

Week ending 18 March 2018

Market Moves

- Global equity markets edged lower over last week. Persistent fears over the impact of protectionist US trade policies on global trade and political uncertainty over the change of personnel in the White House troubled investors. The MSCI AC World Index fell 0.4% in local currency terms and 0.9% in sterling terms. Japan was the best performing region both in local currency (1.2%) and sterling terms (1.7%) whilst the US was the worst performing region both in local currency (-1.2%) and sterling terms (-1.5%).
- UK gilt yields fell across all maturities over the week, in line with movements in government bond yields of major developed markets. The 10 year UK gilt yield fell by 6bps to 1.46% and the 20 year UK gilt yield fell by 12bps to 1.80%. The 10 year US treasury yield ended 5bps lower at 2.85% as weaker retail sales data resulted in lowered US growth expectations. European government bond yields fell over the week due to sluggish Eurozone inflation data and dovish comments from the European Central Bank (ECB) president Mario Draghi. Mr. Draghi reiterated that monetary policy will stay unchanged until the ECB makes sufficient progress towards its 2% inflation target. Both German bund yields and French government bond yields fell by 8bps to 0.57% and 0.70% respectively.
- Both the UK 20 year real yield and the Over 5 year real yield fell by 8bps each to -1.59% and -1.60% respectively. 20 year breakeven inflation fell by 3bps to 3.35%.
- Credit spreads widened over the week. The US high yield bond spread over US treasury yields rose by 7bps to 360bps. The spread of USD denominated EM debt over US treasury yields finished the week 6bps higher at 292bps. The sterling non-gilt spread over government yields (based on the Merrill Lynch index) rose by 3bps to 109bps.
- The S&P GSCI was unchanged in USD terms over the week. The energy sector rose by 0.9% as the price of Brent crude oil increased by 0.9% to US\$66/BBL. Industrial metals decreased by 1.1% as copper prices too decreased by 1.1% to US\$6,864/MT. Agricultural prices fell by 1.8% and gold prices fell by 0.6% to US\$1,314/ounce.
- Sterling appreciated against major currencies (except for yen) over the week. The US dollar depreciated by 0.4% against sterling, ending the week at \$1.39/£. The euro weakened by 0.7% against sterling, finishing the week at €1.13/£. The Japanese yen appreciated by 0.8% against the US dollar, ending the week at ¥106.10/\$.

Economic Releases

- A further positive US jobs report and inflation figures published over the week enhanced the likelihood of an impending rate hike by the US Federal Reserve. Initial claims for state unemployment benefits dropped 4,000 to a seasonally adjusted 226,000. US inflation picked up in February, albeit at a slower pace than the 0.5% jump experienced in January. The Consumer Price Index (CPI) rose by 0.2% over February, in line with analyst forecasts. In the twelve months to February, CPI increased 2.2%, ticking up from 2.1% previously. Consumer sentiment in the US, as measured by the University of Michigan consumer sentiment index, reached a 14-year high of 102 in March, from 99.7 in February, topping the consensus economist forecast of 99.3. However, retail sales unexpectedly fell for the third consecutive month in February, despite Trump's recent tax cuts, declining 0.1%. Analysts had forecasted a 0.3% growth in sales. Industrial production bounced back in February, with output unexpectedly increasing 1.1% from the prior month's downwardly revised 0.3% decline. Housing market data showed a slowing of construction over February as new housing starts fell 7% for the month to a seasonally-adjusted annual rate of 1.2m units.
- Economic data releases in the UK were light over the week. In the Government's Spring Statement, the 2018 GDP growth forecast was increased slightly to 1.5% whilst inflation is now expected to fall back from 3 to the Bank of England's target of 2% over the next year. There were also downward revisions to government borrowing forecasts. The Conference Board Leading Economic Index (LEI) remained unchanged in January 2018 at 98.2, the Coincident Index increased 0.2% in January to 101.7. Data on UK labor costs reported the fastest pace of growth in over two years, the cost of employing someone for an hour of work rose 3.7% in the fourth quarter of 2017 compared with a year earlier, up from 3.1% in the previous period.
- There was also little in the way of Eurozone economic releases over the week. Final Eurozone inflation data for February was lower than expected, measuring 1.1% over the year, shy of original forecasts of 1.2%. Month-on-month inflation was confirmed at 0.2% for February. Final inflation for Germany in February was confirmed at 1.4% over the year, and 0.5% over the month. Meanwhile, Eurozone industrial production in January unexpectedly declined by 1.0% over the month, down from 0.4% growth previously, and analyst forecasts of a 0.5% decline.
- In Japan, industrial production fell by 6.8% in January, greater than the initially reported 6.6% decline. However, core machine orders recovered in January, to grow by 8.2%, up from the revised 9.3% decline in the previous month and ahead of consensus estimates of 5.2% growth. Over the year to February, the producer price index increased by 2.5%, in line with economists' forecasts but marginally slower than the previous month's report of 2.7% growth. The Tertiary Industry index moved 0.6% lower in January, overshooting the expected fall of 0.3%.
- In China, industrial production grew by 7.2% for the year to February, up from 6.6% in the previous month and above forecasts for 6.2% growth. Fixed asset investment in urban regions also grew, increasing by 7.9% for the year to February, from the prior month's 7.2% increase. However, retail sales growth over the year to February marginally missed expectations, increasing 9.7%; slightly down from 10.2% growth reported in January.

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