Schroders

Weekly market watch

As at Friday November 2, 2018

Equities

Region / Country	Index	Close	Net Change	Performance Year-to-date	Performance 52-week
Asia-Pacific					
Hong Kong	HSI	26,486.35	1,768.72	-11.47%	-7.40%
India	BSE 30	35,011.65	1,662.34	2.80%	4.28%
Japan	Nikkei	22,243.66	1,059.06	-2.29%	-1.31%
Singapore	STI	3,116.39	144.37	-8.42%	-7.86%
South Korea	KOSPI	2,096.00	68.85	-15.06%	-18.06%
Taiwan	WSE	9,906.59	417.41	-6.92%	-8.28%
Shanghai	COMPOSITE	2,676.48	77.63	-19.07%	-20.62%
Europe					
France	CAC	5,102.13	134.76	-3.96%	-7.41%
Germany	DAX	11,518.99	318.37	-10.83%	-14.30%
Italy	FTSE MIB	19,390.34	707.07	-11.27%	-15.86%
Russia	RTSI	1,134.80	36.49	-1.70%	1.44%
UK	FTSE 100	7,094.12	154.56	-7.72%	-6.10%
Americas					
Brazil	IBOV	88,419.05	4,335.54	15.73%	19.77%
Mexico	IPC	45,446.83	(828.88)	-7.92%	-5.97%
Nasdaq	CCMP	7,356.99	189.78	6.57%	9.56%
US	S&P 500	2,723.06	64.37	1.85%	5.55%
US	DOW	25,270.83	582.52	2.23%	7.46%

Bonds

	Close	Yield Week ago	Yield Month ago	Yield Year ago
10 Year Gilt	1.4940	1.3830	1.5280	1.2600
10 Year OAT	0.7850	0.7380	0.7860	0.7590
10 Year Bund	0.4280	0.3520	0.4220	0.3720
10 Year Japan	0.1290	0.1130	0.1300	0.0550
10 Year Treasuries	3.2121	3.0755	3.0631	2.3450

Base lending rates

Prime Rates	Latest	6 months ago	12 months ago
US	5.25	4.75	4.25
Canada	3.95	3.45	3.20
Japan	1.48	1.48	1.48
Britain	0.75	0.50	0.50
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 markets remained volatile last week, falling on Friday on a decline in Apple's stock price but rising for the week on generally upbeat earnings. The Dow Jones Industrial Average fell 0.43% on Friday to 25,270.83 but rose 2.36% for the week. The S&P 500 fell 0.63% on Friday but rose 2.42% on the week to end at 2,723.06. The Nasdaq fell 1.04% on Friday but gained 2.65% on the week to 7,356.99.
- US President Donald Trump invited Chinese President Xi Jinping to a special dinner meeting on Dec. 1 after the G20 meeting in Buenos Aires, Argentina, which Xi tentatively accepted. In addition, Bloomberg reported that Trump had instructed cabinet officials to draft the outlines of a trade deal to be discussed at that meeting. White economic advisor Larry Kudlow later denied that Trump had made any such request, adding that he was less optimistic about a trde deal than he was previously. Analysts warned that the gap between US and Chinese positions on key issues remained large, which would make it difficult for the two sides to reach an agreement to end the trade war. Trump also renewed his threat to impose new sanctions on virtually all Chinese imports if Beijing did not make sufficient concessions. The administration also blocked U.S. companies from supplying components and services to Fujian Jinhua Integrated Circuit, a Chinese semiconductor manufacturer, accusing it of intellectual property theft
- IBM announced Oct. 28 that it had agreed to buy Red Hat, the largest distributor of open-source operating system Linux, for $34 billion. IBM wants to convince companies to use its service to create custom access to cloud computing, without relying on one of the big cloud firms: Amazon, Microsoft and Google.
- The FBI is reportedly conducting a criminal investigation into whether electric car maker Tesla mis-stated its production figures. The probe seeks to determine whether Tesla exaggerated production figures going back to early 2017. The news of the FBI investigation follows Tesla's settlement last month with the Securities and Exchange Commission over chief executive Elon Musk's tweets that he had secured financing to take the company private.
- Shares in General Electric fell sharply Tuesday after the troubled engineering company reported that it suffered a $22.8 billion loss during the third quarter. The company also revealed that was the subject of a criminal investigation into its accounting practices. The company slashed its dividend to only one cent to preserve cash. The company's stock price has fallen 50% in the last year.
- Profits at ExxonMobil and Chevron, the two largest US oil companies, rose sharply in the third quarter, helped by higher prices and strong US oil shale production. ExxonMobil's earnings rose to $1.46 per share, up 57 cents from a year earlier, while Chevron's rose to $2.11, about double the year-earlier level. Chevron said it would use some of its cash to buy back $750 million of its stock. ExxonMobil said it had no plans for a stock buy-back program.
- Warren Buffettl's Berkshire Hathaway said earnings rose four-fold in the third quarter to $18.54 billion, helped by strong gains in the conglomerates insurance and railroad businesses and appreciation in its stock portfolio. The company said it had bought back $928 million of its shares during the quarter.
- Apple reported that its third quarter profit rose 32% to $14.13 billion, with revenue up 20% to $62.9 billion. But the company's stock fell sharply after because iPhone sales of 46.9 million units fell short of expectations and the company gave a subdued forecast for the Christmas season.
- Facebook's third quarter earnings rose to $1.76 a share, well above expectations for $1.47. Net income was $5.1 billion, up 9% from a year earlier. Revenue, however, came in a $13.7 billion, just below expectations of $13.8 billion.

