# UK Week in Markets

Week ending 21 April 2019

# Key News and Events

- Progress continued to be made between the US and China in the ongoing trade dispute. However, new trade tensions emerged; this time between the US and EU in the long-running dispute of EU subsidies for Airbus and US subsidies for Boeing. Both the US and EU have announced a list of potential retaliatory tariffs. This comes amidst repeated threats from the US to impose additional tariffs on EU car exports.
- Elsewhere, the US has re-imposed sanctions on Iranian oil, removing waivers from US sanctions that had been granted to some of Iran's largest customers. The US is now demanding countries no longer import any oil from Iran. Brent crude initially jumped above $74/bbl as markets factored in the impact of reduced Iranian supply.

# Market Moves

- Global equity markets rose over the week as positive economic data from China helped in lifting investor sentiment in what was a holiday-shortened week due to Easter. The MSCI AC World Index rose by 0.3% in local currency terms and rose by 0.8% in sterling terms. The Financials sector was the best performer (+1.3%) in local currency terms. The Healthcare sector was the worst performer (-3.8%) in local currency terms as reports suggesting that political parties in the US are supporting tighter regulation in the Healthcare sector weighed on the sector.
- European equities were the best performing region in local currency terms (+1.3%). US equities were the worst performing region in local currency terms (-0.1%), dragged down by poorly performing Healthcare stocks (-4.5%). Japanese equities were the best performing region in sterling terms (+1.6%). UK equities were the worst performing region in sterling terms (+0.3%).
- The 10-year gilt yield fell by 1bps to 1.20% and the 20-year gilt yield fell by 1bps to 1.64%. 10-year US treasury yields were unchanged at 2.56%. German bund yields fell by 3bps to 0.02% and French government bond yields fell by 2bps to 0.37%. Italian government bond yields rose by 7bps to 2.45% as concerns over Italy breaching the European Union budget deficit rules following hold-ups in planned privatisation of state assets led to a bond sell-off.
- The Over 5-year real yield rose by 1bps to -1.70% and the UK 20-year real yield rose by 3bps to -1.82%. 20-year breakeven inflation fell by 3bps to 3.46%.
- The US high yield bond spread over US treasury yields rose by 5bps to 373bps over the week. The spread of USD denominated EM debt over US treasury yields fell by 1bp to 344bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 2bps to 124bps over the week.
- The S&P GSCI index fell by 0.3% in USD terms over the week. The S&P GSCI Energy index was unchanged as the price of Brent Crude oil was unchanged at US$72/BBL. Industrial metal prices fell by 0.7% as copper prices fell by 0.6% to US$6,448/MT. Agricultural prices fell by 1.5% and gold prices fell by 1.4% to US$1,276/Oz.
- Sterling depreciated by 0.4% on a trade-weighted basis over the week. Sterling weakened by 0.7% against the US dollar and fell 0.1% against the euro, ending the week at $1.30/£ and €1.16/£. The US dollar decreased by 0.1% against the Japanese yen, ending the week at ¥111.89.

# Economic Releases

- In the US, the provisional April release of the Manufacturing Purchasing Managers' Index (PMI) remained at 52.4, underperforming expectations of a modest increase to 52.8. The Services PMI disappointed with the index falling from 55.3 to 52.9, a much larger than expected decrease versus expectations of a 0.3-point decrease. On a more positive note, retail sales increased by 1.6% in the month of March, well ahead of the 1.0% increase expected and the 0.2% contraction seen in the previous month, posting the largest monthly increase since September 2017. The trade deficit in February narrowed to $49.4bn from $51.1bn previously, beating expectations of a widening deficit of $53.4bn. The fall in trade deficit was predominantly driven by a reduction in imports from China and a surge in aircraft exports. Elsewhere, the Philadelphia Fed Business Outlook dropped to 8.5 in April, down from 13.7.
- In the UK, annual consumer price inflation remained at 1.9% in the year to March against expectation of it edging up to the Bank of England's (BOE) target rate of 2.0%. Both the Core Inflation rate and the CPIH (the ONS's preferred measure of inflation which includes housing costs) remained at 1.8% over the same annual period, against expectation of the inflation readings printing 1.9%. The unemployment rate continued at a 44-year low of 3.9% as expected. Nominal wages grew by 3.5% in the three months to February, meeting expectations and matching the upwardly revised 3.5% growth recorded in the previous month. Retail sales rose by 1.1% in March, well ahead of the upwardly revised 0.6% growth in the previous month and 0.3% contraction expected by analysts. However, according to the BOE figures, credit card defaults have risen to the highest level in almost two years, undermining signs of current economic strength exhibited by retails sales growth.
- Euro Area Markit Manufacturing PMI March Preliminary reading rose to 47.8 from 47.5 but remains in contraction territory. The German manufacturing sector also remained deep in contraction territory despite the PMI rising to 44.5 from 44.1 as a steep decline in new export orders, the second-fastest in 10 years, pulled down new business orders. Both readings were below analyst expectations for an improvement to 48.0 and 45.0 respectively. In Europe, the ZEW Indicator for Economic Sentiment rebounded to 4.5 in April from -2.5 recorded previously. The German Indicator of Economic Sentiment also improved, increasing to 3.1 from -3.6 and against expectations of 0.5.
- In Japan, headline consumer price inflation accelerated to 0.5% for the year to March, in line with expectations and up from 0.2% previously. Core consumer price inflation, which excludes more volatile food but not energy prices, edged up to 0.8%, beating forecasts of a 0.7% reading. Japan's manufacturing sector contracted for a third consecutive month in April (as reflected in the latest Nikkei manufacturing PMI data), the index remained in contractionary territory with the overall manufacturing index edging up from 49.2 to 49.5. Tertiary Industry index fell by 0.6% in February, worse than the forecasted decrease of 0.2% and reversing the 0.6% increase in January. Elsewhere, Japan posted a trade surplus of ¥528.5bn in March, higher than analyst forecasts of a ¥363.2bn surplus and the ¥334.9bn surplus in the previous month. Exports declined by 2.4% in the year to March, worse than the 1.2% decline in the previous month but better than the forecasted decline of 2.6%. Imports rebounded by 1.1% over the same period, below than the forecasted 2.8% increase but significantly better than the previous month's decline of 6.6%.
- The Chinese economy grew at a faster than expected rate in Q1 2019 as trade tensions with the U.S. de-escalated and the government's series of expansionary policies came into effect. The economy grew at an annualized rate of 6.4%, ahead of the forecasted growth of 6.3%. Industrial production grew by 8.5% in the year to March, significantly ahead of the 5.9% increase expected. Fixed asset investment grew by 6.3% (year-to-date) from a year earlier, meeting expectations. Retail sales grew by 8.7% over the period, ahead of the forecasted growth of 8.4%.

# Contact Information

**Joshua Roberts**
Aon - London
+44 (0) 20 7086 7087
joshua.roberts.2@aon.com

**Indranil Mukherjee**
Aon - Bangalore
+91 80 3091 8454
indranil.mukherjee@aon.com

# About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.



Aon Hewitt Limited
Registered in England & Wales No. 4396810
Registered office: 122 Leadenhall Street, London, EC3V 4PT
Authorised and regulated by the Financial Conduct Authority.