Schroders

Weekly market watch

As at Friday March 8, 2019

Equities

Region / Country	Index	Close	Net Change	Performance: Year-to-date	Performance: 52-week
Asia-Pacific					
Hong Kong	HSI	28,228.42	(583.75)	9.22%	-8.93%
India	BSE 30	36,671.43	803.99	1.67%	9.95%
Japan	Nikkei	21,025.56	(577.13)	5.05%	-2.07%
Singapore	STI	3,195.87	(24.53)	4.14%	-8.31%
South Korea	KOSPI	2,137.44	(58.00)	4.72%	-13.09%
Taiwan	WSE	10,241.75	(147.42)	5.29%	-5.73%
Shanghai	COMPOSITE	2,969.86	(24.14)	19.09%	-10.20%
Europe					
France	CAC	5,231.22	(33.97)	10.58%	-0.44%
Germany	DAX	11,457.84	(143.84)	8.51%	-7.27%
Italy	FTSE MIB	20,484.39	(210.14)	11.79%	-9.88%
Russia	RTSI	1,179.58	(8.70)	10.37%	-7.13%
UK	FTSE 100	7,104.31	(2.42)	5.59%	-1.37%
Americas					
Brazil	IBOV	95,364.85	(1,942.46)	8.51%	12.21%
Mexico	IPC	41,586.70	(1,032.53)	-0.13%	-13.79%
Nasdaq	CCMP	7,408.14	(187.21)	11.65%	-0.27%
US	S&P 500	2,743.07	(60.62)	9.42%	0.15%
US	DOW	25,450.24	(576.08)	9.10%	2.23%

Bonds

	Close	Yield: Week ago	Yield: Month ago	Yield: Year ago
10 Year Gilt	1.1890	1.2960	1.1510	1.4740
10 Year OAT	0.4070	0.5780	0.5410	0.8640
10 Year Bund	0.0690	0.1830	0.0870	0.6280
10 Year Japan	-0.0330	-0.0070	-0.0290	0.0540
10 Year Treasuries	2.6267	2.7531	2.6339	2.8571

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	0.75	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

