Schroders

Weekly market watch

As at Friday July 6, 2018

Equities

Region / Country	Index	Close	Net Change	Performance	
				Year-to-date	52-week
Asia-Pacific					
Hong Kong	HSI	28,315.62	(639.49)	-5.36%	11.74%
India	BSE 30	35,657.86	234.38	4.70%	13.67%
Japan	Nikkei	21,788.14	(516.37)	-4.29%	9.33%
Singapore	STI	3,191.82	(76.88)	-6.20%	-1.15%
South Korea	KOSPI	2,272.87	(53.26)	-7.89%	-4.50%
Taiwan	WSE	10,608.57	(228.34)	-0.32%	3.02%
Shanghai	COMPOSITE	2,747.23	(100.19)	-16.93%	-14.63%
Europe					
France	CAC	5,375.77	52.24	1.19%	4.34%
Germany	DAX	12,496.17	190.17	-3.26%	0.93%
Italy	FTSE MIB	21,925.51	299.24	0.33%	3.99%
Russia	RTSI	1,173.47	19.31	1.65%	15.98%
UK	FTSE 100	7,617.70	(19.23)	-0.91%	3.82%
Americas					
Brazil	IBOV	74,822.78	2,060.27	-2.07%	19.77%
Mexico	IPC	49,040.04	1,376.84	-0.64%	-1.95%
Nasdaq	CCMP	7,688.39	178.09	11.37%	26.35%
US	S&P 500	2,759.82	41.45	3.22%	14.69%
US	DOW	24,456.48	185.07	-1.06%	14.90%

Bonds

	Close	Yield		
		Week ago	Month ago	Year ago
10 Year Gilt	1.2670	1.2780	1.3740	1.3160
10 Year OAT	0.6420	0.6650	0.8040	0.9180
10 Year Bund	0.2920	0.3020	0.4650	0.5620
10 Year Japan	0.0330	0.0360	0.0550	0.1040
10 Year Treasuries	2.8254	2.8601	2.9717	2.3659

Base lending rates

Prime Rates	Latest	6 months ago	12 months ago
US	5.00	4.50	4.25
Canada	3.45	3.20	2.70
Japan	1.48	1.48	1.48
Britain	0.50	0.50	0.25
ECB	0.00	0.00	0.00
Switzerland	0.50	0.50	0.50
Australia	1.50	1.50	1.50
Hong Kong	5.25	5.25	5.25

% change is for indication only; local currency except where stated.

