Schroders

Weekly market watch

As at Friday May 3, 2019

Equities

Region / Country	Index	Close	Net Change	Performance	
				Year-to-date	52-week
Asia-Pacific					
Hong Kong	HSI	30,081.55	531.75	16.39%	0.52%
India	BSE 30	38,963.26	(91.42)	8.03%	11.00%
Japan	Nikkei	22,258.73	58.17	11.21%	-0.93%
Singapore	STI	3,392.29	42.01	10.54%	-4.32%
South Korea	KOSPI	2,196.32	5.82	7.61%	-10.77%
Taiwan	WSE	11,096.30	56.44	14.07%	5.38%
Shanghai	COMPOSITE	3,078.34	(120.25)	23.43%	-0.13%
Europe					
France	CAC	5,548.84	(8.83)	17.29%	0.86%
Germany	DAX	12,412.75	130.15	17.56%	-2.19%
Italy	FTSE MIB	21,763.48	43.60	18.77%	-9.56%
Russia	RTSI	1,248.39	2.41	16.81%	10.65%
UK	FTSE 100	7,380.64	(47.55)	9.70%	-1.63%
Americas					
Brazil	IBOV	96,007.89	(544.14)	9.24%	15.27%
Mexico	IPC	44,277.24	(749.44)	6.33%	-5.98%
Nasdaq	CCMP	8,164.00	17.60	23.04%	15.18%
US	S&P 500	2,945.64	5.76	17.50%	12.01%
US	DOW	26,504.95	(38.38)	13.62%	10.76%

Bonds

	Close	Yield		
		Week ago	Month ago	Year ago
10 Year Gilt	1.2190	1.1420	1.0980	1.3900
10 Year OAT	0.3730	0.3520	0.3980	0.7610
10 Year Bund	0.0250	-0.0220	0.0080	0.5320
10 Year Japan	-0.0400	-0.0400	-0.0450	0.0450
10 Year Treasuries	2.5250	2.4982	2.5241	2.9458

