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PSI20 started the year with a rise of 1.51%

The PSI20 (main index of the Lisbon stock exchange) closed today (January 2nd) the first session of 2018 with a rise of 1.51% to 5,469.60 points, contradicting the trend of most European exchanges.



Of the 18 listed companies that make part of the PSI20, 14 went up, 3 went down and 1 remained unchanged. From all this companies, we have seen the highest increase in: Corticeira Amorim(+5.24% to 10.84€), Pharol(+4% to 0.26€), CTT(+3.68% to 3.63€) and Mota-Engil(+3.47% to 3.79€). On the other side we've seen them down, such as: EDP Renováveis(-0.67% to 6.92€), REN(-0.44% to 2.46€) and Jerónimo Martins(-0.03% to 16.19€). Ibersol's shares were unchanged at 12.15€. In the rest of Europe, such as London, Paris and Frankfurt finished in negative territory, with losses between 0.36%-0.52%.

Author: Gonalo Ormonde
Source: Not cias ao Minuto

Venezuelans expect a dim 2018

Venezuela has had an awful year in the matters of anything that remotely refers to the economy. The Venezuelan bond investors ranked the worst losses of 2017, which was a culmination of the drop in oil prices, Nicolas Maduro's plan to restructure national debt, and the disapproval of that same proposal from the international community in general and the Trump administration's sanctions that were put into place. It was bad year overall and it will definitely shadow most of 2018.

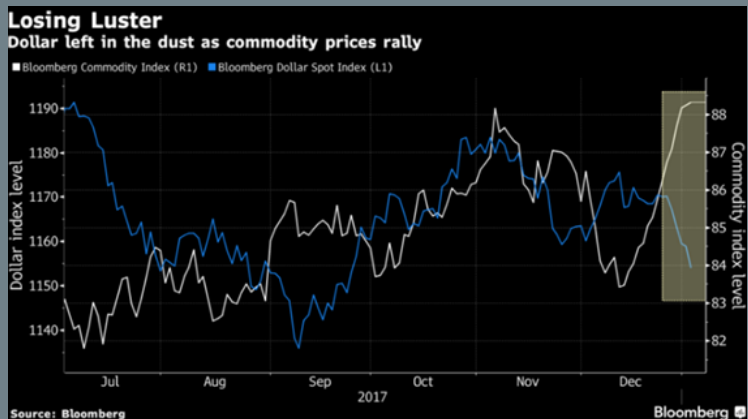
Venezuela goes underway leaving creditors wondering if they'll ever see the capital that they invested initially as the public oil company is behind with \$1.5 billion in payments and an additional \$9 billion in debt that comes due throughout these next 12 months.

Analysts predict that the probability of the country to go into default is around the 90% mark, so will Venezuelan government keep the struggle in trying to manage its debt despite being off the due dates? Or is this attempt not worth the social and quality-life sacrifices, as well as the emphasizing of the reduction in the nation's and region's economy?

Author: Bruno Borges
Source: Bloomberg

Jerusalem – Recognition as “Capital of Israel” Trump

As shown on our last Market Trends, the dollar is facing a difficult period the Euro has had its best year since 2003 against the dollar last year as European economies strengthened and amid growing expectations that the European Central Bank would wind down its monetary stimulus programme, meanwhile, as the U.S. currency fell against most major and emerging-market counterparts as the Bloomberg Commodity Index reached its highest level in about 11 months. Combined with reports showing strength in Chinese and European manufacturing, there is probably more pain ahead for the dollar as investors anticipate money flowing into other economies. When faced against major currencies such as the Euro, the U.S. Dollar saw a pretty stable week between 20th and 27th of December, right after that until December the 2nd the Dollar lost about 1,34%, the same happened with the AUD/USD where the Dollar lost about 2,12% in 10 days. Options are signalling that traders have started to prep for the possibility of greenback losses. The dollar's one- and six-month risk reversals against the euro, a barometer of positioning and investor sentiment, both rose to the highest in a month in anticipation of a weaker dollar. Even though President Trump's recent tax reform success, investors are not confident in the dollar. From British Pound to Swiss Franc, passing through Euro or Australian Dollar, all had gained some ground to the U.S. Dollar, as the New Year isn't looking like a perfect year for the U.S. Currency.