Equity Markets

US

- U.S. stock indexes rose Friday and posted weekly gains on stronger-than-expected non-farm payroll data, even though the White House carried through with its threat to impose tariffs on Chinese imports. The DJIA rose 0.41% on Friday and 0.76% on the week, closing at 24,456.48. The S&P 500 rose 0.85% on Friday to 2,759.82 and was up 1.52% on the week. The tech-heavy Nasdaq rose 1.34% on Friday to 7,688.39, gaining 2.37% for the week.
- Trade tensions between the United States and China increased dramatically last week, as U.S. President Donald Trump imposed 25% tariffs on $34 billion in Chinese imports to the U.S. China retaliated in kind within minutes. The U.S. also released a list of an additional $16 billion worth of Chinse imports on which it intends to impose tariffs within a few weeks. Trump noted Friday that he had ordered the U.S. Trade Representative to identify a further $200 billion in Chinese goods on which to levy sanctions if China does not capitulate and threatened to sanction a further $300 billion in Chinese goods, which would target all Chinese imports into the U.S. China has promised to retaliate using "quantitative and qualitative" sanctions if any new sanctions are implemented.
- The U.S. Commerce Department also acted on Monday against Chinese government-owned China Mobile, recommending that the Federal Communications Commission not approve its application for a license to offer telecom services in the U.S. due to national security concerns. However, the U.S. government did agree to ease restrictions on the operations of Chinese tech firm ZTE for 30 days. China's number two tech firm can support existing business but cannot take on any new work.
- President Trump also kept up the protectionist drumbeat against the European Union, charging that the EU's treatment of U.S. imports is worse than that of China. Trump again threatened to impose 20% tariffs of auto imports from all nations unless foreign import barriers are lowered. To head off an auto trade war, the EU is considering proposing a deal among major vehicle exporting countries – including Japan and South Korea – to lower auto import tariffs, the Financial Times reported Wednesday. European Commission President Jean-Claude Juncker may propose such a deal in a meeting with Trump scheduled for later this month, though it is uncertain whether Juncker will do so or, if he does, whether Trump would agree to such talks. And the three big German automakers – Volkswagen, Daimler and BMW – met with the U.S. ambassador to Germany on Wednesday and expressed their support for cutting EU tariffs on U.S. auto imports to zero if the U.S. does the same, the Financial Times reported Friday.
- Shares in chipmaker Micron Technologies Inc. fell sharply Tuesday after a Chinese court issued a temporary injection banning the sale of its products in the mainland market over a patent dispute with Taiwanese rival United Microelectronics Corporation (UMC). At the root of the dispute between Micron and UMC is the allegation that UMC helped channel Micron's patented chip designs to a Chinese rival. News of the Chinese court decision also pushed down share prices of other U.S. chipmakers, as it was seen as the first step in China's "qualitative" retaliatory trade sanctions against the U.S.
- Trump also picked a fight with members of the North Atlantic Treaty Organization (NATO), warning their leaders in individual letters written in June of potential consequences if they did not meet their commitments to spend 2% of their GDP on defense, as agreed in 2014. The disclosure of the letters comes just ahead of the NATO summit meeting in Brussels this week, with other NATO leaders worried that Trump will sow discord there as he did at the G-7 meeting in Canada several weeks ago.
- Boeing and Embraer agreed Thursday to a $4.75 billion joint venture for the aircraft production and service operations of the Brazilian manufacturer. Boeing would have an 80% share and Embraer a 20% share of the new venture, which would bolster the ability of both companies to compete with Airbus in smaller regional passenger jets, after Airbus bought Canadian small jet manufacturer Bombardier earlier this year. The deal will require the approval of the Brazilian government ahead of presidential elections due in October.
- Dell Technologies Inc. announced Monday that it would buy shares in publicly traded firm DVMT, which tracks the software firm VMware that Dell wants to acquire. The move would mean a return to public markets for Dell, five years after it went private with the help of investment firm Silver Lake.
- Advertising holding company Interpublic Group of Cos announced Monday that it would buy Acxiom Corp's Marketing Solutions business for $2.3 billion in cash. The Acxiom brand name will become part of IGC's portfolio of companies. Marketing Solutions, which specializes in managing client data, represented three-quarters of Acxiom's revenues in fiscal 2018.
- A U.S. court ordered accounting firm PwC to pay $625 million to the Federal Deposit Insurance Corp. (FDIC) as a penalty for its failure to discover mortgage fraud at Colonial Bank before its collapse. Colonial, once the 25th largest bank in the U.S., went bankrupt in 2009, costing the FDIC an estimated $2.8 billion to cover depositor accounts.
- Scrutiny of the leak of personal data on 87 million Facebook users to Cambridge Analytica, which used that information to influence the 2016 U.S. presidential election, widened on Monday. The Securities and Exchange Commission

announced it would open an investigation into the incident, joining probes by the Department of Justice and the Federal Trade Commission. Among other things, the SEC is examining the testimony of Facebook chief executive Mark Zuckerberg to Congress in April.