- All three U.S. stock indexes fell Friday for the fifth straight day, buffeted by weak U.S. economic data, concerns about global growth and worries about the U.S.-China trade deal. The Dow Jones Industrial Average fell 0.09% on Friday and 2.21% for the week, the second straight weekly decline, to close at 25,450.24. The S&P 500 index fell 0.21% on Friday and 2.16% on the week to 2,743.07. The Nasdaq fell 0.18% on Friday and 2.46% for the week to 7,408.14, the first drop after 10 straight weekly gains.
- The Democratically controlled House of Representatives intensified its investigations of President Trump last week. Jerry Nadler, the chairman of the House Judiciary Committee, requested information from 81 people and agencies, including the White House, the Trump Organization, the Trump campaign, the Trump Foundation, the inaugural committee as well as family and friends. Other House committee have demanded documents related to Trump's relationships with Russian President Vladimir Putin. The Judiciary Committee is looking for evidence that Trump and his associates broke campaign finance law, used the presidency for personal gain, and will investigate reports that Trump paid money to cover up sexual affairs and to silence critics during the election campaign.
- There were conflicting signals about a possible U.S.-China trade deal last week. While reports continued that negotiators continued to move toward an agreement, there were also reports that officials on both sides were uncomfortable with its terms. The Chinese were said to be nervous that U.S. President Donald Trump would change his mind about the terms at the last minute, and walk out, as he did with North Korean leader Kim Jong Un earlier this month. Trump fanned those fears by saying Friday "I am confident but … if this isn't a great deal, I won't make a deal." A U.S. diplomat in Beijing said Friday that a deal wasn't imminent. Hard-liners among U.S. officials were said to be concerned that the deal was not strong enough. The proposed deal would not address U.S. concerns on Chinese cyber theft or government subsidies to favored industries, according to the New York Times. No date for a summit meeting between U.S. President Trump and Chinese President Xi Jinping has yet been scheduled, indicating that more work needs to be done on details of a deal. White House economic advisory Larry Kudlow said that the meeting, which had been expected this month, could slip into April.
- President Trump also decided to end the preferential trade status for India, which allowed $5.6 billion worth of Indian products to enter the U.S. duty free, saying India had not given sufficient assurances that U.S. products would receive reasonable access to its market. India said the decision would have minimal impact on its economy. The U.S. comes just weeks before the Indian national election, in which Prime Minister Narendra Modi is seeking re-election amid significant domestic criticism of his economic policies. The U.S. also plans to remove Turkey from the preferential trade program, saying it is "sufficiently economically developed" and no longer needs the preferential treatment.
- China telecommunications giant Huawei is suing the U.S. government, saying its ban on government agencies buying Huawei equipment on national security concerns is unconstitutional. The lawsuit may force the U.S. to reveal why it considers Huawei a national security threat. But it also opens Huawei up to extended discovery of its relationships with vendors and with the Chinese government. Experts say the lawsuit is unlikely to succeed, noting that Russian software firm Kaspersky Lab lost a similar lawsuit two years ago.
- The Federal Communications Commission (FCC) on Friday stopped its 180-day "shot clock" that limits the time for review of the proposed merger of wireless operators Sprint Corp. and T-Mobile US Inc. so that the pubic would have three additional weeks to comment on the $26 billion deal. The move came after the two companies, the third and fourth largest mobile operators in the U.S., submitted new information in support of their deal. The deal has already been approved by stockholders of both companies and have been given national security clearance from the U.S. government. In addition to the FCC review, the Department of Justice still must rule on whether the merger meet competition guidelines.
- Facebook plans to shift its corporate strategy to focus on private messaging rather than the public broadcasting that has been the foundation of the company's growth, CEO Mark Zuckerberg announced Wednesday. The company will focus on private and encrypted messaging, mostly with groups of people that the user knows. Unless public messages, the private messages will be able to be deleted after a time. Zuckerberg said he wanted combine Facebook, Whatsapp and Instagram into a single platform to make the company like "living room" rather than a "town square." The about-face for the company comes as it is under increasing pressure for failure to prevent fake news and data privacy scandals. But critics worry about the new business model, since most of Facebook's revenues come from targeted ads in broadcast messaging.
- Delta Air Lines chief executive Ed Bastian said Tuesday that second-largest U.S. airline would replace some 200 Boeing 757s and 767s over the next decade. The order would be worth more than $10 billion and could boost prospects that Boeing will launch the new mid-size plane it has been designing. Bastian said Delta is very interested in the new plane and hopes Boeing decides next year to go ahead with production. Airbus will offer a new version of the A321 as well as a larger A330neo to get some of Delta's business.

- Purdue Pharma LP, the maker of controversial painkiller OxyContin, is considering filing for bankruptcy to protect it from the potential liabilities from more than 2,000 lawsuits claiming its contributed to the opioid epidemic in the United States, Reuters reported Monday. Purdue denies the allegations, saying labelling approved by the U.S. Food and Drug Administration contains sufficient warnings about the risks of using the drug. Chapter 11 bankruptcy would stop the lawsuits and allow the company to negotiate legal deals with each of the plaintiff groups under supervision of the bankruptcy judge.
- Shares on discount retailer Costco rose to a four-year high on Friday after fiscal second quarter earnings were well above expectations. Earnings rose 26.4% to $2.01 per diluted share compared to expectations for $1.69 per share. Revenues rose 7.3% to $35.4 billion, just short of expectations for $35.7 billion. The company announced that it would raise its minimum employee wage to $15 per hour, matching other large retailers such as Amazon, Walmart and Target.

