Schroders

Weekly market watch

As at Friday February 1, 2019

Equities

Region / Country	Index	Close	Net Change	Performance	
				Year-to-date	52-week
Asia-Pacific					
Hong Kong	HSI	27,930.74	361.55	8.07%	-14.33%
India	BSE 30	36,469.43	443.89	1.11%	4.00%
Japan	Nikkei	20,788.39	14.83	3.87%	-10.68%
Singapore	STI	3,188.68	(13.57)	3.91%	-9.66%
South Korea	KOSPI	2,203.46	25.73	7.96%	-12.75%
Taiwan	WSE	9,932.26	85.86	2.11%	-10.55%
Shanghai	COMPOSITE	2,618.23	16.51	4.99%	-24.37%
Europe					
France	CAC	5,019.26	93.44	6.10%	-6.44%
Germany	DAX	11,180.66	(101.13)	5.89%	-12.55%
Italy	FTSE MIB	19,576.77	(233.75)	6.84%	-15.63%
Russia	RTSI	1,211.23	19.21	13.33%	-4.83%
UK	FTSE 100	7,020.22	211.00	4.34%	-5.69%
Americas					
Brazil	IBOV	97,861.27	184.08	11.35%	16.44%
Mexico	IPC	43,738.27	99.65	5.04%	-13.21%
Nasdaq	CCMP	7,263.87	99.00	9.47%	0.32%
US	S&P 500	2,706.53	41.77	7.97%	-2.01%
US	DOW	25,063.89	326.69	7.44%	-1.79%

Bonds

	Close	Yield		
		Week ago	Month ago	Year ago
10 Year Gilt	1.2480	1.3050	1.2770	1.5310
10 Year OAT	0.5730	0.5980	0.7100	0.9770
10 Year Bund	0.1660	0.1930	0.2420	0.7210
10 Year Japan	-0.0120	-0.0030	0.0030	0.1000
10 Year Treasuries	2.6842	2.7585	2.6842	2.7896

Base lending rates

Prime Rates	Latest	6 months ago	12 months ago
US	5.50	5.00	4.50
Canada	3.95	3.70	3.45
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