- Shares in U.S.-listed casino operators fell Monday on news that revenues in Macau, the world's largest gambling center, grew more slowly than expected in June. Macau revenues rose 12.5% on the year to 22.49 patacas ($2.78 billion), against analysts' expectations for an 18% rise.
- Ride-hailing app company Lyft announced Monday that it would enter the bike-sharing business, buying Motivate, the parent of several brands including Citibike. The deal gives Lyft about 80% of the U.S. bike-share market, as it competes with arch rival Uber for business beyond car ride hailing.
- Uber is in the early stages of talks to take control of Middle-East-based ride-hailing app company Careem, either through purchasing a majority stake or buying the company outright, the Financial Times reported Wednesday. A deal would solidify Uber's position as the leading ride-hailing app in the region.
- Archer Daniels Midland (ADM), one of the world's largest grain traders, said Monday it was in talks to acquire French animal feed business Neovia for $1.5 billion. On Friday, ADM announced it would purchase Probiotics International Ltd of the UK, which makes live bacteria to aid digestive system health, for 185 million pounds. The moves are part of ADM's plan to diversify away from bulk crop processing.
- Shares in Tesla fell sharply on Monday and Tuesday, posting their biggest loss since March, as analysts expressed skepticism over the electric automaker's announcement that it had hit its target to produce 5,000 Model 3 cars a week in the first week of June while maintaining high quality. Tesla reiterated that it expected to be profitable and cash-flow positive in the third and fourth quarters and so would not need any additional financing. Many analysts doubt that claim.
- Industrial gas firm Praxair announced Thursday it will sell $6 billion of its European assets to Japanese rival Taiyon Nippon Sanso to clear the way for regulatory approval of its merger with German industrial gas giant Linde. Linde is expected to sell $3 billion of its own assets to assuage regulators. The $80 billion merger of Praxair and Linde would create the world's largest industrial gas supplier.
- Shares in biotech firm Biogen rose sharply Friday after it announced a promising clinical trial of a new experimental drug to treat Alzheimer's. The company, along with partner Eisai of Japan, will now begin final testing of the treatment.

UK

- The FTSE 100 rose 0.19% on Friday to 7,617.70, but was still down 0.25% for the week, the sixth drop in seven weeks, on trade and Brexit concerns.
- UK Prime Minister Theresa May said Friday she had gained the backing of her cabinet for her "soft" Brexit transition plan, facing down opposition from Eurosceptic ministers at a special meeting. The pro-business plan would have the UK remain bound to EU rules for the common market, maintain an open border with Ireland and be allowed to negotiate trade deals with non-EU states. However, it is unclear the EU will accept May's plan.
- Jaguar Land Rover, Britain's largest car manufacturer, joined Airbus and BMW in warning of the consequences of a "hard" Brexit. Without an agreement with the European Union on the future trade relationship, Brexit, would cost the company 1.2 billion pounds per year and so make it unprofitable to continue operating in the UK. The company needs certainty before it can proceed with the 80-billion-pound investment planned over the next five years, including new electric vehicle production facilities, chief executive Ralf Speth said Wednesday. JLR's warning came two days before UK Prime Minister May's special meeting to convince her deeply divided cabinet to support her "soft Brexit" plan.
- Shares in Swiss commodity trading and mining company Glencore fell sharply Tuesday on news that it is being investigated by the U.S. Department of Justice for corruption and bribery in its operations. The DoJ has subpoenaed the company to produce documents about its operations in Nigeria, the Democratic Republic of Congo and Venezuela dating back to 2007. In response to the drop in its stock price, Glencore announced Wednesday a $1 billion stock buyback plan.
- S4 Capital, the advertising firm started by former WPP chief executive Sir Martin Sorrell, is in talks to buy Dutch digital production company MediaMonks, the Financial Times reported Tuesday. The deal, if it is completed, would be Sorrell's first since he was forced out at WPP amid questions about his conduct.
- Micro Focus will sell Suse, its open-source business operating system division, to Swedish private equity fund EQT for $2.5 billion. Micro Focus is being forced to sell Suse, one of its fastest growing divisions, due to its difficulties integrating the Hewlett Packard Enterprise software business it acquired for $8.8 billion in 2017.
- Losses at online bank Monzo more than quadrupled last year, underscoring the challenges online lenders have in taking on established banks. In the year to February, the bank's loss rose to 33 million pounds from 8 million pounds the previous year.
- The Financial Reporting Council, the UK's accounting supervisory board, is investigating the conduct of Big Four accounting firm KPMG in auditing UK drinks firm Conviviality, which collapsed three months ago. The announcement comes one day after a U.S. court ordered fellow Big Four accounting firm PwC to pay $625 million to the Federal Deposit

Insurance Corp. (FDIC) as a penalty for its failure to discover mortgage fraud at Colonial Bank before its collapse in 2009.