Author: Gonçalo Ormonde
Source: Bloomberg

Will Trump be able to deal with U.S Deficit?

It is almost certain that President Donald Trump couldn't minimize the U.S trade deficit last year.

The trade deficit surged in November to \$50.5 billion, the highest monthly level in almost six years, Commerce Department data showed on Friday. The deficit for last year summed up to \$514 billion, which surpassed the \$505 billion gap in all of 2016.

Trump promised to shrink the deficit, although as things start to tighten up, Trump is blaming Obama Administration for failing to fight unfair trade.

Trump will need the December data to show a surplus (on Trade Balance), something that is presenting to be unlikely.

On one hand exports increased last year under Trump, who wants to lure more production to the U.S. On the other hand, "imports grew even faster, as consumers and companies stepped up spending. It's a trend many economists expect to continue as the tax cuts passed by the Republican Congress take hold. The tax plan is expected to give the U.S. economy a short-term boost that may strengthen the dollar, making exports more expensive and widening Trump's loathed trade deficit." (Bloomberg, 2018)

Author: Fábio Zeferino
Source: Bloomberg

MARKET SUMMARY



MARKET REPORT - CAPITAL MARKETS

FTSE 100

The FTSE 100, the share index of the 100 companies listed on the LSE with the highest market capitalisation, surged as it closed last week at a new record high of 7,724.22 points. The index of leading UK shares rose by 0.37%, supported by the optimism about the economy and a rally in US stocks. The British pound continues to do quite well against the dollar, recording now its best level since September. Centrica, the British Gas owner, was the biggest winner - rising 3.1% - after being upgraded by analysts. On the other hand, insurance group Admiral felt the heaviest, dropping its prices by 2.9%. The overall bullish market trends are explained by the gentle recovery in economic growth and increasing demand for company's products across the major players of the world economy being America the most predominant, followed by the Eurozone, Japan and the Asian emerging markets.

Dow Jones Industrial Average

The Dow Jones Industrial Average is nowadays a top notch index, this past week we saw a history-making rise, with the index surpassing the 25,000 barrier for the first-time, reaching almost 26% in one year! The latest surge comes as Wall Street analysts raise their forecasts for a wide variety of companies, betting they will benefit from the strength of the global economy and a move by Congress to cut business taxes. Technology and energy companies led the charge this past week, the latter as anti-government protests in Iran sparked fears of oil disruptions and brutally cold weather fed demand for heating fuel. Alongside with the Dow Jones Industrial Average (Ticker: DJI) we saw the major indexes also notched record highs to kick off 2018. Stocks also had a strong year in 2017, with the Dow, S&P 500 and Nasdaq rising at least 19.4 percent. The

U.S. private sector added 250,000 jobs in December, ADP and Moody's Analytics reported before the opening bell. Economists polled by Reuters expected a gain of 190,000. U.S. Treasury yields moved higher after the report was released. The 10-year yield traded at 2.46 percent, while the two-year yield rose to 1.96 percent. With this latest data, the U.S. economy is in great health and with great expectations for the future.

Euro Stoxx 50

The EUSTX50's or Euro Stoxx 50 is an index of European listed shares designed by Stoxx Ltd, an index provider owned by Deutsche Börse and SIX Group. It contains the largest companies in Europe, such as Allianz, Deutsche Bank, Inditex, Repsol, Unilever and others.