- The Dow Jones Industrial Average posted a good gain Friday, helped by strong results for energy majors and a much-larger-than-expected rise in U.S. jobs in January. The Dow Jones Industrial Average rose 0.26% on Friday and 1.32% for the week to close at 25,063.89. The S&P 500 index rose 0.09% on Friday and 1.57% on the week to 2,706.53. The Nasdaq fell 0.25% on Friday but rose 1.38% for the week to 7,263.87.
- Chinese and U.S. negotiators made “important progress” in their talks in Washington on Wednesday and Thursday, the Chinese side said afterward. US President Trump said talks went well, “with good intent and spirit on both sides.” US Trade Representative Robert Lighthizer, the lead US negotiator, was more circumspect, saying the talks “did not go off the rails,” adding that fact “was significant.” There was no indication of a breakthrough on the key U.S. demands that China stop stealing U.S. technology, adequately protect intellectual property, and scale back its state-subsidized economic model. Trump called for a meeting with Chinese President Xi Jinping before the March 1 deal deadline to talk about “some of the more longstanding and difficult points.” Lighthizer will go to Beijing after the Chinese New Year for further talks ahead of the presidents’ summit. On Friday, Trump told the New York Times in an interview that he might maintain some the current trade tariffs on Chinese goods even if there is a deal. “Without the tariffs, we wouldn’t be talking” he said. The U.S. has threatened to increase the tariff rate on $200 billion in Chinese imports to 25 per cent from 10 per cent if negotiators do not reach agreement on a range of disputed trade issues by March 1. Most analysts expect the deadline to be extended if there are signs of progress in the talks.
- The U.S. filed criminal charges against Chinese telecom giant Huawei and its chief financial officer on Monday. The U.S. indictment accused Huawei of stealing U.S. technology and of engaging in a conspiracy to break U.S. sanctions again Iran. Huawei denied the charges, while the Chinese government slammed the U.S. move as “unfair.” The U.S. will now proceed to try to extradite Huawei CFO Meng Wanzhou, the daughter of company founder Ren Zhengfei, from Canada, where she was arrested on Dec. 1.
- Heavy construction equipment maker Caterpillar reported Monday that it expected only a modest increase in worldwide sales this year and no growth at all in China, due to that country’s continued economic slowdown. Caterpillar gets about 10% of its sales from China. The company’s shares fell sharply after the announcement.
- Semiconductor maker Nvidia cut its fourth quarter earnings forecast on Monday, saying it would be about 19% lower than previously projected, largely due to slower growth in China. It’s shares also fell on the news.
- Pacific Gas & Electric, California’s largest utility, filed for bankruptcy protection on Monday, saying potential liabilities from wildfires in the state last year exceeded its insurance coverage. According to the bankruptcy documents, the company has liabilities of $51.7 billion and assets of $71.4 billion. If uninsured damages from the wildfires exceed $20 billion, then liabilities would exceed assets. The bankruptcy filing was opposed by BlueMountain Capital, one of its largest stockholders, noting that last week, PG&E was cleared for any responsibility for the 2017 Tubbs Fire, which had a potential liability of $17 billion.
- Apple reported on Tuesday its first decline in revenues and earnings in more than a decade, due largely to weaker iPhone sales, particularly in China. Revenues fell 5% to 84.3 billion in the fourth quarter, its fiscal first quarter. But Apple shares rose on the announcement that earnings fell just 0.5% to $20 billion, a result much better than analysts had feared. However, Apple said it expected fiscal second quarter revenues of $55 billion and $59 billion, a drop of 3-10% compared to a year earlier, compared to Wall Street expectations for revenues at the top end of that range. Revenues for the iPhone fell 15%, including a 27% drop in China, while sales of the rest of its products and services rose 19%. Separately, Apple and health insurance giant Aetna announced they had jointly developed a new health care app, called Attain, designed to run on the Apple watch.
- Internet marketplace eBay announced Tuesday that it would offer a dividend and increase its share buyback plan to satisfy activist investors, led by Elliott Management. Elliott believes the new agreement will dramatically increase the company’s share price.
- Facebook reported Wednesday that fourth quarter revenues and earnings beat expectations, causing its stock price to rise by 10%. Earnings rose 65% to $2.38 per share in the fourth quarter, well above expectations for a rise to $2.18 per share. Revenues, mostly from advertising, rose 30% to $16.9 billion, above expectations for $16.4 billion.
- Shares in electric carmaker Tesla fell sharply Wednesday after the company revealed that chief financial officer Deepak Ahuja had retired only two years after taking the job. The announcement came after the company announced mixed results for the fourth quarter. While revenues rose to $7.23 billion, above expectations, earnings per share on a pro forma basis stood at $1.93, below expectations for $2.19.
- Amazon reported its third consecutive record quarterly profit in the fourth quarter last year, but share prices fell after the company gave a cautious forecast for the first quarter. The ecommerce retailer expects revenues to rise between 10% and 18% to $56 billion to $60 billion, below the $61 billion expected by Wall Street. Amazon expects first quarter operation income of between $2.3 billion and $3.3 billion in the first quarter, in line with expectations, up from $1.9 billion

in the fourth quarter. The company warned in particular about the uncertainty surrounding the new foreign ecommerce rules in India, one of its key growth markets.

- Chinese ecommerce and finance conglomerate Alibaba Group Holdings Ltd reported earnings on Thursday that beat expectations. Shares in the U.S.-listed company rose. Net income rose 37% to 33.1 billion yuan in the fourth quarter, well above the 22.1 billion yuan expected. While revenues rose 41% to 117.3 billion yuan, they were below expected and posted the slowest growth pace in more than two years, amid worries about the outlook for the Chinese economy.