- Shares in mining firm Anglo American Plc rose on Thursday on an Indian newspaper report that Indian tycoon Anil Agarwal was preparing to merge his firm Vedanta Resource with Anglo's South African business. The report comes a few days after Agarwal's family trust offered to buy the 33.5% of Vedanta Resource that it does not already own for 800 million pounds.
- Supermarket chain J Sainsbury reported Wednesday that same store sales excluding fuel rose 0.2% in the April-June quarter, a better outturn than the sales drop analysts had predicted. But sales growth was slower than in either the previous quarter or the year-earlier period and well behind rivals' performances. The results are the first since Sainsbury acquired rival Asda from Walmart.

Europe (ex. UK)

- Europe's Eurofirst 300 index increased 0.20% on Friday to 1,498.22, and was up 0.76% for the week, as strong German and Eurozone data allowed investors to look past rising trade tensions.
- Nestle SA plans to buy Canadian pet-food maker Champion Petfoods for more than $2 billion as it seeks to diversify its portfolio, the Wall Street Journal reported Monday. The deal has not been finalized and could still collapse, the newspaper said.
- Tesco and Carrefour, Europe's two largest supermarket chains, announced Monday that they had agreed to an alliance to jointly purchase a range of goods, including in-house labels, to keep costs down. The move is an attempt to better compete with German discount grocers Aldi and Lidl, who have progressively won market share from their bigger rivals.
- German industrial conglomerate ThyssenKrupp and Indian steel maker Tata announced June 30 an agreement to combine their European steel production assets to reduce costs. The combined group will be Europe's second largest steelmaker, with 40,000 employees at 34 sites and 17 billion euros in sales. Each company will have a 50% share of the new Netherlands-based entity. The deal was heavily criticized by activist investor Elliott Advisors for undervaluing the ThyssenKrupp assets. However, the deal does not require approval by ThyssenKrupp shareholders since it was approved by its supervisory board.
- Hong Kong conglomerate CK Hutchison announced Tuesday that it will take full control of Italian communications company Wind Tre, paying $2.45 billion for the 50% of the company that it does not already own. Wind Tre was formed in 2016 through the merger of VimpelCom's Wind Communicazioni and CK Hutchison's 3 Italia.
- Privately held UK firm Ineos will invest 2.7 billion euros in two new petrochemical plants in northwest Europe to take advantage of the growing supply of cheap U.S. shale gas. Belgium and Germany are possible locations for the new plants, which would be the biggest European petrochemical investment in decades.
- Shares in Danske Bank fell sharply on Wednesday on a Danish newspaper report that its Estonian branch may have laundered up to $8.3 billion, more than double previous estimates. The report increases pressure on the Danish government to open a fraud investigation into the country's largest bank, with critics charging that the bank's internal probe is inadequate.

Japan

- Japan's Nikkei 225 Index rose 1.12% on Friday to 21,788.14 but was still down 2.32% on the week on continued concern about the trade outlook.
- Nissan Motors has backed away from the planned sale of its rechargeable battery production unit to China's GSR Capital after the private equity firm failed to raise the required funding. The collapse of the deal may mean that Nissan and its partner NEC will have to find another buyer.
- Jera, a joint venture of Japanese utilities Tokyo Electric Power and Chubu Electric Power, has agreed to an alliance with EDF Trading, the London-based subsidiary of the French utility, to create one of the world's largest traders in the rapidly expanding liquefied natural gas (LNG) market, the Financial Times reported Tuesday. The new entity, to be called Jera Global Markets, will challenge other big players such as BP, Total and Royal Dutch Shell.
- Nissan Motor Co. and Renault SA have set a two-year deadline to decide whether to merger their companies or seek another way to enhance their alliance, Bloomberg reported Thursday. The deadline means the solution will be decided before Carlos Ghosn, current chairman of both companies, steps down as Renault chief executive in 2022.

Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite Index rebounded for the second Friday in a row, rising 0.49% to 2,747.23, but, as in the week before, the Friday rise was not enough to push the index into positive territory for the week. The index was down 3.52% on concerns about continuing trade tensions with the U.S. and weakness in the mainland economy.

- Hong Kong's Hang Seng index rose 0.47% on Friday to 28,315.62 but still fell 2.21% last week, the ninth decline in the last 11 weeks, on U.S.-China trade tensions.
- Taiwan's Taiex index fell 0.03% on Friday and fell 2.11% on the week to close at 10,608.57, on reports that Taiwanese manufacturer may to be forced to move their production facilities out of mainland China because of rising trade tensions between China and the U.S.
- South Korea's Kospi rose 0.68% on Friday but fell 2.29% on the week to 2,272.87 on worries that South Korea's economy would be one of the hardest hit by the growing trade conflict between the U.S. and China.
- The Singapore Straits Times Index fell 1.99% on Friday and was down for the seventh time in eight weeks, falling 2.35% to 3,191.82, buffeted by the impact of trade tensions.

Emerging Markets

- Brazil's Bovespa rose 0.61% to 75,010.39 on Friday and was up 2.83% from the previous week. Electric utility Electrobras gained during the week after the lower house of the Brazilian Congress agreed to rush approval of legislation to allow the firm to sell off some of its money losing assets.
- Mexican stocks rose 0.86% on Friday to 48,981.4, following Wall Street's lead after the strong U.S. jobs data. The IPC index rose 2.89% on the week, as the market reacted positively to the election of leftist Andres Manuel Lopez Obrador as the country's new president.
- India's BSE rose 0.23% on Friday to 35,657.86, as investors reacted calmly to the imposition of U.S. trade sanctions on China. The index was up 0.66% for the week, the sixth gain in seven weeks.
- Russia's RSTI index rose 0.16% on Friday to 1,173.47, helping to push the index up 1.67% for the week. The positive reviews of Russia's staging of the football World Cup, and in particular the advance of the Russian national team in the competition, create a strong feel-good mood in the market.

Alternative Assets

- Oil prices were mixed on Friday and posted their first losses in three weeks, on signs that oil producers were heeding U.S. President Donald Trump's calls to boost production. The August West Texas Intermediate (WTI) crude oil contract rose 1.2% on Friday to $73.80 per barrel, but was down 0.5% on the week. The September contract for international standard Brent crude fell 0.4% on Friday to $77.11 and was down 2.7% for the week.
- Gold futures prices fell Friday as the strong jobs report was seen supporting further Federal Reserve rate hikes. Friday's loss trimmed the gain for the week. August gold fell 0.2% on Friday but rose 0.1% on the week to $1,255.80 per troy ounce.

Fixed Income

US

- The yield on benchmark 10-year Treasuries ended the week at 2.8254%, down from 2.8601% at the end of the previous week, on safe-haven flows resulting from continued global trade tensions.
- U.S. non-farm payroll rose 213,000 in June, a larger gain than the 195,000 expected by analysts, and payrolls in previous two months were revised up a net 37,000, data released by the Bureau of Labor Statistics on Friday showed. However, the unemployment rate rose to 4.0% in June from 3.8% in May, above expectations for the rate to hold steady at 3.8% in June. The labor force participation rate rose to 62.9% in June from 62.7% in May, explaining part of the unemployment rate rise as more workers entered the labor force but did not immediately find jobs. Average hourly earnings rose 0.2% in June after an unrevised 0.3% rise in May, smaller than the 0.3% gain expected by analysts. Hourly earnings now stand 2.7% above their year-ago level, the same rate as in May, but wage growth is still lagging what is usually seen with this tight of a labor market. The overall average workweek stayed at 34.5 hours for yet another month, but the combination of earnings and hours worked should remain a positive factor for personal income growth in June. Among employment categories in June, there were solid gains in manufacturing (+36,000), health care (+35,000), professional and business services (+50,000), and leisure (+25,000 ahead of the summer season), with retail payrolls (-22,000) the only glaring weakness.
- All participants at the Federal Reserve Open Market Committee meeting on June 12-13 supported a rate increase, but one participant would have preferred to wait to allow inflation expectations to rise to a level consistent with the Fed's objective, according to the minutes of the meeting released Wednesday. After removing the portion of the statement referring to the funds rate remaining below longer-run levels for a time, the minutes show that a number of participants noted it may soon be appropriate to also modify the language that policy "remains accommodative." Most participants noted "uncertainty and risks associated with trade policy had intensified" and suggested that could eventually negatively