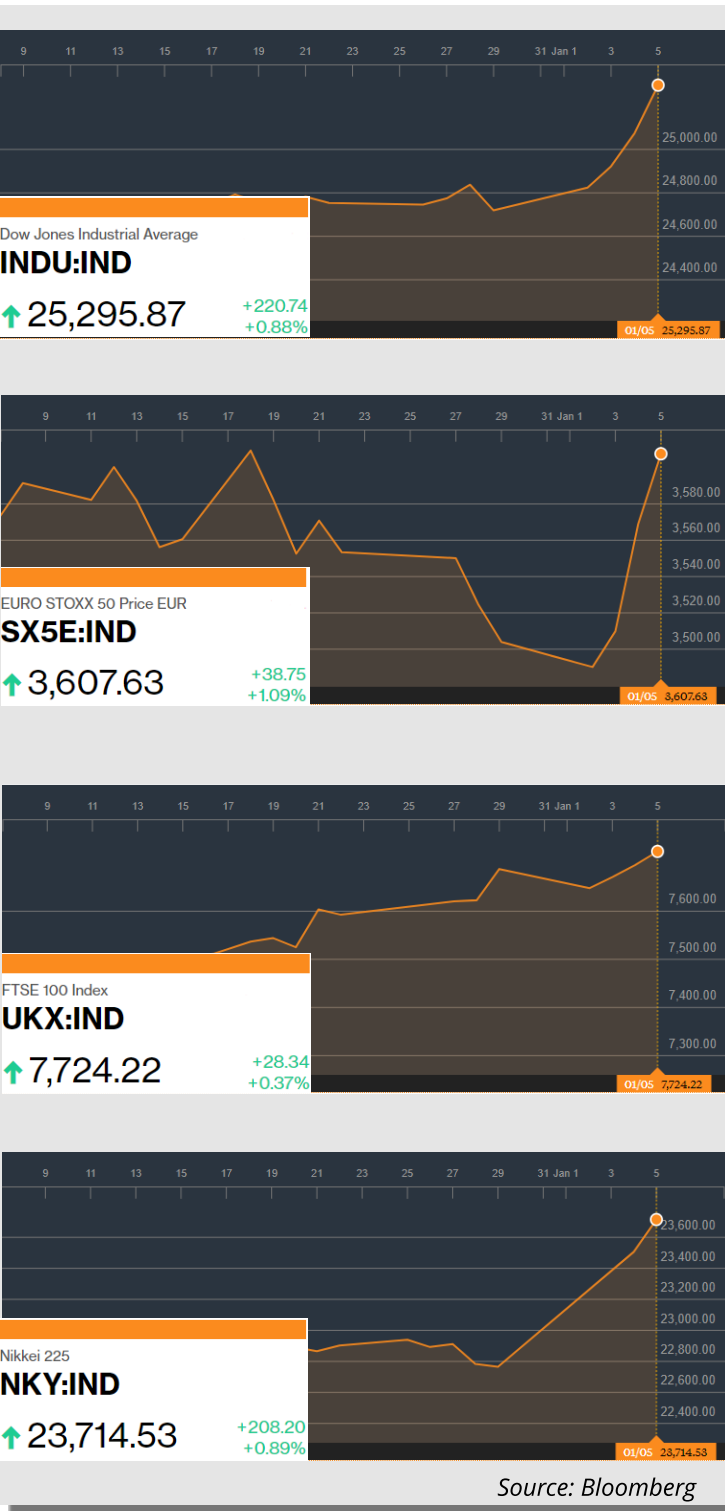
Returning on what was a massive fall, EURO STOXX 50 down around 125 points from 22nd to 29th.

Then this was inverted by the end of 2017, which finished around 3 510.00 (specifically 3 509.88). In the first days of 2018 is expected to increase, with some rise and falls, but regularly.

Nikkie 225

These past few weeks served to consolidate its position that was achieved near the 2017's peaks on November and early December. The charts are not providing much evidence on what the investors should do in the start of the year, mainly due to the fact that it has remained pretty neutral ever since. The fact is that the index remains high and it appears to be mirroring Wall Street. Alike other indexes, Nikkie 225 is having an amazing start of the year however, the excess of optimism may lead to larger corrections sooner than expected.