UK

- The FTSE 100 rose 0.74% on Friday and 3.10% on the week to close at 7,020.22 as investors cheers the UK Parliament's vote to prohibit a no-deal Brexit.
- The House of Commons voted narrowly Tuesday to back Prime Minister Theresa May's "Plan B" to renegotiate the Brexit transition deal with the European Union. A spokesman for EU President Donald Tusk ruled out a renegotiation of the exit package, particularly its Irish border backstop. May is under significant pressure to reach a deal, given she has less than two months before the scheduled departure date of March 29. An amendment to delay the exit date was defeated Tuesday, though EU's Tusk said he was open to discussions of a delay. Parliament also narrowly passed an amendment ruling out a no-deal Brexit did pass narrowly, though it did not specify an alternative. May said she would target a renegotiated deal by Feb. 13, with Parliament having a chance to vote on Feb. 14.
- Tesco, the UK's largest supermarket group, said Monday it will cut or redeploy up to 9,000 jobs as part of a cost-cutting initiative. About half of the affected workers are expected to be asked to change jobs to improve efficiency. The move comes as German discount grocers Lidl and Aldi continue to make significant in-roads into the UK market.

Europe (ex. UK)

- On the continent, the Eurofirst 300 rose 0.22% on Friday, helped by Wall Street's rebound. This allowed the index to end the week up 0.69% to close at 1,414.24.
- The European Commission is set to block the proposed merger of Siemens' and Alstom's rail operations in an effort to build a European champion to take on the powerful Chinese. Last minute concessions offered by Siemens and Alstom proved insufficient to alleviate concerns.
- The European Commission accused eight unnamed European banks of collusion to rig the 7 trillion euro market for Eurozone government bonds. The Commission alleges that traders from the eight banks shares information and coordinated trading intermittently between 2007 and 2012. The price rigging did not involve the entire bank, but rather involved specific traders at each bank.
- Deutsche Bank reported a profit in 2018 for the first time in four years, even though its loss in the fourth quarter was greater than expected. The bank reported a full-year profit of 341 million euros, compared to a net loss of 735 million euros in 2017. However, the bank reported a loss of 409 million euros in the fourth quarter, well above analysts' expectations for a 268-million-euro shortfall, as bond trading revenues fell 23%.
- The European Central Bank has set terms that would have to be met for it to approve the potential merger of Deutsche Bank and Commerzbank, Germany two largest financial institutions, Sueddeutsche Zeitung reported, citing sources close to Deutsche Bank's supervisory board. The first criterion would be a sensible business plan that made for a profitable institution. Shareholders would have to make additional capital available and the merger plan would rise or fall on its reception by financial markets. There is increasing speculation that the German government is pushing both financially troubled institutions to merge.

Japan

- Japan's Nikkei 225 Index rose 0.07% on Friday, pushing the index up an identical 0.07% for the week to close at a five-week high of 20,788.39.
- The Japanese-European Union free trade deal, the world's largest, went into force on Friday. The deal, accounting for about 30% of the world's GDP, eliminates or cuts sharply almost all tariffs on bilateral trade.
- Sony Corp. reported its best-ever quarterly profit in the fiscal third quarter due in large part to gains resulting from its acquisition of EMI, which made Sony the world's largest music publisher. Third quarter profits rose to 376.99 billion yen, up from 350.84 billion yen a year earlier. Nevertheless, the record profit was below expectations for a rise to 383.67 billion yen.
- Japan's Government Pension Investment Fund (GPIF) reported a record quarterly loss on Friday due to weakness in global stock markets. GPIF said it lost 14.8 trillion yen in the fiscal third quarter. The Nikkei stock index fell 17% during the quarter on worries about the impact of the China-US trade tension.

- Japan Display Inc. is expected to report its fifth consecutive annual loss in fiscal 2018, JiJi Press reported Tuesday. Japan Display is a key supplier for Apple iPhones, whose sales dropped sharply in the fourth quarter and are expected to remain weak in the first quarter.
- Nissan and Renault confirmed on Thursday that they would continue their automaking alliance, following a meeting of top officials in the Netherlands. The confirmation came after both Nissan and Renault replaced top executive after the arrest of Tokyo of Carlos Ghosn, former CEO of both firms and the architect of the alliance, on charges of underreporting his income and taking actions caused financial losses Nissan. Ghosn has denied the charges.

Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite rose 1.30% on Friday, allowing for a 0.63% gain for the week to 2,618.23, on reports of progress in China-US talks held in Washington on Wednesday and Thursday.
- Hong Kong's Hang Seng index fell 0.04% on Friday but rose 1.31% for the week to 27,930.74, on renewed hopes for an early resolution of the China-U.S. trade tension.
- Taiwan's Taiex index rose 0.01% on Friday and 0.87% for the week to end at 9,932.26, as Taiwanese tech suppliers remained positive about the global trade outlook.
- South Korea's Kospi fell 0.06% on Friday but rose 1.18% for the week to close at 2,203.46, as the market tried to look beyond the recent struggles of the domestic economy.
- Singapore Straits Times Index fell 0.05% on Friday and 0.42% for the week to close at 3,188.68, on continued worries about the China-U.S. trade tension.

Emerging Markets

- Brazil's Bovispa rose 0.48% on Friday and 0.19% on the week to 97,861.28, as the market continued to cheer the pro-business policy plans of President Jair Bolsonaro.
- Mexico's IPC fell 0.57% on Friday but rose 0.23% on the week to 43,738.27, as the market remained concerned about the global growth outlook.
- India's BSE 30 rose 0.59% on Friday and 1.23% for the week to 36,469.43 as the government revised up 2017 growth figures and offered a series of fiscal incentives ahead of upcoming national elections.
- Russia's RSTI fell 0.27% on Friday, as oil prices, Russia’s largest export, declined. The index rose 1.61% on the week to close at 1,211.23.

Alternative Assets

- Oil prices rose Friday, as continued political turmoil in Venezuela and the prospect of lower OPEC supply boosted prices. March West Texas Intermediate (WTI) crude rose 2.7% Friday and 2.9% for the week to $55.26 per barrel. April Brent crude on London’s ICE Futures Exchange closed the trading period at $62.75 a barrel, up 3.1% on Friday and 1.8% on the week.
- Gold futures fell Friday on better than expected U.S. jobs and supply management data. April gold futures fell 0.2% on Friday but were up 1.9% for the week to close at $1,322.10 per troy ounce.

Fixed Income

US

- The yield on benchmark 10-year Treasuries fell to 2.6842% last Friday from 2.7585% at the close of the previous week, on continued worries about the global economic outlook.
- The FOMC held rates steady at a 2.25% to 2.5% range and said it "will be patient" in light of "muted inflation" and "global economic and financial developments," a pledge likely to be interpreted by investors as a bias toward keeping rates on hold for the first half of the year. In updated guidance on balance sheet normalization, the FOMC said it is "prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments." However, it also emphasized that the fed funds rate is its "primary means" of adjusting the stance of monetary policy. It would consider only altering the size and composition of its balance sheet if conditions were to warrant a more accommodative policy "than can be achieved solely by reducing the federal funds rate," it said. Forward guidance on "further gradual increases" in rates was removed as well as its assessment on balance of risks, as the FOMC pivoted further toward data dependence. In place of a commitment to higher future rates, the committee said it continues to view

economic growth, strong labor market conditions and inflation near its 2% symmetric target as "most likely outcomes." The FOMC formally committed to the abundant reserves policy implementation framework it has employed since the financial crisis, a decision long expected by market participants. The Fed intends to ensure control over short-term interest rates through the fed funds rate, rather than through open market operations to management reserves supply, it said. Its discussion of inflation noted that market-based measures of inflation compensation have "moved lower in recent months," though survey-based measures were "little changed" and overall inflation and core inflation "remain near" 2%.

