



INCISIVE INVESTOR

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WEEK IN REVIEW: INVESTORS REMAIN FOCUSED ON A FED HIKE

Review of the week ended October 14, 2016

- **Fed poised to hike rates by year-end according to Sept minutes**
- **China's exports are falling**
- **Europe is staying steady**
- **Record production month for OPEC in September**

Equities slipped this week, weighed down by a firmer US dollar and rising long-term interest rates. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), rose to 15.2 this week from 13.4 a week ago. Oil prices held steady above \$50 per barrel for West Texas Intermediate crude. Global Brent held near \$52 per barrel. The yield on the US 10-year Treasury note rose to 1.76% from 1.73% last week.

The Dow 30 was down 1.2%, S&P500 was down 1.4% and the NASDAQ was down almost 2% for the week.

Groundwork has been laid for rate hike

The minutes of the September meeting of the FOMC, the US Federal Reserve's rate setting committee, show that several officials felt a rate hike is needed "fairly soon," and that a reasonable argument could be made for either an increase at

that (September) meeting or after receiving additional information on the labor market or inflation. The FOMC next meets in November, a few days before the presidential election. Most observers expect the committee to wait until the December meeting to hike rates.

Chinese trade hits weak spot in global growth

Chinese exports declined 10% in September, data released this week showed. Imports fell too, down 1.9% from the prior month. Weak global demand is blamed for the poor showing. Offsetting the trade gloom somewhat was the first rise in Chinese producer prices in nearly five years, reported Friday. Producer prices rose 0.1% year over year in September, ending a price slump that began in January 2012.

European economy holding steady

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Like the UK economy, the eurozone economy appears to be taking Brexit mostly in stride, and data released this week were mostly upbeat. German exports climbed 5.4% in August, the biggest rise since 2010. Investor confidence in Germany improved as well, with the ZEW index rising to 6.2 in October from 0.5 in September. Finally, eurozone industrial production beat expectations, jumping 1.6% in August.

OPEC producing at record rate

For all the talk of production caps, or cuts, in recent weeks, the reality is that OPEC has never pumped more oil than it did last month. According to the International Energy Agency, OPEC produced 33.64 million barrels of oil per day in September. World production peaked a year ago, at 97.2 million barrels per day, in September 2015. Over the past year, OPEC production has risen 900,000 barrels per day.

Retail sales in US match expectations

US retail sales rose 0.6% in September, while August sales figures were revised to -0.2% from an initial 0.3%. Combined with solid employment figures, this reinforces the idea that the Fed will hike rates before the end of the year. To illustrate the strength of the labor market, US weekly jobless claims this week held at their lowest level since 1973, when the economy and population were significantly smaller than today.

CORPORATE NEWS

Verizon considering opening Yahoo talks

Recent news that up to 500 million Yahoo email accounts were hacked could result in the renegotiation of Verizon's \$4.8 billion purchase of Yahoo. The revelation of the hack came after the deal was publicly announced.

THE WEEK AHEAD

- **The United Kingdom reports retail sales and consumer price data on Tuesday, October 18**
- **US CPI data is released on Tuesday, October 18**
- **China reports Q3 GDP on Wednesday, October 19**
- **The Bank of Canada's rate setting committee meets on Wednesday, October 19**
- **The European Central Bank's Governing Council meets on Thursday, October 20**