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MARKET SUMMARY



MARKET REPORT - CAPITAL MARKETS

OIL WTI

The first week of 2018 was the strongest opening week of any year for Oil since 2013. WTI Crude prices surged, closing at 61.44 USD a barrel, as refiners and exporters disposed of crude inventories in U.S. storage tanks. President Trump is seeking energy dominance and plans to open most U.S. coastal waters to new exploration, as the Interior Department unveiled, on January 4th, a draft proposal for leasing areas of the U.S. outer continental shelf for oil and gas drilling between 2019 and 2024. This draft is much more ambitious, both in scale and spread, than prior efforts and complications such as politics and time arise when it comes to capitalizing on America's federal waters. Regarding OPEC's Oil Deal (with a group of non-member countries) to limit oil supply, to drain excess inventories and boost prices, according to Bloomberg oil strategist Julian Lee, besides all the reasons suggesting that the deal will fall apart in 2018 are "certainly plausible, but the risks (for OPEC) are low.". Events such as the growing pressure that members feel to cheat the deal and U.S. shale production surge start to concern analysts and investors.

GOLD

Gold is having a fantastic run from mid-December until today, gaining almost 6,63%. The precious metal had its best year since 2010 last year, boosted by a weakening dollar and political tensions around the world. Now, despite cryptocurrencies such as bitcoin becoming more mainstream and the Federal Reserve projecting three interest-rate increases this year, some analysts expect the haven asset to continue building on last

year's 14% gain. When interest rates rise, gold often struggles to compete against yield-bearing assets like Treasury's. However, some investors doubt that the Fed will stick to its forecasts and remain wary of market risks ranging from North Korea to Iran. They project that gold will keep climbing after it gained in 11 of the past 12 sessions of 2017. The precious metal, broke some well-known barriers at the 1270 and 1300, to a really impressive rally. We are awaiting to see what will happen and if the 1350 barrier will be broken to a new high since July 2016.

GBP/USD

The GBP/USD Exchange rate this week had a significant rise from 1,3400 to the present value of 1,3521. In January 3rd 1 pound is equal to 1,3521 dollars, according to this graphic above from Investing.com. In general, since December 28th, we can see a total rise of around 250 points until the middle of the third day of January and an ending short fall to the recent value of 1,3521.

USD/JPY

USD/JPY recently failed close to where its last foray sputtered. December 21's intraday peak of 113.65 marks the recent high and nearly matches that of the previous mid-December's 113.74. The Dollar has spent the last days of December in decline, but the bears have been checked by support in the 112.05 region which was where the last significant slide met its end on 14th of the last month. In the last days there seems to have had the expected recovery.





Ana Tostão

Macroeconomic
Researcher

The latest developments in this area occurred when Martin Schulz, leader of Germany's Social Democratic party and former President of the European Parliament, mentioned that he wants a referendum to create United States of Europe by 2025, eight years from now. He called for it in a speech at the SPD's party conference in Berlin and then, on Twitter, he wrote: "I want a new constitutional treaty to establish the United States of Europe. A Europe that is no threat to its member states, but a beneficial addition"

United States of Am... Europe!

Maybe you have already heard about the "United States of Europe". But where did this idea come from? Who supports it? What does it even mean?

The Lisbon Treaty started as a constitutional project at the end of 2001 and it was finally signed on 13 December 2007 at the European Council of Lisbon, having now 10 years of existence. This Treaty has been ratified by all Member States. It establishes a base of cooperation and also aims to enhance citizens' participation and protection, to create a new institutional set-up and to modify the decision-making processes in order to increase efficiency and transparency. But was this treaty the first step to create a federal union? Does Europe really need a political and budgetary union?

The latest developments in this area occurred when Martin Schulz, leader of Germany's Social Democratic party and former President of the European Parliament, mentioned that he wants a referendum to create United States of Europe by 2025, eight years from now. He called for it in a speech at the SPD's party conference in Berlin and then, on Twitter, he wrote: "I want a new constitutional treaty to establish the United States of Europe. A Europe that is no threat to its member states, but a beneficial addition", but the controversial part came later when he said "Such a constitutional treaty has to be written by a convention that includes civil society and the people. This constitutional treaty will then have to be put to the member states and those that don't approve it will automatically have to leave the EU". Mr. Schulz wants EU member states to agree a new "constitutional treaty" to establish a federal union and those who are against it would have to leave the bloc.