impact business sentiment and investment, pointing out that contacts in some districts had already scaled back capital spending plans due to these concerns. Some participants noted outside factors, such as the rise in the funds rate, the reduction of investors' estimates of longer-term real interest rates, and lower levels of term premiums, may reduce the reliability of the yield curve shape as a predictor of economic downturn. However, several others doubted that these factors were impacting the usefulness of the curve, and number of participants agree it should continue to be monitored. The minutes suggested that participants saw fiscal policy as a positive for growth "over the next few years," though a few seeing fiscal policy as an "upside risk." A few others worried that fiscal policy "is not currently on a sustainable path."

- U.S. factory activity rose in June for the second month in a row, the Institute of Supply Management (ISM) reported Tuesday. The ISM index rose to 60.2 from 58.7 in May, in part due to manufacturers boosting activity in response to imposed and threatened trade tariffs. The June level was just below the recent high of 60.8 posted in February, which was the highest activity rate since May 2004.

UK

- The yield on 10-year Gilts closed the week at 1.2670%, down from 1.2780% a week earlier, on global trade concerns and worries about Brexit.
- Bank of England Governor Mark Carney said Thursday that recent data made him more confident that the weakness in first quarter growth was weather related and that they suggested domestic cost pressures were rising. Speaking at the Northern Powerhouse Business Summit in Newcastle, Carney said that the economy appeared to be evolving broadly in line with the projections in the Bank's May Inflation Report. Those projections supported gentle tightening, showing that if Bank Rate rose by around 25 basis points a year, inflation would remain a little above its 2.0% target until the first quarter of 2021. "Recent domestic data suggest the economy is evolving largely in line with the May Inflation Report projections, which see demand growing at rates slightly above those of supply and domestic cost pressures building," Carney said.
- UK manufacturing sector activity edged higher in June, the latest IHS Markit/CIPS Purchasing Managers' Index (PMI) showed. The headline manufacturing PMI moved up 0.1 point to 54.4 in June from May's downwardly revised 54.3 (originally 54.4). After May's rebound from April's 17-month low, June's slight move upward illustrates how subdued manufacturing activity is. The 54.4 figure is four points below the 51-month high reached in November 2017. According to IHS Markit, output growth moderated, with new order growth accelerating only mildly. Incoming new business rose at the fastest pace in three months, but nonetheless remained among the weakest readings registered over the past 18 months.
- The UK services sector activity accelerated to a more robust pace in June, boosted by a surge in new work, data from IHS Markit/CIPS showed on Wednesday. The June rise extended the recovery in growth seen since March's snow-related disruption. The UK Services Purchasing Managers' Index (PMI) rose to 55.1 in June from 54.0 in May, above the MNI survey median estimate of 53.9 and the highest reading since last October. June marks the 23rd successive month that the headline index has sat above the neutral 50-threshold. Survey respondents -- particularly those working in business and financial services -- reported a general upturn in client demand, while there were also reports that sunnier weather conditions had boosted consumer spending.
- The UK construction sector PMI rose to 53.1 in June from 52.5 in May, indicating the fastest pace of construction output growth since November 2017. The report details revealed that the overall output expansion was underpinned by strong growth in residential work and commercial building, the latter of which expanded at its fastest pace since February. Whilst residential work remained the best performing area of activity, civil engineering activity continued to stutter, with the rate of growth easing to a three-month low. Positively, survey respondents noted a general improvement in client demand, which helped to boost construction workloads in June, with the rate of new business growth the strongest in just over one year.
- UK shop price deflation eased to 0.5% year-on-year in June from 1.1% in May, according to data from the British Retail Consortium. Nevertheless, shop prices have now registered 62 months of decline. On a month-on-month basis, the BRC Shop Price Index (SPI) rose 0.5% in June after having fallen back by 0.2% in May. The softening in the headline annual figure was driven by a 1.6% easing in non-food prices -- although this was a more moderate drop than the 2.5% decline seen in May. Food prices rose 1.2% y/y in June, unchanged from May's growth rate. This result is consistent with the wider picture of steady food price inflation, amid an environment in which retailers are resorting to competitive pricing and deals to contend with a tough trading environment.
- UK house price inflation decelerated marginally in June, with year-on-year growth easing to 1.8% from 1.9% in May and 2.2% in April, according to data from Halifax, the UK's leading mortgage provider. The more volatile monthly numbers showed moderate house price growth of 0.3% in June, following a rise of 1.7% in May and a decline of 3.1% in April -- suggesting a modest recovery is continuing following the weak start to Q2. On a quarterly basis, house prices fell 0.7% in the April-June period relative to January-March.

