UK Week in Markets

Week ending 6 January 2019

Empower Results®

Market Moves

- Global equity markets rose over the week as the MSCI AC World Index returned 1.3% in local currency and sterling terms respectively. The Energy sector returned the most as oil prices rose.
- US and China witnessed lower manufacturing growth, which could indicate a future economic slowdown. Apple Inc. downgraded their earnings guidance citing Chinese economic slowdown, aggravating market concerns about the health of the Chinese economy. Elsewhere, the US Federal Reserve (Fed) chairman Jerome Powell mentioned that the Fed would be patient in increasing the rates in future and “wouldn’t hesitate” to change the current balance sheet policy if needed.
- Developed Europe ex UK was the best performer in local currency terms (2.1%) and Developed North America was the best performer in sterling terms (1.7%). Japan was the worst performer in local currency terms (-1.6%) dragged down by Information Technology stocks and yen appreciation. AC Asia Pacific ex Japan was the worst performer in sterling terms (-1.0%) as Apple suppliers' stocks experienced a sell-off following the negative earnings outlook by Apple.
- The 10-year UK gilt yield rose by 1bp to 1.28% while the 20-year UK gilt yield remained unchanged at 1.72%. 10-year US treasury yields fell by 8bps to 2.66% in a week in which the US posted mixed economic data.
- In Europe, the German bund yield fell by 3bps to 0.21%. while, the French government bond yield remained unchanged at 0.70% in a week where the French President Emmanuel Macron vowed to push ahead with the reforms and announced a 3 month public debate to use as a foundation for new reforms. Italian government bond yields rose by 14bps to 2.90% in a week in which the European Central Bank intervened in the Italian banking sector.
- Both the UK 20-year real yield and the Over 5-year real yield fell by 2bps each to -1.84% and -1.61% respectively. 20-year breakeven inflation rose by 1bp to 3.48%.
- The US high yield bond spread over US treasury yields fell by 25bps to 505bps. The spread of USD denominated EM debt over US treasury yields fell by 4bps to 406bps over a week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) rose by 3bps to 151bps.
- The S&P GSCI rose by 3.2% in USD terms over the week. The energy sector rose by 5.3% as the price of Brent crude oil rose by 9.3% to US$57/BBL. Industrial metal prices marginally fell by 0.2% as copper prices declined by 3.0% to US$5,840/MT. Agricultural prices rose by 1.2% and gold prices rose by 0.1% to US$1,280/Oz.
- Sterling appreciated against major currencies (except for the yen) over a week. Sterling appreciated against the US dollar by 0.3%, ending the week at $1.27/£ and rose 0.5% against the euro to €1.11/£. The Japanese yen appreciated by 2.1% against the US dollar, ending the week at ¥108.13/$.

Economic Releases

- Economic releases in the US were fairly mixed last week. December's non-farm payroll data recorded an increase of 312k new jobs, significantly exceeding analyst forecasts of a 184k increase. The December jobs gains meant that total US employment rose above 150 million for the first time. However, the unemployment rate ticked up by 0.2% to 3.9% in December, despite consensus estimates of an unchanged reading, as the participation rate increased. Average hourly earnings increased by 3.2% in the year to December, equaling a post-2009 high. However, the Institute of Supply Management's (ISM) manufacturing index, A measure of national factory activity, for December fell by 5.2 points to 54.1, undershooting expectations of a 57.5 reading.
- In the UK, the Markit Manufacturing Purchasing Managers' Index (PMI) rose to 54.2 in December from the upwardly revised reading of 53.6 in November and far ahead of market expectations of 52.5. However, the rise in the index was due to a surge in stockpiling ahead of the Brexit rather than a permanent improvement in activity and looks likely to be short-lived. Economic activity in the UK services sector, as measured by the services Purchasing Managers' Index (PMI), rose to 51.2 from 50.4 and came in above expectations of 50.7. However, the Construction PMI slipped to 52.8 from 53.4, marginally below forecasts of it slowing to 52.9. Elsewhere, growth in the Nationwide House Price index slowed to 0.5% from 1.9% in the year to December 2018.
- Inflation in the Euro Area continued to slow in December with year-on-year CPI inflation at 1.6% versus 2.0% in November and market expectations of 1.7%. The slowdown was largely driven by a slowdown in the growth of energy, food, alcohol and tobacco prices. Core inflation was unchanged at 1.0%. In Germany, Markit Services PMI was revised down to 51.8 – the weakest expansions since September 2016 – from its initial estimate of 52.5. This was driven by a further fall in new export business. Manufacturing PMI was unchanged at 51.5.
- In Japan, the final reading of the Nikkei manufacturing PMI ticked higher to 52.6 in December, up from a preliminary reading of 52.4 and a 15-month low of 52.2 recorded in the previous month. However, the Nikkei Services PMI and the overall composite PMI slowed to 52.0 and 51.0 respectively over the same period.
- The People's Bank of China cut its reserve requirement ratio by a further 100bps to inject more liquidity into the economy. The Caixin manufacturing PMI, which focuses more on small and mid-sized Chinese businesses, fell into contractionary territory for the first time since May 2017 amidst a slowdown in new domestic and export orders. It fell to 49.7 in December, against expectations of it remaining at 50.2. The Caixin services PMI edged up to 53.9 over the same month against expectations of it slowing down to 53.0. Overall, the Caixin composite PMI rose to 52.2 in December, up from 51.9 in November.

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