it has various means, in particular the key interest rates. The ECB is responsible for the single currency. Its main mission consists of maintaining price stability within the Euro zone.

EM/ EC (Emerging markets/ countries): markets/ countries in the process of rapid growth and industrialization.

Equity Risk Premium: The excess return that an individual stock or the overall stock market provides over a risk-free rate.

Eurostoxx50: A market capitalization-weighted stock index of 50 large, blue-chip European companies operating within eurozone nations.

Fed (Federal Reserve): central bank of the United States and controls the money supply.

FOMC (Federal Open Market Committee): The branch of the Federal Reserve Board that determines the direction of monetary policy.

Guaranteed capital: on maturity, a capital-guaranteed structured product repays a minimum 100% of the capital invested on expiry. However, the investor bears the risk associated with the issuer of a structured product. If the issuer defaults, there is a risk of loss of capital.

Hang Seng index (Hong-Kong Index): A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization.

Investment-grade bonds: a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

ISM Manufacturing Index: monitors employment, production inventories, new orders and supplier deliveries.

Issuer: in the case of a structured product, an issuer is an entity that issues and distributes investment products. An issuer may be a bank or a company created specifically for this purpose. In the case of a bond, an issuer is an entity (government, company, government agency etc.) that issues bonds and borrows the amounts required for its financing.

Long/ Short Strategy: An investing strategy of taking long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline.

Maturity date: in finance, maturity or maturity date refers to the final payment date of a loan or other financial instrument, at which point the principal (and all remaining interest) is due to be paid. The term fixed maturity is applicable to any form of financial instrument under which the loan is due to be repaid on a fixed date.

MSCI World Index: index designed to provide a broad measure of equity-market performance throughout the world. The Index is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

Overweight: An analyst's opinion regarding the future performance of a security. Overweight will usually signify that the security is expected to outperform either its industry, sector or, even, the market altogether.

P/B Value (Price/ Book value): a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

P/E ratio (Price/Earning ratio): the ratio [Share price/earnings per share] reflects the trading price of a share in relation to the expected earnings. As such, the higher this ratio, the more expensive the stock, and vice versa. Note: the P/E ratio also depends on profit growth; companies with high profit growth tend to have a higher P/E.

PMI composite : composite of five of the survey indices. These are New orders, Output, Employment, Suppliers' delivery times (inverted) and Stocks of purchases

PMI (Purchasing Managers Index): Economic indicator of the manufacturing sector.

Protected capital: a product with protected capital does not guarantee the repayment of all the capital invested on maturity. The main risk associated with this type of product is a risk of capital loss, linked to fluctuations in the capital markets. There is a risk part or all of the capital may not be returned, depending on the type of protection.

QE (Quantative Easing): An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

Quarterly Earnings Report: A quarterly filing made by public companies to report their performance. Included in earnings reports are items such as net income, earnings per share, earnings from continuing operations and net sales. These reports follow the end of each quarter. Most companies file in January, April, July and October.

S&P500 (SPX Index): An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Structured product: structured products are investment solutions comprised of a number of financial instruments. They combine one or more financial assets such as equities, currencies, interest rates etc. with a more sophisticated options component.

Topix stock index: an index that measures stock prices on the Tokyo Stock Exchange (TSE).

Underweight: An analyst's opinion regarding the future performance of a security. Underweight will usually mean that the security is expected to underperform either its industry, sector, or even the market altogether.

US Dollar Index (DXY): A measure of the value of the U.S. dollar relative to majority of its most significant trading partners.

Valuation: the process of determining the current worth of an asset or company.

Valuation metric: assessment method to determine the valuation of an asset such as the P/E for equities.

Volatility: volatility is a measure for variation of price of a financial instrument over time.

EXPLANATION OF RISK LEVELS

For example, risk level R1 corresponds to a defensive risk profile. These indicators are based on the 1-year 95% Value at Risk (VaR). VaR is a measurement of the maximum amount a portfolio could lose under normal market conditions over a given period with a given probability. If the 1-year 95% VaR amounts to x%, this means that there is a 95% probability that the portfolio will not lose more than x% of its value in one year.

Risk classification	0 Lowest Risk	1 Low Risk	2 Medium Risk	3 High Risk	4 - Highest Risk
Loss	There is a 95% probability that the product will not depreciate in value in one year.	There is a 95% probability that the product will not lose more than 5% of its value in one year.	There is a 95% probability that the product will not lose more than 15% of its value in one year.	There is a 95% probability that the product will not lose more than 30% of its value in one year.	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

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