Base lending rates

Prime Rates	Latest	6 months ago	12 months ago
US	5.50	5.25	4.75
Canada	3.95	3.95	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 rose on Friday after release of stronger-than-expected U.S. employment data, with the gains pushing the S&P 500 and Nasdaq indexes into positive territory for the week. The Dow Jones Industrial Average rose 0.75% on Friday but fell 0.14% for the week to close at 26,504.95. The S&P 500 index rose 0.96% on Friday and 0.20% on the week to 2,945.64, just below its all-time high posted April 30. The Nasdaq rose 1.58% on Friday, pushing the index up 0.22% for the week to a closing record of 8,164.00 and its sixth straight weekly gain. U.S. stocks have posted their best 4-month start to a year since at least 1999.
- The White House is suggest that this week's trade talks in Washington will be make it or break it. President Trump and his Chinese counterpart Xi Jinping will decide after next week's negotiations whether they meet to finish the trade deal, White House spokeswoman Sarah Sanders said Thursday, adding that U.S. sees such a meeting as likely. U.S. Treasury Secretary Steven Mnuchin Thursday said the latest round of trade talks held in Beijing last week were "productive," without giving any further indication of progress. A Chinese delegation led by Vice Premier Liu He is due in Washington this week, with talks expected to begin Wednesday. Hopes are high that the two sides could announce a deal by the end of this week. "We hope within the next two rounds in China and in [Washington] DC to be at the point where we can either recommend to the president we have a deal or make a recommendation that we do not," Mnuchin said in a taped interview broadcast on Fox News last Monday morning, before last week's trade talks in Beijing. The two sides are close to an agreement on how to remove U.S. tariffs on $250 billion of Chinese imports, with some tariffs remaining until after the presidential election in 2020, Bloomberg and Politico reported. The U.S. has dropped its demand that China commit to stopping alleged corporate cyber theft, instead accepting a watered down statement, the Financial Times reported. On Wednesday, as U.S. and Chinese negotiators talked, Beijing removed restrictions on foreign banks and insurers doing business in China, a move seen as a clear concession to Washington supported a trade deal.
- U.S. President Donald Trump agreed to a new $2 trillion domestic infrastructure spending program to build roads, bridges, water systems and expand broadband internet coverage, House Democratic leaders announced after a meeting with the president on Tuesday. The agreement, if enacted into law, would be a major stimulus to the U.S. economy. However, there was no agreement on how to pay for the extra spending.
- Shares in Google parent Alphabet suffered their worst daily performance on Tuesday in six and a half years, falling more than 7%, after the company's first quarter revenues and profits missed expectations. Data released by the company showed revenue growth cresting across a number of business units, with company executives unable to adequately explain what was happening and what the outlook is. First quarter revenues were $36.3 billion, about $1 billion below expectations. Per share earnings of $9.50 were down sharply from a year earlier. The company's margin fell to 18% from 25% a year ago.
- Shares in Apple rose on Wednesday, with the company's value briefly topping $1 trillion, after it gave an upbeat forecast for revenues this quarter that beat analysts' expectations. The company's fiscal third quarter profit shrank 16.4% on weaker iPhone sales, which fell 17.3% from a year earlier to $31 billion, due in large part to weaker sales in China. However, service revenues rose 16.2% to $11.45 billion and the company projected that fiscal fourth quarter would be $52.5 to 54.5 billion, above expectations. There are also signs of an iPhone sales rebound in China, due to price cuts, the effects of Chinese government stimulus, and easing trade tensions with the United States.
- In response to continuing sharp criticism of its handling of user information, Facebook unveiled a revamp of its mobile app and desktop site that focuses on privacy. The changes allow users to share information more easily with private groups on the site. It is unclear, however, how the social media company will make money from the change.
- Shared office provider WeWork Cos. said Monday it had filed for an IPO in December, which will likely be the second largest IPO this year after Uber's. The company was valued at $47 billion in its latest funding round. Significant amounts of additional cash are necessary for the company to keep growing, after its burned through $2.3 billion last year buying and renovating office space that it leases out to other companies and individuals.
- Berkshire Hathaway's Warren Buffett threw his support behind Occidental Petroleum $55 per share to take over Anadarko Petroleum, saying he would provide $10 billion in financing for the deal. Buffett's support makes it more likely Occidental will thwart the deal for the independent oil exploration and production company already agreed with Chevron. Chevron announced April 12 it had a deal at $50 per share. Anadarko has significant shale oil assets in the rich Permian Basin region of the Southwest U.S.
- Sinclair Broadcasting Group agreed Friday to buy 21 regional television sports networks from Walt Disney for $10.6 billion. Disney has agreed to sell the regional sports networks formerly owned by 21st Century Fox to get regulators' approval of his $71 billion purchase of Fox's entertainment assets.

UK

- The FTSE 100 rose 0.40% on Friday but fell 0.64% on the week to close at 7,380.64 on renewed concern that the government could reach a Brexit deal after both major parties suffered significant losses in local elections.
- Cross party talks between UK Prime Minister Theresa and opposition Labour party leader Jeremy Corbyn to reach a compromise Brexit plan will resume Tuesday, after both parties suffered major defeats in local elections last week. Voters punished both parties for failure to deliver Brexit, with the Conservatives losing more than 1,000 seats while Labour lost 60. The question is whether the two main parties can reach agreement on a compromise plan given rising discontent within both parties. Eurosceptic Conservative MPs worry that May will agree to a permanent customs union with the EU to get a Brexit deal, while Labour party members who want the UK to remain in the European Union, a majority of the party, fear any agreement to proceed with Brexit. The position of Labour party Remainers was reinforced by the fact that most of Labour's losses in the local elections were to the Liberal Democrats and Greens, both of whom are in favor of a second referendum on Brexit. Hopes for a near-term deal are rapidly fading. Many of May's ministers are resigned to the fact that no deal will be agreed that would allow the UK to avoid participation in European Parliament elections on May 23. The next "deadline" for a deal is thought to be June 30, just before the new UK delegation to the EU parliament is seated. Both the Conservative and Labour parties fear that voters will revolt against the political establishment in the EU poll, as they did in the local elections, and elect radical politicians to the EU Parliament.
- HSBC reported on Friday first quarter results that exceeded forecasts and pledged spending discipline to ensure it hits its 2020 financial targets. The bank reported a first quarter net profit of $4.1 billion, above expectations for $3.7 billion based on revenues of $14.4 billion, above the $13.9 billion expected. Chief Financial Officer Ewen Stevenson warned that economic environment had deteriorated since the bank set its 2020 financial targets, so strict control of costs was needed to ensure they are met.
- Activist investor Edward Bramson's effort to secure a seat on UK bank Barclay's board was soundly defeated in a shareholder vote Thursday, receiving support from only 6% of shareholders outside the votes he controlled. While Bramson's move to release Barclay's profits to shareholders was defeated, pressure remains on Barclay's executives to hit their profit targets this year.

