



UK Week in Markets

Week ending 2 June 2019

Key News and Events

- Risk aversion returned last week as US-China trade tensions continued. China retaliated to a ratcheting up of rhetoric from the US with a probe into US delivery group FedEx and plans to announce a blacklist of foreign companies that harm the interests of Chinese groups. China also threatened to ban export of rare earth minerals, important in production of sophisticated technology equipment, (China controls approximately 80-90% of global rare earth mineral production) to the US.
- Elsewhere, the US announced 5% tariffs on Mexican imports which could increase up to 25% if Mexican government does not stop the flow of unauthorized immigrants into the US. This weighed on existing investor concerns over the slowdown in global trade.
- Amidst the declining market risk sentiment, the US yield curve inverted once again with the 10-year yield falling the three-month T-bill at its most inverted level since July 2007.

Market Moves

- Global equity markets fell over the week dominated by global trade war concerns as US - China trade tensions continued to rise and the US imposed tariffs on Mexican imports due to concerns over illegal immigration. The MSCI AC World Index fell by -1.8% in local currency terms and fell by -1.2% in sterling terms. The Materials sector was the best performer at (-0.9%) in local currency terms. The Health Care sector was the worst performer at (-2.6%) in local currency terms.
- Emerging Market equities were the best performing region in local currency terms (+1.2%) as EM Financial and Technology stocks outperformed their DM counterparts. US equities were the worst performing region in local currency terms (-2.5%) with the Energy and Consumer Staples sectors falling the most. Emerging Market equities were the best performing region in sterling terms (+2.0%). US equities were the worst performing region in sterling terms (-1.9%).
- The 10-year gilt yield fell by 8bps to 0.88% and the 20-year gilt yield fell by 7bps to 1.36% following global yields lower. 10-year US treasury yields fell by -18bps to 2.14%. The 10-year yield touched its lowest level since September 2017 as the 10 year to three-month part of the curve inverted for the second time this year. German Bund yields fell by -9bps to -0.20%, an all time low, and French government bond yields fell by 6bps to 0.22%. Greece government bond yields fell by 46bps to 2.89% Greek bond yields touched an all time low as country's ruling leftist Syriza party suffered a major defeat in the European elections, forcing prime minister Alexis Tsipras to call a snap election. The opposing conservative New Democracy party is considered to be more business friendly and pro-European.
- The Over 5-year real yield fell by 4bps to -1.89% and the UK 20-year real yield fell by 6bps to -2.07%. 20-year breakeven inflation fell by 1bps to 3.45%.
- US high yield underperformed over the week, returning -0.6%, as declining risk sentiment pushed spreads wider. The US high yield bond spread over US treasury yields rose by 43bps to 459bps over the week. The spread of USD denominated EM debt over US treasury yields rose by 13bps to 382bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) rose by 2bps to 134bps over the week.
- The S&P GSCI index fell by 4.5% in USD terms over the week. The S&P GSCI Energy index fell by 7.7% as the price of Brent Crude oil fell by 6.1% to US\$64/BBL, weighed down by economic concerns and high US inventories. Industrial metal prices fell by 1.3% as copper prices fell by 2.3% to US\$5,781/MT. Agricultural prices rose by 4.6% and gold prices rose by 1.0% to US\$1,296/Oz.
- Sterling depreciated by -0.4% on a trade weighted as concerns over the possibility of a no deal Brexit increased. Sterling weakened by 0.7% against the US dollar and fell 0.2% against the euro, ending the week at \$1.26/£ and €1.13/£. The US dollar decreased by 0.7% against the Japanese yen, ending the week at ¥108.58.

Economic Releases

- Although the second reading of US economic growth was revised marginally lower to 3.1% (quarter-on-quarter annualized) for Q1 2019 from the initial reading of 3.2%, it came in above consensus estimates of a slightly stronger revision to 3.0%. Underlying personal consumption growth rose by 1.3% over the same period, which was above both the previous and expected reading of 1.2%. Against expectations of inflation remaining at 1.3%, the core Personal Consumption expenditure (PCE) price index (the Fed's preferred measure of inflation) slowed to 1.0%. Elsewhere, consumer confidence improved strongly over May with the Conference Board's Consumer Confidence index rising to 134.1, above expectations of 130.0 and the previous reading of 129.2.
- In the UK, growth in the Nationwide House Price Index fell by 0.2% in May against market expectations of it remaining flat from 0.3% in April. This came despite April mortgage approvals coming in at 66,261, well ahead of expectations of 63,250 and 62,559 in March. Elsewhere, the GfK consumer confidence index improved to -10 in May, better than the expected reading of -12.
- Euro area economic confidence unexpectedly improved in May as it rose to 105.1, the first rise in eleven months, from 103.9 in April against expectation for a modest improvement to 104. However, the Business Climate Indicator continued its decline, falling to 0.3 in May from 0.42 and below expectations of 0.4. German unemployment rose by 60k in May 2019, the first rise since June 2017 and largest rise in a decade. The German inflation rate slowed down with the EU-harmonized Consumer Price Index increasing by 1.3% year-on-year in May, below the 2.1% increase seen in the previous month and marginally below the consensus estimate of 1.4% increase. Elsewhere, German retail sales strongly rebounded by 4.0% in the year to April 2019, beating expectation of it increasing by 1.4%.
- Based on preliminary data, industrial production rebounded by 0.6% in Japan over April. The better than expected increase of 0.2% was attributed to firms increasing production ahead of the country's annual Golden Week holiday (April 27 to May 6). Retail sales missed expectations of a 0.6% increase and were flat in April, while growth slowed down from prior month's 0.2% increase. As expected, Japan's jobless rate fell to 2.4% in April whilst the job-to-applicant ratio was unchanged at 1.63.
- Amid heightened trade war tension, the Chinese manufacturing sector returned to contractionary territory based on PMI data. The official manufacturing PMI index slipped to 49.4 in May from 50.1 in the previous month, worse than the expected slowdown of 49.9. The official non-manufacturing index, however, remained at 54.3 over the same period. The composite PMI edged down to 53.3 in May from 53.4. The Caixin manufacturing PMI, which focuses on small and mid-sized Chinese business, stood at 50.2 – unchanged from the prior reading and slightly above expectations of the index decreasing to 50.0.

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

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