UK

- London stocks rose last week despite continued Brexit worries. The FTSE 100 fell 0.29% on Friday but rose 2.23% on the week to finish at 7,094.12.
- Banking giant HSBC reported Monday that its pretax profit rose 28% to $5.92 billion in the third quarter. Strong revenue growth was partly offset by higher operating expenses.
- International Consolidated Airlines Group SA, the owner of British Airways, raised its earnings forecasts for the years 2019 to 2023 by more than 10% to an average of 7.2 billion euros each year. While higher fuel prices would offset higher passenger traffic, additional earnings would come from its cargo and holiday tour businesses.
- Earnings at Anglo-Dutch energy company Royal Dutch Shell rose 35% in the third quarter on higher gas and oil prices. Earnings rose to $5.6 billion, above the $4.1 billon earned in the same period a year earlier, but fell short of expectations for $5.7 billion, sending the firm's stock price lower.

Europe (ex. UK)

- European stocks rose last week even though the Eurozone posted a weaker-than-expected growth rate in the third quarter. The Eurofirst 300 rose 0.19% on Friday, pushing the index up 3.10% on the week to end at 1,429.62.

- German Chancellor Angela Merkel said Monday she would step down as leader of the Christian Democratic Union party in December and not seek re-election in 2021, after her party suffered a series of local election defeats. Merkel, who has served as chancellor for 13 years, has been considered the most powerful political leader in Europe and a symbol of German economic stability.
- German's ProSiebenSat.1 Media AG said Monday it had bought U.S. internet dating site eHarmony. The Los Angeles-based eHarmony has 2.8 million users, complementing ProSieben's own Parship online dating service, the market leader in Germany. Terms of the deal were not disclosed.
- The European Commission has sent a series of objections to Siemens and Alstom over their plan to merge their railroad operations to create a Franco-German rail champion. Siemens and Alstom will be forced to make concessions, including possible asset sales, to gain the Commission's approval for the deal.
- Volkswagen and Ford Motor Co. are discussing a wide-ranging partnership to include electric vehicles and autonomous driving, Handelsblatt reported Thursday. The goal is to pool their resources for the massive investments needed for research and development of new types of vehicles.
- Pre-tax profits at Swiss investment bank Credit Suisse rose nearly 70% to 671 million Swiss francs. Revenues were below expectations but so were costs. An unexpected drop in trading earnings w as led by a 20% decline in fixed income.