Afterwards, in statements to Deutsche Welle, Schulz mentioned this topic again: "Discussing — especially after Brexit — how the remaining 27 EU states can improve the basis of the cooperation that's the Lisbon Treaty, which is visibly not sufficient for solving a lot of problems we have internally, and international relations. That's what I mean with the United

States of Europe", referring also that "It wouldn't be a kind of United States of America on European soil".

In the speech referred above he stated as well the SPD social democrat's conditions to agree to enter into negotiations to form a governing coalition with Angela Merkel (CDU). This attempt to build Germany's next government follows the last one, which involved CDU, the Free Democrats and the Greens — 'Jamaica' allies — and ended up failing. However, senior leaders of Angela Merkel's conservative bloc, including Alexander Dobrindt, criticized Schulz and his European ambitions, accusing him of "radicalism". Volker Kauder, the head of the CDU group in parliament, see this proposal as danger to the EU: "The proposal would pose a risk to a work of unification that is unique in world history because a majority of member states could not be part of a project to create a United States of Europe".

Many of the changes that Mr. Schulz suggests follow the proposals for EU reform made by the French President Emmanuel Macron, such as the need for a EU finance minister.

Nevertheless, not all of the reactions were negative: Guy Verhofstadt, the European Parliament's Brexit coordinator, agreed with Martin Schulz and, in tone of agreement, made reference to the title of his first book "The United States of Europe".

If Europe in 2025 will be different from the one we know today and whether it will have the contours proposed by Mr. Schulz remains an open question. Will EU lose more member states apart from UK after Brexit? Or will we reach a consensus with which all members agree?



Pedro Diogo

Asset Manager &
Researcher

During the second half of the nineteenth century Catalonia developed, together with the Basque Country, a powerful industrial sector. Nowadays, Catalonia has not only a strong industrial sector but also a powerful services sector particularly in the banking and tourism areas. Catalonia accounts for 18% of the Spanish population but produces more than 20% of its GDP. Catalonia attracted 36% of the foreign investment to Spain in 2015 and also 34% of the Spanish exports come from Catalonia. However the biggest question is that the country receives pays much more in taxes, 21%, than what receives from the central government. This creates in some Catalans the sense that they are paying for all the Spanish spending while receiving too little in return.

Which future for the Catalan Independence process?

The year of 2017, in terms of political events, was marked by the Catalan independentist process that culminated with the October 1th referendum on independence and on the regional elections of December 21st. The referendum and the regional elections for the Parliament revealed a divided society between one group that wants Catalonia to stay as part of Spain and another that seeks the independence from Spain.

To understand why this process is happening it's essential to know the reasons behind it

The reasons behind this process are a mixture of cultural, economical and political reasons. From a cultural perspective the main argument is the Catalan language that separates Catalonia (and also the Valencian community and the Balearic Islands) from the rest of Spain although Catalonia has also some other cultural differences like the Sardana dance or the Castell tradition. From a political (and historical perspective) Catalonia was until 1714 part of the Aragon Crown and in spite of the fact of the capital being in Zaragoza, Barcelona was the leading cultural, administrative and economic centre. The region also has since many centuries ago a great sense of national identity and they had several revolts against the Crown.

The last argument for the independence of Catalonia is related with the economic power of the Catalan region. During the second half of the nineteenth century Catalonia developed, together with the Basque Country, a powerful industrial sector. Nowadays, Catalonia has not only a strong industrial sector but also a powerful services sector particularly in the banking and tourism areas. Catalonia accounts for 18% of the Spanish population but produces more than 20% of its GDP. Catalonia attracted 36% of the foreign investment to Spain in 2015 and also 34% of the Spanish exports come from Catalonia. However the biggest question is that the country receives pays much more in taxes, 21%, than what receives from the central government. This creates in some

Catalans the sense that they are paying for all the Spanish spending while receiving too little in return. Presented with this scenario, some people think that an independent Catalan may be capable of providing a better living standard to its inhabitants because it doesn't have the poor regions of Spain as a burden. However the results of the independence referendum, in which the yes won with 90% of the votes, created turmoil within the business sector with several companies moving their headquarters from Catalonia to other regions of Spain such as CaixaBank, Banco Sabadell, Abertis or Gas Natural Fenosa.