- The January employment report was much stronger than expected, with nonfarm payrolls surging by 304,000 compared with the 167,000-increase expected by analysts, data released by the Bureau of Labor Statistics Friday showed. However, there was a net 70,000 downward revision in the previous two months and a net 78,000 downward revision to the previous four months when annual revisions are incorporated, with the bulk of that coming from a 90,000 downward revision to December's sharp gain, which now stands at 222,000. The unemployment rate rose to 4.0% from 3.9% in December, while the labor force participation rate rose by 0.1pp to 63.2% in January. The labor force fell by 11,000, with household employment down 251,000 and unemployed up 241,000. The furloughed government workers were considered as "unemployed on temporary layoff," totaling 937,000 this month, up from 762,000 last month. This impact should reverse in the February data, as the next date for a government shutdown to begin, February 15, would still allow these workers to be at work during the entire survey week. Hourly earnings rose 0.1% after an unrevised 0.4% gain in December. Analysts had expected a 0.2% rise in the month, while markets were further off with their 0.5% whisper number.
- The MNI Chicago Business Barometer fell by 7.1 points in January to 56.7, its lowest reading since January 2017 when it fell below the 50.0 change/no-change mark. Driving the fall were New Orders, which sunk to a two-year low. Anecdotal evidence showed firms noting weaker demand from customers which was also affected by firms being unable to absorb cost-push pressures themselves. A by-product of weak New Orders was a decline in Production to a 10-Month low. As customer orders fell, firms produced less as a result. The reading, whilst disappointing, still shows the indicator at a healthy level, just above its series average. The adjusted Supplier Deliveries Indicator was unchanged in 2018. However, it did decline over the last two months of 2018 and continued to ease in January to a 17-month low. Delivery times still remain longer than normal, however, hindering business operations. This month there were reports from multiple firms of difficulties sourcing production staff such as welders and machinists. This continued to highlight the ongoing impact of tariffs.

UK

- The yield on 10-year Gilts fell to 1.2480% at the end of last week from 1.3050% the week before on worries about Brexit.
- The UK CIPS/IHS Markit manufacturing sector PMI declined 1.4 points to 52.8 in January, below the MNI economist survey median of 53.5. The PMI continues to signal underwhelming manufacturing activity, with the reading at a three-month low. It is also the second weakest reading since July 2016, (the first survey month following the EU referendum result). Evidence of stockpiling was evidenced through the stocks of purchases rising at a survey-record rate, with anecdotal evidence showing companies increased purchasing activity and stockpiling of inputs at warehouses. "The start of 2019 saw UK manufacturers continue their preparations for Brexit. Stock of inputs increased at the sharpest pace in the 27-year history, as buying activity was stepped up to mitigate against potential supply-chain disruptions in coming months," said Rob Dobson, Director at IHS Markit. According to IHS Markit, the trend in production volumes was the weakest registered during the past two-and-a-half years. Whilst consumer goods producers output rose, this was more than offset by weaker expansion in intermediate goods sector and the first decline in investment goods output since July 2016. In fact, Dobson said that despite the temporary boost from purchase activity, "the underlying trends in output and new orders remained lacklustre at best". This was backed up by the fact that the rate of increase in new work from domestic sources eased and growth of new export business slumped to near-stagnation.
- The January GfK UK consumer confidence survey showed the headline index matching the December outturn, which was the lowest since mid-2013. The GfK Consumer Confidence Index came in at -14 in January, unchanged from December. It was last below this level back in the summer of 2013, hitting -16 in July 2013. It is still well above its global financial crisis lows, hitting a trough of -39 in July 2008. The sub-indices reflected a mix of deep pessimism over the economic outlook combined with consumers being fairly upbeat over their personal finances, with unemployment low by historic standards and some signs of earnings growth.
- UK shop prices rose 0.4% y/y in January, with the pace accelerating from 0.3% in December, marking the fifth month of annual shop price inflation in of the last six months. The rate was also the highest inflation rate since April 2013, data from the British Retail Consortium (BRC) shows. On a monthly basis, the BRC Shop Price Index (SPI) was down 0.4%, accelerating from a 0.1% fall in December. Food price inflation stood at 1.5% in January, unchanged from December. The rate of non-food deflation decelerated to its lowest rate since March 2013 in January. Non-food deflation fell to -0.3% from -0.4% in December.