Japan

- The Nikkei 225 Index rose 2.56% on Friday and 5.00% on the week to 22,243.66 on the positive summit meeting between Japanese Prime Minister Shinzo Abe and Chinese President Xi Jinping, as well as positive new on the US-China trade dispute.
- Electronics giant Panasonic Corp. said its first fiscal half-year earnings rose 3.9% from a year earlier to 4.008 trillion yen, the first time the company's earning surpassed 4 trillion yen in seven years. The company's giant battery factor in the U.S. is finally close to making a profit given that rise in Tesla car production will increase demand for its batteries.
- Hitachi electronics reported that its operating profit in the April to September period rose 13.6% from a year earlier to 344.5 billion yen, while net profit rose 20.2% to 192.9 billion yen. The company's railway system business in Europe was a standout.
- Sony's net profit in the fiscal first half rose 88.7% to 399.4 billion, led by strong membership gains in its online game operations.
- Brokerage firm Nomura Holdings Inc. posted a loss of 6.01 billion yen in the April to September period, the first time in seven years it posted a loss in the fiscal first half. The company recorded a charge of 19.8 billion yen to settle a U.S. Department of Justice lawsuit for mis-selling mortgage-backed securities during the global financial crisis, and a 7 billion charge for close a unit in Bahrain.

Asia-Pacific (ex. Japan)

- Chinese stocks jumped 2.70% to 2,676.48 on Friday on news that US President Trump had arranged a dinner with Chinese President Xi on Dec. 1 after the G20 meeting and a report that Trump had asked his cabinet to draft the outlines of a trade deal with China. Friday's gain pushed the Shanghai Composite up 2.99% for the week, as the market shrugged off a decline in the official purchasing managers index to a two-year low.
- Hong Kong stocks rose 4.21% on Friday and 7.16% for the week to close at 26,486.353, on optimism that a US-China trade deal was possible in the near term.
- Taiwan's Taiex Index gained 0.63% on Friday and 4.40% for the week to 9,906.59, on the easing of trade concerns.
- South Korean stocks increased 3.53% on Friday on the positive trade news, accounting for all of the 3.40% increase on the week to close at 2,096.00.
- Singapore stocks rose 1.81% on Friday on trade optimism, pushing the Straits Times Index up 4.86% for the week to close at 3,116.39.

Emerging Markets

- Brazil stocks rose 1.14% on Friday and 3.15% on the week, as the market cheered the election of controversial Jair Bolsonaro as president. The Bovespa closed at 88,419.05.
- Mexican stocks rose 3.42% on Friday but fell 0.78% on the week to end to 45,446.83, on continued economic worries.
- Indian stocks rose 1.68% on Friday and 4.98% on the week to 35,011.65, only the second gain in 10 weeks.
- Russian stocks rose 0.3% on Friday, helping push the index up 3.32% on the week to settle at 1,134.80, even though the price of oil fell for the fourth week in a row.

Alternative Assets

- Crude oil prices fell on Friday and for the fourth week in a row on news that the U.S. had granted to eight countries exemptions to sanctions that would allow eight countries to continue to import oil from Iran. The December West Texas Intermediate contract fell 0.9% on Friday to $63.14 per barrel and was down 6.6% on the week to its lowest level since April. The December Brent crude contract, used to price international oils, fell less than 1% on Friday to $72.83 and was down 6.2% on the week.
- Gold prices declined on Friday and posted a small drop on the week. December gold fell 0.4% on Friday and 0.2% on the week to settle at $1,233.30 per troy ounce.