Europe (ex. UK)

- The yield on benchmark 10-year Bunds finished the week at 0.2920%, down from 0.3020% the week before, on growing concerns about global trade risks.
- The IHS Markit Eurozone PMI Composite Output Index for June rose to 54.9 from 54.1 in May, according to the final reading released Wednesday. The services sector was the key driver of increased activity in June, offsetting a further moderation in the pace of manufacturing sector growth. Indeed, the Services Business Activity Index rose to a four-month high of 55.2 in June. While the composite index indicates the eurozone economy picked up steam at the end of the second quarter, the pace of expansion in private sector activity remains relatively lackluster, with the average reading for the quarter (54.7) registering its weakest level since Q4 2016. Both new orders and output growth accelerated in June. However, at least some of this boost was a result of depressed activity in May, which saw an unusually high number of holidays this year. The increase in new business resulted in backlogs of work rising for a 37th consecutive month. "Eurozone growth regained momentum in June, rounding off a respectable second quarter performance, for which the survey data point to GDP rising by just over 0.5%," commented Chris Williamson, chief business economist at IHS Markit.
- A surge in energy prices pushed Eurozone producer price inflation rise to a 13-month high in May, according to a report published by Eurostat on Tuesday. Industrial producer prices rose by 3.0% y/y in the euro area, up from a revised 1.9% y/y in April, to settle at the highest level since April 2017 when producer price inflation climbed to 4.2%. On the month, prices rose by 0.8%, having held broadly flat since February, the highest month-over-month outturn in more than a year. Largely responsible for the May jump was the marked 2.6% m/m increase in energy prices. Since 2011, there has not been a month-on-month rise in energy price inflation greater than 2.6%, with prices growing at this rate on only two other occasions (January 2012 and August 2012). On the year, energy prices rose 7.6%, the highest outturn since April 2017, after gaining 3.5% in April.
- Eurozone retail sales eased further in May, with the annual growth rate of 1.4% decelerating for the third straight month from growth rates of 1.6% in April,1.7% in March and 1.8% in February. Food prices fell 0.4% y/y in May. On a monthly basis, retail sales were unchanged in May after falling 0.1% in April.
- German manufacturing orders rose 2.6% month-on-month in May to the highest level since February, more than offsetting the 1.6% decline in April. Rises in demand for capital and consumer goods more than offset a decline in orders for basic goods during the month.
- German industrial production also rose 2.6% month-on-month in May after a 1.3% decline in April. All output categories rose in May, led by a 2.7% gain in manufacturing and a 3.1% rise in construction.

