



# UK Week in Markets

Week ending 11 November 2018

# Market Moves

- Global equity markets rose over the week. The MSCI AC World Index rose by 1.1% in local currency terms and 0.5% in sterling terms.
- The US was the best performing region both in local currency (2.0%) and sterling terms (1.5%) in a week which saw the US midterm elections throwing up largely expected results with the Democrats taking control of the House of Representatives and the Republicans retaining majority in the Senate. Emerging Markets equities were the worst performing region both in local currency (-1.7%) and sterling terms (-2.5%), predominantly dragged down by Chinese and Brazilian equities. Despite encouraging trade data, MSCI China fell sharply in local currency terms due to poor performance by Information Technology stocks.
- UK gilt yields generally rose across all maturities over the week in which the UK economy rose at its quickest quarterly pace in almost two years with sharper rises at the longer end of the curve. The 10-year UK gilt yield rose by 3bps to 1.52% and the 20-year UK gilt yield rose by 6bps to 1.91%. The 10-year US treasury yields fell by 3bps to 3.19% over a week where the US Federal Reserve kept its interest rate unchanged at 2-2.25% and the headline producer price index rose at a fastest monthly pace since 2012.
- In Europe, the German bund yields fell by 1bp to 0.42% whilst the French 10-year government bond yield was unchanged at 0.79%. Italian government bond yields rose by 6bps to 3.41% after the European Commission continued to warn that Italy over its might breach of the 3% budget deficit rules set by Brussels.
- The UK 20-year real yield fell by 1bp to -1.62% whilst the Over 5-year real yield was unchanged at -1.54%. 20-year breakeven inflation rose by 4bps to 3.44%.
- The US high yield bond spread over US treasury yields fell by 1bp to 371bps and the spread of USD denominated EM debt over US treasury yields rose by 6bps to 361bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) was unchanged at 127bps.
- The S&P GSCI fell by 2.5% in USD terms over the week. The energy sector fell by 2.8% as the price of Brent Crude oil declined by 3.6% to US\$70/BBL. Brent crude fell as the US granted 6-month temporary waivers to eight countries, including China and India, importing Iranian oil. Industrial metal prices fell by 2.2% as copper prices declined by 2.7% to US\$6,088/MT. Agricultural prices fell by 1.5% and gold prices fell by 1.7% to US\$1,211/Oz.
- Sterling appreciated against major currencies over the week. Sterling appreciated 0.5% against the US dollar, finishing at \$1.30/£ and 0.7% against the Euro finishing the week at €1.15/£. The Japanese yen depreciated by 0.5% against the US dollar, ending the week at ¥113.72/\$.

# Economic Releases

- While the focus attention may have been firmly placed on the results of the US Midterm elections, there were some better-than-expected economic releases. The Institute of Supply Management's (ISM) non-manufacturing index moved slightly lower to 60.3 from September's record level of 61.6, but exceeded consensus estimates of a larger decline to 59. Although falling from September's reading of 98.6, the US consumer also appears to remain optimistic with the provisional reading of the University of Michigan's Consumer Sentiment index inching 0.3 points lower to 98.3; but above expectations of a fall to 98. Elsewhere, the US Federal Reserve held interest rates unchanged with market expectations firming of a rate hike at their December meeting.
- UK GDP accelerated in line with expectations at 0.6% quarter-on-quarter in Q3 2018 from 0.4% in Q2 – the highest rate of growth since Q4 2016. Rising household consumption (0.5%) and export growth (2.7%) were the main drivers but business investment (-1.2%) dropped the most since Q1 2016. The increase in exports was reflected in September's trade deficit figures, which fell sharply to £0.03bn from £2.1bn in August. However, this was largely driven by a 2.5% fall in imports as exports rose 1.2%. September's industrial production disappointed with year-on-year (YoY) growth falling to zero from a downwardly revised 1.0% in August. Elsewhere, there was further evidence of a slowdown in UK house price growth as YoY growth in the Halifax House Price index fell to 1.5% in the three months to October 2018, the lowest annual increase since March 2013.
- Euro Area retail sales growth stalled in September following an upwardly revised 0.3% in August. YoY retail sales growth fell to 0.8% from 1.8%, the lowest level since October 2017. German industrial production growth came in above expectations at 0.2% from an upwardly revised 0.1% in August, due to a jump in construction output. German factory orders also beat expectations but still slowed sharply to 0.3% from 2.5% in August. Elsewhere, the final readings for the October Markit Euro Area and German PMIs were revised up slightly to 53.1 (+0.4) and 53.4 (+0.7) respectively but remained below September levels.
- In Japan, core machine orders fared worse than analyst expectations of a 9.0% decline, falling by 18.3% in September, as an earthquake and typhoons affected business activity. On a more positive note, the Japan Nikki Services PMI increased by 2.2 points to 52.4 while the Composite PMI reached 52.5 from 50.7. Meanwhile, year-on-year labour cash earnings accelerated to 1.1% from a downwardly revised 0.8% in September. The current account surplus narrowed to ¥1,821.6bn in September but was above forecasts.
- In China, exports rose by 15.6% in the year to October, ahead of the 14.4% growth recorded previously and 11.7% forecasted. Over the same period, imports increased by 21.4%, well ahead of the expected 14.5% increase. Overall, China's trade surplus widened to US\$34.01bn, slightly below analyst estimates of a US\$35.15bn surplus. Despite escalating trade tensions with the US, it appears that Chinese exports to the US continued to increase as importers front-loaded orders to avoid additional tariffs. China's Consumer Price Index rose in line with analysts' forecasts to 2.5% over the year to October.

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