Fixed Income

US

- The yield on benchmark 10-year U.S. Treasuries rose sharply to 3.2121% at the end of last week, up from 3.0755% at the end of the previous week, as a strong employment report and signs of rising inflation reinforced expectation that the Federal Reserve would continue to raise interest rates.
- October employment was much stronger than expected, with nonfarm payrolls up 250,000 compared with the 190,00-increase expected by analysts, with a net zero revision in the previous two months, data released by the Bureau of Labor Statistics Friday showed. Additionally, the unemployment rate remained at 3.7% in October on large gains in both household employed and unemployed, while hourly earnings were up 0.2%, as expected, to boost the year/year rate. There was no discernible impact from Hurricane Michael, which occurred in the survey week. Average hourly earnings rose 0.2% in October after an unrevised 0.3% gain in September. Hourly earnings now stand 3.1% above its year ago level, up from 2.8% in September. The rise in the year/year rate was due in large part to base effects. Hourly earnings fell by 0.2% in October 2017 on the impact of hurricanes following a 0.5% gain in September 2017.
- The international trade gap widened to $54.0 billion in September from $53.3 billion in August. Analysts had expected the gap to widen to only $53.5 billion based on a slightly wider advance goods trade gap. Exports rose on industrial supplies and materials, autos and capital goods, while imports rose on capital goods and consumer goods. The trade gap with China widened in the month to a record high $40.2 billion deficit, but there were narrower gaps with Canada, Mexico, and the EU.
- Nominal personal consumption expenditures (PCE) rose 0.4% in September as expected, while core PCE prices were up 0.2% on the month, keeping the year/year rate at 2.0% after rounding, according to data released by the Bureau of Economic Analysis Monday morning. The 2.0% year/year rate for core PCE prices is in line with the Fed's inflation target after 2.0% readings in the previous four months. The 0.4% gain in current dollar PCE followed a 0.5% gain in August. Spending on durable goods was up 1.4% in the month, while nondurable goods spending rose 0.3% despite a 0.4% decrease in energy prices. Services spending was up 0.3%.
- The value of new factory orders rose 0.7% in September, above the 0.5% increase expected by analysts in an MNI survey, data released by the Commerce Department Friday morning showed. Durable goods orders were revised down slightly to a 0.7% gain from the 0.8% increase reported in the advance estimate. Nondurable goods orders rose 0.6% on gains in petroleum and coal, chemical products, and plastics and rubber products. Nondurable goods new orders are equivalent to nondurable goods shipments in this report. Factory orders excluding transportation were up 0.4% in the month following a 0.4% gain in August, continuing the string of gains that stretches back virtually uninterrupted for most of the past two years. Durables orders excluding transportation were revised down to a flat reading from the 0.1% gain in the advance report. In addition, unfilled orders were +0.8% in September, showing steadily growing demand for products.
- The MNI Chicago Business Barometer declined to 58.4 in October, the lowest reading since April, and down 2.0 points from the 60.4 recorded in September. Business activity continued to expand at a healthy rate this month, despite the pace of activity decelerating for the third month in a row. A decline in order book growth and unfinished orders more than offset a rise in output, delivery times and employment, sending the Barometer to its lowest reading in six months. On the year, the Barometer was down 10.7%, the biggest year-over-year fall since December 2015. Despite beginning the final quarter on a softer footing, activity remains robust relative to recent years. The headline index still sits above its five-year average, with the latest moderations possibly reflecting a reversion to more normal levels after a series of strong performances over the past 12 months.

UK

- The yield on 10-year Gilts rose to 1.4940% at the end of last week from 1.3830% at the end of the previous week, as investors continued to worry about the outlook for Brexit.

- UK retailers reported a sharp decline in retail sales volume growth in October, after a three-month high in supplier orders in September, a CBI survey published Wednesday showed. The reported sales volume balance fell to +5 in October, down 18 points from September and well below the MNI median of +20. The number was also below the three-month moving average of +19.0. One consolation is that October's outcome means the headline balance has now put together a string of six consecutive monthly increases after falling into negative territory in both March and April.
- UK consumer confidence deteriorated for a second month in a row in October, with GfK's long-running Consumer Confidence Index down a point to -10, data published Wednesday showed. The slide in October's GfK Consumer Confidence Index was driven by deteriorations across three of the five sub-components, including households' assessment of their personal finances and their perceptions of economic prosperity. October's result left the headline index at its joint-lowest level in 10 months, meaning over the past two months it has given back all of the 3-point gain notched in August which had taken the index to its joint-highest level since May 2017.