UK

- The FTSE 100 fell 0.74% on Friday pushing the index down 0.03% on the week to close at 7,104.31, as global growth concerns combined with Brexit worries to weigh on the market.
- UK Prime Minister Theresa May is expected to lose a crucial vote on her Brexit transition plan for the second time on Tuesday this week, potentially plunging the Brexit process into chaos. Talks with European Union officials to resolve the key issue – the backstop plan to prevent a hard border between North Ireland and the Irish Republic – are deadlocked, with the UK demanding changes to ensure that the UK would remain in a customs union for only a short time if there is not transition plan and the EU offering assurances that fall short of what is needed to win over Euro-sceptics in May's party so that they'd vote for May's transition plan. If May's plan is voted down on Tuesday, Parliament will have the right to vote to block the UK's exit from the EU, now scheduled for March 29. Such a vote would leave the process in limbo and is likely rekindle interest in a second referendum on whether to leave the EU.
- Insurance brokerage Aon Plc said it is no longer pursuing the purchase of rival Willis Towers Plc, a day after saying it was considering making a bid, Bloomberg reported Wednesday. The deal would have been worth $24 billion and would have been the sector's largest ever. Aon said it was required to make a statement of intent given Willis is governed by Irish regulatory law, but reserves the right to change its stance in the next 12 months.
- Events and business information firm Informa said revenues rose 35% to 2.4 billion pounds last year, helped by the acquisition of rival UBM for 4 billion pounds last year. Excluding the UBM purchase, Informa sales growth was 4%. Profit before tax was up 5% to 282 million pounds.

Europe (ex. UK)

- On the continent, the Eurofirst 300 fell 0.85% on Friday and 0.82% on the week to close at 1,457.70 on worries about European growth after the European Central Bank's sharp downward revision to its forecasts on Thursday.
- Nestle is accepting bids to buy its skin care unit, which is expected to bring in about $7 billion, the Financial Times reported. First-round bids for the unit were due Wednesday. A number of private equity firms have formed consortiums to pool money for a bid.
- Norway's $1 trillion sovereign wealth fund, the world's largest, would divest about $7.5 billion in oil and gas stocks in its portfolio that focus purely on exploration and production under a proposal by the Norwegian government. The proposal seeks to reduce the fund's dependence on the fossil fuel industry given questions about its long-term prospects. Norway is currently western Europe's largest petroleum producer through its North Sea fields.
- Airbus chief executive Tom Enders appeared to rule out paying back all of the hundreds of millions of euros in European government loans used to develop the A380 aircraft, saying the loans were part of a "risk partnership" in the project. Airbus announced in February that it would stop production of the A380 in 2021 due to lack of demand. European governments must share in the losses created by cancellation of production, Enders argued.
- Continental AG, Europe's largest listed automobile technology company, predicted stable results this year despite numerous risk factors like the U.S.-China trade tension and Brexit. The company predicted sales would increase slightly to 45 to 47 billion euros this year. For 2018, net income fell 2.9% to 2.9 billion euros, as sales rose less than 1% to 44.4 billion euros. Last year's results were in line with expectations after the company issued two profit warns during the year.

Japan

- Japan's Nikkei 225 Index fell 2.01% on Friday and 2.67% for the week to close at 21,025.56 on worries about global growth amid weak Chinese export data.
- A Tokyo court on Tuesday granted the bail request of former Nissan chairman Carlos Ghosn on his third attempt. The bail was set at 1 billion yen or about $9 million. He will be kept under guard at his Tokyo apartment and is prohibited from contacting anyone other than his legal team, according to the bail agreement. Ghosn has been in jail since November 19

for allegedly under-reporting his income by $80 million and causing financial losses at Nissan. Ghosn denies the charges and said they are the result of a "coup" among company executives and the Japanese government to block his plan to merge Nissan with French automaker Renault.