Europe (ex. UK)

- On the continent, the Eurofirst 300 rose 0.45% on Friday, but the index still posted a small decline of 0.04% on the week to close at 1,535.09/1,535.67 as investors stayed cautious amid continued growth concerns.
- Pre-tax losses at Franco-Dutch airline Air France-KLM widened in the first quarter due to higher fuel prices and an oversupply of seats. The airline's loss rose to 450 million euros in the first quarter from 257 million in the year-earlier quarter. Subtracting currency fluctuations, earnings fell 32% to 424 million euros, far below the 606-million-euro profit expected by analysts. The company's shares fell sharply on the news.
- First quarter profits at French bank Societe Generale fell 26%, the bank reported Friday, as the bank pushed ahead with its restructuring program. Net income in the first quarter stood at 631 million euros, down from 850 million euro, partly due to costs associated with the sale of a Slovakian subsidiary. Banking revenue fell 1.6% to 6.19 billion euros due to the low interest rate environment. Last month, SocGen announced a restructuring program that would cut 1,600 jobs and reduce costs by 500 million euros to improve profitability.
- Norway's $1.1 trillion sovereign wealth fund, the world's largest, recorded its third-best quarter in its 23-year history. The fund returned 9.1% in the first quarter and was the largest-ever gain in kronor terms, up NKr738 billion ($84 billion). Equities account for 70% of the fund, making it one of the largest stock investors in the world. First quarter gains were led by improvements in Apple, Microsoft and Amazon stocks.
- Profits at Swiss Re fell below expectations in the first quarter after the reinsurer suffered several major losses. First quarter profits stood at $429 million, well below the $657 million expected by analysts, as the company was hit by losses from Australian floods, claims from the Ethiopian airline crash, the grounding of the Boeing 737 Max fleet and last year's storms in Japan. Once these large losses were stripped out, the results were in line with expectations, analysts said. Share fell Friday on the news.
- Werner Baumann, chief executive of German conglomerate Bayer, lost a shareholder vote of no confidence for the company's acquisition of U.S. chemical and seed company Monsanto last year. Bayer shares are down more than 40% since that acquisition because of a series of multi-million-dollar court judgments that Monsanto's popular Roundup weed killer caused cancer in exposed individuals. More than 13,000 cases against Monsanto are pending.

Japan

- Japan's stock market was closed all week for the 10-day Golden Week holiday to celebrate the accession of new emperor Naruhito.

- Washington would like to reach a trade deal with Japan that gives the U.S. the same access to Japanese agriculture markets as some of its other trading partners and hopes that deal can be reached quickly, U.S. Agriculture Secretary Sonny Perdue said Tuesday. A rapid trade deal on agriculture could be expanded later to include other issues, such as trade in autos. U.S. President Donald Trump hopes that such a deal can be reach by the time he visits Japan in May. Trump pushed Japanese Prime Minister Shinzo Abe in their bilateral meeting two weeks ago to have Japanese automakers locate more of their production in the United States. Trump wants to greatly reduce the U.S. trade deficit with Japan, most of which is due to U.S. auto imports.
- The Japanese economy likely contracted in the January-March quarter due to slower growth in China, according to estimates by 12 Japanese think tanks. The average forecast sees the economy dropping by an annualized 0.1% from the previous quarter.
- Profits at major nonfinancial firms are projected to drop 1.1% in the current fiscal year ending March 2020, according to a Jiji Press survey published Monday. The survey covered 243 companies representing 36% of the market value of the first section of the Tokyo Stock Exchange.
- Sony warned Sunday that its profit in the current fiscal year to March 2020 would be weaker than previously expected, falling 9.4% to 810 billion yen. The company also withdrew its earnings forecasts for individual business units in the period to March 2021. The weak profit forecast comes after two years of record profits and raises questions about whether the company's corporate turnaround is losing momentum. The company's gaming business based on its PlayStation4 is suffering a major challenge from new could-based gaming offered by competitors.
- NTT Docomo warned Sunday that it expected its profit in the current fiscal year to March 2020 to fall because of its new calling rate plans. The new plans to be introduced in June this year would cut calling costs by up to 40%. The company projected profits this year of 830 billion yen, down 18.1% from last fiscal year.
- Meiji Yasuda Insurance Co. plans to invest 350 billion yen in real estate over the next decade in a bid for stable revenue, company President Akio Negishi said in an interview with Jiji Press. Negishi predicted Japan's current low interest rate environment would continue for some time, requiring the insurance company to invest in real estate and foreign bonds to improve investment returns.

Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite Index rose 0.52% on Tuesday but fell 0.26% on the week to 3,078.34 after the government PMI data suggested continued weakness in the economy. In addition, first quarter corporate profits among Chinese listed firms posted the largest decline on record. The market was close from Wednesday through Friday for the Labor Day national holiday.
- Hong Kong's Hang Seng index rose 0.46% on Friday on strong HSBC bank results and 1.61% on the week to 30,081.55 on optimism that U.S.-China trade deal was close. The market was closed Wednesday for the Labor Day holiday.
- Taiwan's Taiex rose 0.83% on Friday and 1.31% for the week to 11,096.30, on hopes for near-term trade deal between China and the U.S.
- South Korea's Kospi fell 0.74% on Friday on domestic growth concerns but still managed to gain 0.78% for the week to close to 2,196.32. The government announced Friday that South Korean imports dropped in April for the fifth straight month, hurting the chances the economy will grow in the second quarter after its surprise 0.3% drop in the first. Chips shipments fell 13.5% in April from a year earlier, underscoring the difficulties for chipmakers Samsung and Hynix. Samsung reported Tuesday that its first quarter profits fell 57%, largely due to weak chip sales.
- The Singapore Straits Times Index fell 0.03% on Friday but rose 1.05% for the week to close at 3,392.29, on cautious optimism about the economic outlook.

Emerging Markets

- Brazil's Bovespa rose 0.50% on Friday, as the strong U.S. employment report eased concerns about weak global growth. But the index still fell 0.24% on the week to 96,007.89, on continued concerns over the outlook for a crucial pension reform bill.
- Mexico's IPC fell 0.08 % on Friday, the ninth straight session of losses, and dropped 1.55% on the week to 44,277.24, on concern about the economic outlook.
- India's BSE 30 fell 0.05% on Friday and dropped 0.27% on the week to 38,963.26, with investors remaining cautious as national elections continued.
- Russia's RSTI rose 0.84% on Friday, pushing the index up 0.11% on the week to close at 1.248.39 on a rebound in oil prices on Friday.

Alternative Assets

- Oil futures prices rose on Friday, rebounding from the one-month low posted Thursday, as U.S. waivers for countries of avoid sanctions on importing Iranian oil and continued violence in Venezuela raised the prospects for lower supply in period ahead. Still oil prices fell for the second week in a row. June West Texas Intermediate (WTI) crude rose 0.2% on Friday but fell 2.2% for the week to $61.94 per barrel. June Brent crude on London's ICE Futures Exchange closed the trading period at $70.85 a barrel, up 0.1% on Friday but down 1.1% on the week.
- Gold futures rose Friday after a sharp loss the day before as the U.S. dollar declined on stronger-than-expected U.S. employment data, making the yellow metal more appealing. But gold prices suffered their fifth drop in six weeks. June gold futures rose 0.7% on Friday but lost about 0.6% on the week to close at $1,281.30 per troy ounce.