Europe (ex. UK)

- The yield on benchmark 10-year Bunds rose to 0.4280% last week from 0.3520% at the previous week's close on concerns about growth and German domestic politics.
- The Eurozone economy grew 0.2% on quarter in the three months to September, following a 0.4% expansion in the second quarter, missing market expectations for a 0.4% advance, Eurostat's flash estimate showed. It was the weakest growth rate since the second quarter of 2014 as Italy's economy stalled for the first time in almost four years.
- Euro area inflation rose to 2.2% in October, up from 2.1% in September, with price increases across energy and services offsetting moderation in the food, alcohol and tobacco segments, data published by Eurostat Thursday showed. The projected October rise kept the headline HICP rate above the ECB's target of below, but close to, 2%. It has remained equal to or above 2.0% for the past five months. More pleasing still will be the rise in underlying inflation, up 0.2pp to 1.1%, supporting the ECB's plans to reduce monetary support over the coming year. Energy prices continued to support the headline rate in October, rising by an estimated 10.6% y/y - the fastest in just under seven years. Assisting the pickup in prices was the services sector, which accounts for just shy of 44% of the consumer basket (the biggest share of the major categories). Prices were estimated to have risen by 1.5% in October, the highest outturn since May, which was boosted by Easter and when prices were up by 1.6%.
- The euro area jobless rate held firm at 8.1% in September, the lowest recorded since November 2008. Across the 'Big Four', the level of unemployment moderated in Spain (down 0.1pp to 14.9%), rose in Italy (up 0.3pp to 10.1%) and remained unchanged in Germany (3.4%) and France (9.3%).

Japan

- The yield on 10-year Japanese government bonds rose to 0.1290% from 0.1130% at the previous week's close as the Bank of Japan continued to allow slightly higher yields.
- The Bank of Japan board decided Wednesday in a 7-to-2 vote to leave its monetary policy unchanged, maintaining its yield curve control and asset purchases unchanged, as Japan's economy is expanding moderately, despite downside risks. The BOJ vowed to maintain its current easy policy "for an extended period of time," taking into account uncertainties regarding economic activity and prices, including the effects of the consumption tax hike planned for October 2019.
- Bank of Japan Governor Haruhiko Kuroda voiced concern Wednesday over the impact of a prolonged US-China trade dispute on global financial markets and economy, although he noted the current impact was limited. "If the trade dispute is prolonged, it will worsen sentiment and destabilize global financial markets," Kuroda told reporters. Kuroda also said he doesn't have plans to change the 10-year target rate from around zero percent to mitigate the side-effects of the BOJ's easy policy. He also said that he does "not plan to expand the allowable range of the 10-year rate" from the current range of -0.2% to +0.2%.
- Following weak inflation readings in the April-September period, the Bank of Japan board revised down its medium-term inflation projection for the current fiscal year to 0.9% from the 1.1% outlined in July, the BOJ quarterly Outlook Report released Wednesday showed. The BOJ also lowered their median inflation rate in fiscal 2019 to 1.4% from the 1.5% seen in July and the median inflation rate in fiscal 2020 was also lowered to 1.5% from 1.6% previously. The BOJ board said it remains vigilant over the outlook for inflation rate, saying, "Risks to both economic activity and pries are skewed to the downside." The BOJ said, "The momentum toward achieving the price stability target of 2% is maintained but is not yet sufficiently firm, and thus developments in prices continue to warrant careful attention."
- Japan's industrial production in September fell at a faster pace than expected, according to preliminary data released Wednesday by the Ministry of Economy, Trade and Industry. Industrial production fell 1.1% from August vs -0.3% forecast; 0.7% gain in August. Industrial production may rise 6.0% on month in October (revised up from +1.7% in the previous forecast), but fall by 0.8% in November, METI said, based on its survey. Shipments fell 3.0% m/m to the lowest

level this year, after 1.7% increase in August, affected by reduced transport and iron and steel shipments. Inventories increased for the first time in four months, gaining 2.3%.

- Japan's retail sales in September posted the 11th straight year-on-year rise on high costs for food and energy, according to the preliminary data released Monday by the Ministry of Economy, Trade and Industry (METI). Retail sales rose 2.1% on year in September, higher than the +1.7% median of a forecast of economists conducted by MNI. The pace of gain slowed from +2.7% in August.

Source: Market News International