- Mizuho Financial Group, Inc. said Wednesday that it had slashed its net profit forecast in fiscal 2018 that ends this month to 80 million yen from the previous estimate of 570 million yen due to 680 million yen in restructuring costs, such as write-downs on next-generation computer systems. Bank executives said that by recognizing these write-downs all at once, it would allow it to invest more in the future.
- SoftBank's Vision Fund invested an additional $1.4 billion in ride-hailing company Grab, which serves eight southeast Asian countries. SoftBank has invested heavily in ride-hailing companies, including Grab, Uber, China's Didi Chuxing and India's Ola. SoftBank first invested $2 billion in Grab in 2017, after which Grab bought Uber's southeast Asian operations last year. Grab's revenue has since doubled, while its food delivery revenues have risen 45%. Grab secured $4.5 billion in its latest funding round – including investments from Toyota, Hyundai and Microsoft -- valuing the company at $14 billion.
- Shares in Renesas fell sharply last week after the chipmaker said it will cut production temporarily because of the slowdown in the Chinese economy, the latest in a series of Asian companies to warn of the economic impact of weaker demand in China. Renesas' announcement came after Hyundai Motor warned it could suspend production in China due to weak sales and overcapacity.

Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite Index plunged 4.40% on Friday, its sharpest one-day fall in five months, pushing the index down 0.81% on the week to 2,969.86 on the biggest drop in exports in three years, a rare brokerage report warning not to buy a domestic stock, talk that the legislature would consider a property tax and worries about the U.S.-China trade deal.
- Hong Kong's Hang Seng index fell 1.91% on Friday and 2.03% on the week to 28,228.42, due to the same factors weighing on the mainland market.
- Taiwan's Taiex fell 0.68% on Friday and 1.42% on the week to 10,241.75, mirroring growing concerns in Asian markets about the outlook for global growth and U.S.-China trade tensions.
- South Korea's Kospi fell 1.31% on Friday and 2.64% for the week to close at 2,137.44, on worries about the slowdown in the Chinese economy, after Hyundai Motors said it would suspend production at one of its mainland China plants due to weak demand and overcapacity.
- The Singapore Straits Times Index fell 1.04% on Friday, pulling the index down 0.76% for the week to close at 3,195.87.

Emerging Markets

- Brazil's Bovispa rose 1.09% on Friday and 0.80% on the week to 95,364.86, as investors remained optimistic about the economic policies of Brazilian President Jair Bolonaro despite his controversial comments on Brazilian mores during the Carnival festival.
- Mexico's IPC fell 0.13% on Friday and 2.42% on the week to 41,586.70 on market concern about the domestic economy and the outlook for the U.S.
- India's BSE 30 fell 0.15% on Friday but rose 1.68% last week to 36,671.43, as investors hoped Prime Minister Narendra Modi would be able to form a strong government to enact needed economic reforms.
- Russia's RSTI fell 1.00% on Friday and 0.65% on the week to 1,179.58 as oil prices, Russia's largest export, fell on Friday in response to weak U.S. employment and Chinese trade data.

Alternative Assets

- Oil prices fell on Friday on weak U.S. unemployment and Chinese trade data, but still rose slightly for the week. April West Texas Intermediate (WTI) crude fell 1.0% Friday but rose 0.5% for the week to $56.07 per barrel. May Brent crude on London's ICE Futures Exchange closed the trading period at $65.74 a barrel, down 0.8% on Friday but up 1.0% on the week.
- Gold futures rose 1% on Friday as global stock markets dropped due to weak U.S. unemployment and Chinese trade data. April gold futures rose 1% on Friday and posted a small 10 cent gain for the week to close at $1,299.30 per troy ounce.

