UK Week in Markets

Week ending 13 January 2019

Market Moves

- According to news reports, three-day trade negotiations between the US and China involving mid-level officials in the last week made progress and concluded on a positive note. The British Parliament is scheduled to vote on Prime Minister Theresa May's proposed withdrawal agreement negotiated with the European Union on 15 January. In the US the partial Federal Government shutdown entered the third week.
- Global equity markets rose over the week. The MSCI AC World Index rose by 2.7% in local currency terms and rose by 2.1% in sterling terms. The Consumer Discretionary sector was the best performer at 4.1% in local currency terms. The Consumer Staples sector was the worst performer at 0.8% in local currency terms.
- Japanese equities were the best performing region in local currency terms (+4.4%). UK equities were the worst performing region in local currency terms (+1.2%). Asia Pacific ex Japan equities were the best performing region in sterling terms (+3.3%). UK equities were the worst performing region in sterling terms (+1.2%).
- The 10-year gilt yield was unchanged at 1.27% and the 20-year gilt yield was unchanged at 1.72%. 10-year US treasury yields rose by 4bps to 2.70% in a week in which the Federal Reserve meeting minutes indicated a patient approach towards further interest rate hikes. German Bund yields rose by 1bps to 0.22% and French government bond yields fell by 6bps to 0.64%. Italy government bond yields fell by 4bps to 2.85%.
- The Over 5-year real yield fell by 3bps to -1.64% and the UK 20-year real yield rose by 1bps to -1.83%. 20-year breakeven inflation rose by 2bps to 3.50%.
- US high yield bonds was the best performer over the week, returning 1.9% in local currency terms, as spreads declined sharply. The US high yield bond spread over US treasury yields fell by 50bps to 455bps over the week. The spread of USD denominated EM debt over US treasury yields fell by 14bps to 392bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) was unchanged at 151bps over the week.
- The S&P GSCI index rose by 4.0% in USD terms over the week. The S&P GSCI Energy index rose by 6.4% as the price of Brent Crude oil rose by 6.0% to US$60/BBL. Industrial metal prices rose by 0.2% as copper prices rose by 1.5% to US$5,927/MT. Agricultural prices rose by 0.3% and gold prices rose by 0.7% to US$1,289/Oz.
- Sterling appreciated by 0.3% on a trade weighted basis over the week. Sterling strengthened by 0.8% against the US dollar and rose 0.2% against the euro, ending the week at $1.28/£ and €1.12/£ respectively. The US dollar increased by 0.3% against the Japanese yen, ending the week at ¥108.41.

Economic Releases

- Economic releases in the US were fairly mixed last week, with the partial Federal Government shutdown causing a number of scheduled economic releases to be postponed. Consumer prices rose by 1.9% in the year to December, in line with expectations but slowing from the 2.2% inflation recorded previously. It was the lowest rate of inflation in over a year, as a decline in gasoline costs drove inflation lower. Core inflation, which excludes volatile items such as food and energy, remained at 2.2%. The Institute of Supply Management's (ISM) Non-Manufacturing index, a measure of activity in the services sector, fell by 3.1 points to 57.6 in December.
- In the UK, industrial production disappointed with output unexpectedly contracting by 0.4% in November, against analyst estimates of 0.2% growth. Manufacturing production fell by 0.3% in November, undershooting expectations of a 0.4% increase. The economy grew by 0.3% in the three months to November, marginally slowing from the 0.4% growth recorded previously. Elsewhere, house prices rose at the fastest monthly rate in almost two years as the Halifax House Price index rose by 2.2% in December. Year-on-year growth in the Halifax House Price index was also above expectations at 1.3% for the fourth quarter of 2018. The trade deficit narrowed to £2.9bn in November, down from a revised deficit of £3.0bn in October.
- In the Euro Area, the seasonally-adjusted unemployment rate unexpectedly fell to 7.9% in November, the lowest jobless rate since October 2008, from a downwardly revised 8.0% in October. Elsewhere, Euro Area retail sales growth slowed to 1.1% in November from an upwardly revised 2.3% in October but above market expectations of a 0.4% increase. In Germany, industrial production fell sharply by 1.9% in November from a downwardly revised 0.8% fall in October markets had expected a 0.3% increase. Factory orders also fell by 1.0% in November from a downwardly revised 0.2% increase in October, well below market expectations of a 0.1% decrease.
- Wage growth data in Japan was encouraging. Year-on-year growth of labour cash earnings accelerated to 2.0% in November, up from the 1.5% growth recorded in the previous month and ahead of analyst forecasts for a 1.2% increase. After falling for three consecutive months, real cash earnings rose by 1.10% in November. However, the current account surplus narrowed from ¥1,309.9bn to ¥757.2bn in November but was above forecasts of ¥566.3bn.
- Chinese economic data releases were generally disappointing. Exports contracted by 4.4% in the year to December. This was below the downwardly revised growth of 3.9% recorded previously and the forecasted growth of 2.0%. Over the same period, imports shrank by 7.6%, significantly below the downwardly revised growth of 2.9% recorded previously and well short of the estimated 4.5% increase. This resulted in a widening of the trade surplus to US$57.06bn, ahead of analyst estimates of a US$51.60bn surplus. Elsewhere, consumer price inflation slowed to 1.9% in the year to December, below analyst forecasts of 2.1%.

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