

“An investment in knowledge always pays the best interest.”

Benjamin Franklin

## TOP STORIES

### Canada, Mexico first to retaliate against US tariffs

Canada and Mexico have responded to US tariffs on steel and aluminum by imposing tariffs on a wide range of US imports, while the EU also plans to respond with retaliatory tariffs. Many congressional Republicans have denounced the US tariffs.

Reuters (6/1)

### Initial US unemployment claims fall more than forecast

First-time jobless claims in the US dropped 13,000 last week to 221,000. Economists surveyed by MarketWatch had expected 225,000 new claims.

MarketWatch (5/31)

### Investors watch for ECB response to Italy's troubles

Investors are awaiting a response from the European Central Bank to market turmoil stemming from Italy's political instability, which has prompted the country's heaviest bond sell-off in 26 years. "If this continues for another couple of sessions, I think you will have to see some official [European] response," says John Hardy, head of foreign exchange strategy at Saxo Bank.

Reuters (5/29)

### Airbnb could conduct IPO next year, CEO says

Airbnb will be prepared for an initial public offering in 2019, CEO Brian Chesky says, although no decision has been made on whether to go public then. The company was valued at \$31 billion when it completed a funding round in March 2017.

Fox Business (5/30)

### Fed: Factory activity picking up across US

The Federal Reserve's Beige Book reports accelerated factory activity in more than half of the Fed's 12 districts. Manufacturers are most concerned tensions between the US and trading partners could increase tariffs, the report says.

Reuters (5/30)

## KNOWLEDGE BANK

**“The government has been unable to borrow to cover its massive fiscal deficit, which is estimated to be 15.6% of GDP in 2017. It has resorted to printing money to fill the hole, driving M2 growth of nearly 4,000% y-o-y as of end-April 2018.”**

INDEX	Last Price	YTD	Weekly	Weekly
	18-May-18	Return	Return	Change
<b>GLOBAL STOCK MARKETS</b>				
TTSE Comp	1,237.64	-2.27%	-0.08%	▼
S&P 500	2,712.97	1.47%	-0.54%	▼
DOW	24,715.09	-0.02%	-0.47%	▼
NASDAQ	7,354.34	6.53%	-0.66%	▼
LONDON	7,778.79	1.18%	0.70%	▲
PARIS	5,614.51	5.68%	1.31%	▲
FRANKFURT	13,077.72	1.24%	0.59%	▲
MUMBAI	34,848.30	2.32%	-1.93%	▼
HONG KONG	31,047.91	3.77%	-0.24%	▼
SHANGHAI	3,193.30	-3.44%	0.95%	▲
TOKYO	22,930.36	0.73%	0.76%	▲
SYDNEY	6,087.36	0.37%	-0.47%	▼
<b>GLOBAL BOND MARKETS</b>				
INVESTMENT GRADE BONDS	538.04	-1.11%	-0.52%	▼
EMERGING MARKET BONDS	521.56	-5.48%	-0.99%	▼
<b>COMMODITIES</b>				
OIL	71.28	17.97%	0.82%	▲
GOLD	1,288.30	-0.21%	-2.72%	▼
<b>CURRENCY/ RATES</b>				
CAD-USD	0.78	-2.44%	-0.69%	▼
GBP-USD	1.35	-0.33%	-0.54%	▼
EUR-USD	1.18	-1.94%	-1.43%	▼
USD-JPY	110.78	-1.69%	1.27%	▲

## INVESTMENT INSIGHT

### Venezuela - Next Government Will Implement Drastic Reforms

BMI View: A successor government to the PSUV in Venezuela will likely implement a variety of reforms in its first year in office, such as significant spending cuts, changes to the exchange rate regime and a renegotiation of the country's debt. However, there are significant political risks to reform efforts and do not expect reforms to result in a fast revival of economic activity.

It is expected that the current Partido Socialista Unido de Venezuela (PSUV) to be removed from power by end-2018, leading to a transition period before new elections are held.

It is likely that new Government will implement a series of macroeconomic reforms in roughly its first year in power. Some of the possible major policy changes include:

- Opening a channel to humanitarian aid: one of the first steps likely be taken by the new Government will be to allow outside assistance into the country given the recent poor living conditions in Venezuela. The provision of food and medicine to the population is likely to be viewed as the first critical step before additional reforms can be attempted.
- Cut the budget deficit to combat hyperinflation: the most likely policy response to address this is by considerable reductions in the budget deficit via expenditure cuts. Supposing that the country dollarizes or adopts a currency board, it will face a hard budget constraint forcing them to reduce spending.
- Adjust the exchange rate regime: Substantial changes will also need to be made to the country's exchange rate regime. The official exchange rate was VEF80,000/USD as of May 31. The new Government may choose to retain the Bolivar and either float or peg the currency enabling it to reach market equilibrium, adopt another currency like the U.S. or create a currency board. A significant fall in the country's fiscal deficit coupled with exchange rate changes can help to slow inflation.
- Renegotiate its debt burden: It is likely that Venezuela's creditors would be willing to enter into talks about negotiations with the goal of delaying future payments from both the sovereign and national oil company, PdVSA and reducing the principal the country must repay.
- Drastically increase imports: A new government will seek to increase Venezuela's imports in order to increase raw materials for domestic businesses and improve the current humanitarian crisis. Recently, the present government has adopted a policy of import repression in order to hoard hard currency to repay Venezuela's debt obligations.

Even though these policy changes are likely to put Venezuela back on a positive economic trajectory, it is important to note that sustainable growth will be unlikely for several more years.