Fixed Income

US

- The yield on benchmark 10-year Treasuries rose to 2.5250% on Friday from 2.4982% at the close of the previous week, as the stronger-than-expected U.S. employment report eased fears about the outlook for the economy
- Federal Reserve Chair Jay Powell on Wednesday pushed back against market expectations for the Federal Reserve to cut interest rates in the next year, downplaying the factors holding down inflation as "transient" and noting that downside risks to the outlook have moderated since the start of the year. Global financial conditions have eased, the outlook for Chinese and euro area economies show improvement and U.S.-China trade talks are making progress. With continued strong U.S. economic fundamentals, these developments are "consistent with continued patience" on the part of the FOMC, he said. "We think that our policy stance is appropriate at the moment," Powell told reporters after the FOMC voted unanimously to hold rates steady in a 2.25% to 2.50% target range. "We don't see a strong case for moving in either direction." Meanwhile, the Fed surprised markets with another 5 basis point cut to the interest it pays on excess reserves in an effort to keep a lid on overnight rates, which have moved higher within the FOMC's target range. Powell emphasized that this technical adjustment has "no implications for policy." Core PCE inflation weakened unexpectedly over the first quarter to 1.6% year-over-year in March from 2.0% at the end of 2018, but Powell indicated Wednesday the FOMC has yet to judge inflation as running persistently below its 2% objective. Alternative internal measures of core inflation, such as the Dallas Fed Trimmed Mean Inflation Rate, are still running close to 2%, Powell noted. He added that certain price categories may have fallen for idiosyncratic reasons. Portfolio management services prices tend to fall with asset prices after a lag, and they're expected to rebound now that asset prices have risen. Another category, apparel prices, saw a change in price collection methodology that may have affected their inflation rate, he said. "We do see good reasons to think that some or all of the unexpected decrease may wind up being transient," Powell said. The Fed's "baseline view" remains that inflation will "return to 2% over time." Wednesday's downward adjustment to IOER came on the heels of the effective fed funds rate coming within 5 basis points of the upper end of the Fed's target range, and Powell indicated that the Fed is prepared to use its tools as needed to keep the rate within its target range. The committee will also study the creation of a standing repo facility in an upcoming meeting, he said. Such a facility would lower bank demand for bank reserves by allowing banks to swap Treasury collateral for reserves on demand, hence easing some funding pressures. The FOMC this week discussed strategies to normalize the composition of its portfolio, which is currently weighted toward longer dated securities, Powell said, but will defer final decisions until officials revisit the issue toward the end of the year.
- Payrolls growth was much stronger than expected in April, following a downward revision to the March rebound and an upward revision to the modest February gain. The unemployment rate fell to 3.6% from 3.8% in March. Hourly earnings growth was a bit softer than expected, but followed an upward revision in the previous month, keeping the year/year rate to 3.2%. April payrolls rose 263,000, above expectations for a gain of 190,000. This followed a downward revision to March (+189k vs. +196k prev) and upward revision to February (+56k vs. +33k prev) for a net upward revision of +16,000. Hourly earnings rose 0.2% after the March gain was revised up to 0.2%. As a result, the year/year rate for earnings was unchanged at 3.2%. Average hours worked fell slightly to 34.4 hours in April after rebounding to 34.5 hours in March. The unemployment rate fell to 3.6% vs. 3.8% expected, as the labor force participation rate fell to 62.8% from 63.0%. The size of the labor force fell by 490,000, with the number of employed falling modestly and the number of unemployed falling sharply. Private payrolls rose by 236,000 in April, compared with185,000 expected.
- Following last month's rebound, US Manufacturing PMI cooled again in April against expectations of a flat reading. It was the biggest monthly fall of the year so far, and the softest reading in 30 months. Sluggishness in the manufacturing sector continued into Q2, following an already depressed Q1 when PMI averaged 55.4, its weakest reading since Q4 2016.The April slowdown was led by large declines in New Orders, Employment and Production. The Supplier Deliveries component registered its first increase in six months, albeit small. Prices dipped again but remained at neutral levels

following last month's rebound. Inflation has seen a sharp slowdown since last year, with the prices component down 36.9% on the year and decreasing nine times in the last 12 months, with health care and leisure jobs among the key gains.