Presented with this scenario the Catalan independentists will need to explain how they would be able to regain the trust of investors and companies to avoid more exits and bring some of the company's headquarters back to Catalonia. However unionists need to be able to protect Catalan culture in all its dimensions to avoid looking to Catalonia as another region of Spain. A solution for this conflict is difficult but it will have to be solved through dialogue between the two parts so the independentists won't seek the path of the unilateral independence and the unionists, especially the PP and Ciudadanos cannot continue turning a blind eye to the nationalist sentiment in Catalonia and try to solve the

problems by arresting Catalan leaders and beating Catalan voters. Finally, because this question is not only a Spanish question but also an European question, the European Union should play an important mediator role between the two parts trying to find common ground with which the two parts can reach some sort of agreement, in order to build a new future for Catalonia.

Realistically though, it is difficult to conceive a long-lasting solution for this conflict in the next years since the Spanish unionist parties are unlikely to moderate themselves and the nationalist sentiment in Catalonia is unlikely to fade away significantly but maybe new faces in the Spanish and Catalan politics can turn their relations more peaceful.

**João Gil**

Macroeconomic
Coordinator

I would say that the first stop would be changing the way that we look at Economics and at society. The whole idea of a perfect rational utility-maximizer with well-behaved consumer preferences can be far from reality. The whole idea that we can reduce complex human behavior and choices into spreadsheets that tell us that we need to reduce government spending on Health or that we need to cut wages is dangerous. Economics is not sufficient to explain human behavior alone and should be used with other sciences. In some way, we can say that economics needs to be re-invented. To be improved, worked on.

A case for Social Justice

The case for social justice is one of the most important issues that we face today. Striking inequality, the rise of populism and general discontent can be used to describe today's world. Just as we could 80 years ago, and before any major paradigm change. We know for sure that a conflict within a society is a dangerous tool capable of creating havoc and destruction. We have seen examples of this happening in our recent human history. Forcing society into a corner and past the point of no return is a dangerous thing to do. It usually never really ends well. So how can we really argue for the case of social justice? How can we build a tighter and stronger society, as a whole?

One could be tempted to believe that markets are efficient and that Adam's Smith self-interest would compel markets to achieve the best possible allocation. However, this is not the norm. We observe that various aspects such as market failures caused by externalities and asymmetry of information causes a system where individuals maximize their welfare, while social welfare often gets neglected.

What about the socialistic idea? One could be compelled to believe that central planning might hold the answer to a more fair and better system that improves social welfare. However, how can we ever be sure that a certain group of people knows what is best for the rest of us? We have seen previous extreme examples of this throughout history with the rise and fall of dictatorships. Thus, again, we remain with the dilemma of social justice and how can we develop society as a whole.

Unfortunately, I do not know the answer, nor does any of us for that matter. All we have are tools such as policy making, influential ideas and past experience of what works and what doesn't. For the matter, I would say that the first stop would be changing the way that we look at Economics and at society. The whole idea of a perfect rational

utility-maximizer with well-behaved consumer preferences can be far from reality. The whole idea that we can reduce complex human behavior and choices into spreadsheets that tell us that we need to reduce government spending on Health or that we need to cut wages is dangerous. Economics is not sufficient to explain human behavior alone and should be used with other sciences. In some way, we can say that economics needs to be re-invented. To be improved, worked on.

This could be achieved by for example field-study. The reality of the world, showed by both its beauty and flaws needs to be known and integrated into what the textbooks teach. There must be a better distribution of resources and allocations that produces a better and fairer wealth distribution for society as a whole. Pareto-efficiency is necessary, but can never be a sufficient condition for a resource allocation. Without better criteria, all we are left with is striking inequality and a dangerous rift in society. And who knows, maybe this is what's causing the rise of extremism. For that sake, the idea of selfishness promoted on textbooks needs to be left behind. Aristoteles stated that humans are social creatures and throughout history cooperation has been both crucial and necessary for our survival. How is today any different? We need to be aware that mutual cooperation might lead to better outcomes thus improving welfare on all ends of society.