Europe (ex. UK)

- The yield on benchmark 10-year Bunds fell to 0.1660% last Friday to 0.1930% on Friday the previous week as demand for bonds remained strong due to growth worries.
- Eurozone GDP rose 0.2% quarter-on-quarter in the fourth quarter, in line with expectations and the third quarter rate. On the year, GDP rose 1.2%, also in line with expectations and down from 1.6% in the third quarter.
- The final IHS Markit Eurozone Manufacturing PMI stood at 50.5 in January 2019, matching the flash estimate and down from 51.4 in December. The January level was the lowest since November 2014. New orders declined at the sharpest rate since April 2013 as domestic and foreign demand deteriorated further, with new export orders falling at a pace unchanged on December's 68-month record. In addition, backlogs of work dropped for a fifth successive month and output growth was the weakest registered in the current 67-month run of expansion. Stocks of finished goods rose in January for a fourth consecutive month and to the greatest extent since the survey began over 20 years ago. Job creation softened to the lowest since September 2016. On the price front, input cost inflation decreased to near two-and-a-half-year low and output prices rose the least in a year-and-a-half.
- The Eurozone consumer inflation rate eased to 1.4% in January from 1.6% in December, in line with market expectations, according to a preliminary estimate. This should be the lowest rate since April. Core consumer prices In the core inflation rate increased to 1.1% in January over the same month in the previous year, up from 1.0% in December.
- The Eurozone seasonally-adjusted unemployment rate stood at 7.9 percent in December, unchanged from November and in line with market expectations. It remained the lowest rate since October 2008.

Japan

- The yield on 10-year Japanese Government Bonds rose over the past week to -0.0120% on Friday from -0.0030% the previous week as the Bank of Japan maintained its control over market interest rates.
- Bank of Japan Deputy Governor Masayoshi Amamiya warned Thursday that the central bank must pay greater attention to accumulated side-effects of its easy monetary policy than it has previously. "In order to persistently continue the current powerful monetary easing, it is necessary to contain the accompanying negative effects, or the side effects," Amamiya said. Amamiya didn't outline an immediate need to change policy, saying, "The BOJ will pursue powerful monetary easing while thoroughly examining both the benefits and costs of its policy effects."
- China's slowing economy and its impact on Japan was seen as a concern by some Bank of Japan board members, the minutes of the December 19-20 policy meeting released Monday showed. However, the BOJ didn't see the need to conduct additional monetary policy easing, but noted it would keep a close eye on both the pros and cons of current policy. At the meeting the BOJ board decided to stand pat on monetary policy, voting 7-2 to leave yield curve control and asset purchases unchanged, with the board seeing Japan's economy still 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.
- Japan's industrial production posted the second straight month-on-month drop in December, which will force Bank of Japan officials to re-examine their view that production is returning to a moderate recovery path. BOJ officials were encouraged as production rebounded in the fourth quarter, although, as expected, the gain did not fully offset the drop seen in Q3, as firms could not increase production because they were already running near full capacity. Production in December fell 0.1% from November, according to preliminary data released Thursday by the Ministry of Economy, Trade and Industry (METI). However, December's -0.1% was a better than the MNI median forecast for -0.3%. BOJ officials think the weaker production data for December and November (-1.0%) is somewhat a reaction to the strong October data, which rose 2.9% m/m. Fourth quarter production rose 1.9% from the previous quarter, coming after a fall of 1.3% in the natural-disaster hit Q3. After the mixed messages in Q3 and Q4, the BOJ are now focused on how production evolves in Q1 to understand the underlying trend.
- Japan's retail sales fell to a seven-month-low in December, dragged lower by fuel, along with medicine and cosmetics sales, preliminary data released Wednesday by the Ministry of Economy, Trade and Industry (METI) showed. Retail sales slowed to 1.3% on year in December from November's 1.4%, the lowest rate in the last seven months, although beating the MNI median economist forecast for a gain of 0.9%.

Source: Market News International