Fixed Income

US

- The yield on benchmark 10-year Treasuries fell to 2.6267 last Friday from 2.7531% at the close of the previous week, as as worries about global growth spurred demand for safe-haven bonds.
- Non-farm payroll growth was much weaker than expected in February, following slight upward revisions to the very strong December and January gains. Payrolls growth posted a 20,000 gain compared with the 180,000 Bloomberg consensus. The unemployment rate fell to 3.8% after an increase to 4.0% in January, while the labor force participation rate remained at 63.2%. Hourly earnings rose 0.4% after a 0.1% January gain. As a result, the year/year rate for earnings rose to 3.4% from 3.1% in the previous month. Average hours worked fell to 34.4 in February from 34.5 in January. Private payrolls rose 25,000, with construction and retail trade down and other categories up only modestly. The key exceptions were professional and business services and health care.
- The U.S. international trade gap widened to $59.8 billion in December from $50.3 billion the month before, a wider gap than expected, data released by the Commerce Department Wednesday showed. The December gap was the largest since October 2008 and the full-year 2018 gap, at $621.0 billion after $552.3 billion in 2017, was the largest since 2008, at the start of the last recession. The unadjusted bilateral trade gap with China narrowed to $36.8 billion in December from $37.9 billion in November. At the same time, the gap with the EU remained at $15.1 billion in December, the same as in November, after rounding. However, the 2018 gaps with both China and the EU were the highest on record. Total exports fell in December, led by a $2.2 billion decline in industrial supplies and a $1.7 billion drop in capital goods. Imports rose solidly in December, with a $2.7 billion gain in capital goods (particularly computer accessories) and a $2.4 billion gain in consumer goods (led by household appliances).
- Delayed January data showed that the pace of housing starts rebounded to 1.230 million units, above expected but are still down 7.8% from a year ago. The pace of building permits rose slightly in the month but were also down 1.5% from a year ago.
- New single-family home sales rose by 3.7% to a 621,000-unit annual rate in December, led by an increase in sales in the Northeast, South and West regions, data released by the Commerce Department Tuesday showed. The new home sales pace was as expected.

UK

- The yield on 10-year Gilts fell to 1.1890% at the end of last week from 1.2960% the week as investors bought bonds due to global growth worries.
- In the event of a no-deal Brexit, an easing of monetary policy was more likely than a tightening, Bank of England Monetary Policy Committee member Silvana Tenreyro said Thursday. Her comments align with those of her colleague, Gertjan Vlieghe. Other MPC members have refused to attach any weights to the likely policy response to no Brexit. Tenreyro said that the policy response to a no deal, no transition period would depend on the balance of the impact on supply, demand and the exchange rate. "In my judgment, a situation where the negative demand effects outweigh those other effects is more likely, which would necessitate a loosening in policy. But it is easy to envisage other plausible scenarios requiring the opposite response," she said. Tenreyro made clear that under current conditions, with the UK hit by Brexit uncertainty, tightening is unjustifiable. "The effect of that Brexit uncertainty on demand has become increasingly evident in recent months," she said.
- The UK CIPS/IHS Markit construction sector PMI dropped 1.1 points to 49.5 in February, the latest survey published Monday showed. The disappointing reading marks the first time the sector has contracted since the snow-hit March 2018. It is also significantly below the industry implied 52.5 change/no-change mark and further evidence that the sector has slowed into 2019. Construction activity showed a loss in momentum, with business activity growth also at its weakest for ten months. Due to a marginal increase in new orders, employment numbers expanded for two-and-a-half years.
- UK house price inflation soared in February, with year-on-year growth up 2 percentage points to 2.8% from January's reading according to data from Halifax, the UK's leading mortgage provider. The result was the average house price in February was up to stg236,800 from stg223,629 in January. The more volatile monthly numbers showed house price growth soaring 5.9% in February. On a quarterly basis, house prices rose 1.8% in the December-February period relative to September-November. Anecdotal evidence appeared to suggest that the reason for the price increase was a lack of supply of houses for sale as opposed to a surge in demand for houses. "The shortage of houses for sale will certainly be playing a role in supporting prices. House price growth is now at 1.8%, an increase from the 0.6% fall last month and back at the rate we saw from July to September 2018," said Russell Galley, Managing Director at Halifax Community Bank.