Japan

- The yield on 10-year JGBs closed the week at 0.0330%, down slightly from 0.0360% the previous week, as the Bank of Japan maintained its yield-curve control policy.
- Business sentiment dropped in June for the second straight quarter, hit by rising raw material costs and uncertainty over the impact of U.S. trade disputes on global demand, according to the results of the Bank of Japan's quarterly Tankan business survey released Monday. Looking ahead, sentiment among many sectors is expected to fall further as jitters over protectionist U.S. trade policy and retaliatory actions linger. Labor shortages in Japan are also pushing up costs and adding to supply constraints. On the other hand, business investment plans remain solid for fiscal 2018 as many firms are seeking to ease production capacity constraints. The diffusion index for sentiment among major manufacturers fell to +21 in June from +24 in March, slightly weaker than the MNI survey median forecast of +22. Tankan survey participants projected the index to remain unchanged at +21 in September. The sentiment index for major non-manufacturers marked the first improvement in four quarters, rising to +24 in June from +23 in March, due to solid domestic demand. But the index is projected dip to +21 three months ahead. Business investment plans by major firms, the key to a pickup in domestic demand, are projected to rise 13.6% in the current fiscal year that began on April 1, revised up from +2.3% in the March survey and above the MNI survey median forecast for a 9.4% rise. Capex plans by smaller firms are expected to fall 11.8% in fiscal 2018, also revised up from -16.8% in March and firmer than the MNI survey median forecast of -13.8%.
- The short-term inflation outlook among companies rose slightly from three months ago but the medium- to long-term inflation outlook was unchanged from March, indicating the pace of a pickup in consumer prices will remain slow, according to details of the Bank of Japan's Tankan business survey released Tuesday. Firms on average expect a consumer inflation rate of 0.9% a year from now, up from 0.8% in March. Companies expect a 1.1% inflation rate both three and five years ahead, unchanged from their projections in March. Smaller firms continued to project higher inflation than larger corporations because they tend to be hit harder by rising costs and a tighter labor supply.
- Bank of Japan board member Yutaka Harada on Wednesday warned against a premature tightening of the central bank's highly stimulative monetary conditions, repeating his view that the already low unemployment rate must fall further

to help push up the inflation rate to the bank's stable 2% target. Harada defended the large-scale easing that the BOJ launched in April 2013, saying it is not causing excessive lending or investment at this point. He also denied that the nearly flat yield curve based on the bank's target of a -0.1% overnight lending rate and a zero 10-year bond yield is not the main cause of low profitability at Japanese banks, arguing it is due to low demand for borrowing as many firms have large cash reserves. "If the bank were to indeed raise interest rates, bond and stock prices would decline and the yen would appreciate, leading to a deterioration in firms' profits, and credit costs would increase, so that private banks would suffer substantial damage," said Harada, a former government economist who believes reflationary policy measures should boost prices.

- Japan's real average spending by households with two or more people posted the fourth straight year-on-year drop in May, down 3.9%, as shorter Golden Week holidays cut down on eating out and moderate weather trimmed electricity use, data released Friday by the Ministry of Internal Affairs and Communications showed. Spending was also down on month amid a continued drop in real income, indicating sluggish private consumption will lead to only a modest rebound in the April-June GDP after the economy posted the first contraction in about two years in January-March.
- Average wage growth in Japan surged in May on a calendar factor and a drop in the share of low-paid part-time workers, preliminary data released Friday by the Ministry of Health, Labour and Welfare showed. Total monthly average cash earnings per regular employee in Japan surged 2.1% on year to Y275,443, the 10th straight year-on-year rise, compared to the recent median growth rate of +0.9%. The May rise followed a 0.6% gain in April and a rare 2.0% jump in March. There was one more working day in May this year compared to the year before. "The 2.1% increase in total cash earnings may be revised down by 0.2 to 0.3 percentage point when additional information from surveyed firms is added later this month," a ministry official told MNI.

Source: Market News International