Europe (ex. UK)

- The yield on benchmark 10-year Bunds fell to 0.0690% last Friday from 0.1830% on Friday the previous week as demand for bonds rose sharply due to growth concerns.
- The European Central Bank introduced new monetary stimulus on Thursday after sharply downgrading its economic forecast for the Eurozone this year. Key interest rates will remain unchanged until at least 2020, the ECB said Thursday, as it announced a third round of targeted long-term refinancing operations. Rates will remain at present levels "at least through the end of 2019," ECB President Mario Draghi said, dropping earlier guidance, introduced in June 2018, that there would be no change at least "through the summer" of this year. The decision to implement a new round of cheap funding for banks was aimed at preserving lending conditions and smoothing the transmission of monetary policy, Draghi said. It had been agreed upon "unanimously" by the ECB's Governing Council. "Given the complexity of the package, this is a very, very positive sign for the cohesiveness of the governing council, " he added. ECB staff GDP growth projections for the euro area were cut from 1.7% to 1.1% in 2019, and 1.7% to 1.6% in 2020. The headline inflation forecast was slashed from 1.6% to 1.2% in 2019; 1.7% to 1.6% for 2020, as the European economy experiences what Draghi called a "sizable moderation that will extend into the current year." Draghi acknowledge that "weaker economic momentum is slowing the adjustment of inflation towards our aim", and that "the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appears to be leaving marks on economic sentiment." He insisted that "supportive financing conditions, favorable labor market dynamics and rising wage growth", plus "ample" monetary policy stimulus, meant the Council was confident the ECB would achieve its medium-term inflation objectives, albeit at a slower pace." Overall, Draghi concluded, "the probability of a recession is very low", as are the prospects of a de-anchoring of inflation expectations. But he acknowledged that the balance of risks remain tilted to the downside and was unlikely to be altered by today's decisions.
- Eurozone retail sales rose 2.2% in January from a year earlier, Eurostat announced Tuesday, well above the 0.3% growth in December and above expectations. On a monthly basis, retail trade rose 1.3% in January, the largest increase since November 2017, following a 1.4% drop in December. Non-food sales rose 1.7%, while sales of food, drinks, and tobacco rose 0.6%.

Japan

- The yield on 10-year Japanese Government Bonds fell over the past week to -0.0330% on Friday -0.0070% the previous week as the Bank of Japan maintained its control over market interest rates and market players worried about the global growth outlook after weak European and Chinese data.
- Japan's economy grew at a faster pace than initially estimated in the October-December quarter, as business investment turned out to be stronger than initially seen, according to revised (second preliminary) data released by the Cabinet Office Friday. The economy rose 0.5% on quarter, or an annualized +1.9%, thanks to stronger capital investment, bouncing back from the drop of 0.6% q/q, or an annualized -2.4%, in Q3. Real Q4 GDP was revised up from the preliminary estimate of +0.3% q/q, or an annualized +1.4%, in line with expectations. The upward revision came mainly from higher domestic demand, revised up to a +0.8 percentage point contribution from the preliminary +0.6 percentage point. Capital investment was revised up from the initial reading of +2.4% to +2.7% on quarter (the MNI median forecast was +3.0%), and was much higher than the -2.6% in the third quarter. Its contribution to the Q4 GDP was unchanged at +0.4 percentage point.
- Spending by households with two or more people rose 2.0% y/y after adjusting for two survey method changes, Japan's Ministry of Internal Affairs and Communications reported Friday. The gain beat the forecast median of -0.7% and posted the second straight annual rise. January's rise was led by a pick-up in demand for housing, which increased by 18.0% y/y. Spending on education also made good contribution by increasing 17.7% y/y.
- Average wage growth in Japan decelerated in January from the previous month but real wages remained in positive territory, preliminary data released Friday by the Ministry of Health, Labour and Welfare showed. Total monthly average cash earnings per regular employee in Japan rose 1.2% on year to Y277,001 in January, the 18th straight year-on-year rise following a 1.5% gain in December. In real terms, average wages rose 1.1% on year in January, the third straight rise following +1.1% in December. Base wages, the key to a steady recovery in cash earnings, rose 0.6% in January from a year earlier, the 32nd straight year-on-year rise after rising 0.7% in the previous month. Overtime pay fell 1.0% on year in January, the second straight y/y drop after falling 1.1% in December. Bonuses and other special pay rose 12.7% from a year ago, the fifth straight rise following +2.4% in December.

Source: Market News International