- The value of new factory orders rose 1.9% in March, above the 1.5% increase expected by analysts, data released by the Commerce Department Thursday morning showed. Durable goods orders were revised down slightly to 2.6% from the already reported 2.7% increase. Nondurable goods orders rose 1.1% on increases in petroleum and coal products, partially offset by beverages, food products, and paper products. Nondurable goods new orders are equivalent to nondurable goods shipments in this report. Factory orders excluding transportation were up 0.8% in the month following a 0.3% increase in February and a 0.1% decline in January, resuming the string of gains that stretches back for most of the past two years. Durables orders excluding transportation were revised down to a 0.3% increase from the already reported 0.4% gain. In addition, unfilled orders were up 0.2% in March, showing a slight increase in demand for manufactured goods. Transportation orders were up 7.0% in March. Nondefense capital goods new orders rose by 6.5% and were still up 1.4% when excluding aircraft. Factory inventories posted a 0.4% increase in March.
- The MNI Chicago Business Barometer fell again in April, falling 6.1 points to 52.6, extending the slide from March and hitting a 27-month low. Although the barometer has comfortably remained above the 50- neutral level for more than two years now, survey evidence points to a modest slowdown since last year. Four of the five Barometer components' fell in April, with only Order Backlogs increasing, moving back above the 50-neutral level after a brief dip into contraction territory in March. There were reports of increased lead times at both domestic and offshore points, putting pressure on backlogs. New Orders eased for the second consecutive month, dipping below both three- and 12-month averages. Amid weaker orders seen recently, Production pulled back significantly from March, to a level not seen since May 2016. Companies continued to run down their inventories, but less so than last month. The indicator remained just a touch below the 50-mark for the third time in the last nine months. The pullback in demand and production was matched by reduced need for labor and the Employment Indicator softened to the lowest level since October 2017, now hovering below both the three- and 12-month averages. Factory gate prices saw the biggest monthly fall since December 2008, taking the indicator to the lowest level since March 2016. There was anecdotal evidence of steel leading prices lower. The survey period ran from April 1 to 16.
- The core personal consumption expenditure price index was flat in March, below the 0.1% gain expected, data released Monday by the Commerce Department showed. The core PCE price index was up 1.6% year/year in March, a slightly slower pace than the 1.7% year/year gain reported in February, and the smallest year/year gain since January 2018. The slowdown in March core prices keeps the rate below the 2% target set by the Federal Reserve. The overall PCE price index was up 0.2% in March after a 0.1% increase in February. The year/year rate was 1.5%, a rebound from the 1.3% rate in February.
- Personal income was up 0.1% in March, below the 0.4% gain expected. The 0.2% gain in February was unrevised. Wages and salaries were up 0.4%. There was also a gain in rental income, but large declines for proprietors' income (-$18.5b) as well as personal income receipts on assets (-$23.4b). Current dollar personal consumption expenditures (PCE) were up 0.9% in March, compared with expectations. The larger-than-expected reading was the result of a 2.3% increase in durable goods spending and a 1.4% increase in nondurable goods. This was accompanied by a 0.5% rise in services spending. Real PCE rose 0.7% in March after a flat reading in February. Real durables PCE was up 2.9% and real nondurables rose 0.8% in the month. There was also a 0.3% gain in real services spending.
- Productivity surged by 3.6% in the first quarter, the strongest gain in nearly five years, while unit labor costs declined by 0.9%, the first drop since the second quarter of 2018, both major surprises relative to analyst expectations. The 3.6% gain in nonfarm productivity in the first quarter was well above the 1.8% gain expected and follows a downwardly revised 1.3% gain in the previous quarter. Productivity was previously reported as up 1.9% in the fourth quarter. Stronger output growth and slower hours worked growth were seen. The year/year rate for productivity rose to 2.4% from 1.7% in the previous quarter, hitting its highest point since the third quarter of 2013. The year/year rate of growth for unit labor costs slowed to 0.1% from 1.2%, the weakest pace since the fourth quarter of 2013. The stronger pace of productivity growth could be an obstacle to stronger wage growth and overall inflation going forward.
- The Employment Cost Index rose by 0.7% in the first quarter, as expected, matching the 0.7% gain the fourth quarter, data released Tuesday by the Bureau of Labor Statistics showed. At the same time, wage growth rose by 0.7% in the first quarter after a 0.6% rise in the fourth quarter. Benefits growth rose by 0.7% after posting a 0.7% gain in the fourth quarter.

UK

- The yield on 10-year Gilts rose to 1.2190% at the end of last week from 1.1420% the week before as investors moved out of safe-haven bonds after strong European growth data.
- The Bank of England Monetary Policy Committee voted nine-to-zero to leave policy unchanged at its May meeting, with the Inflation Report projections showing inflation overshooting the 2.0% target on the assumption of a single 25 basis point hike in three years. The Bank of England signaled that more rate rises will be needed than markets have been

expecting as it forecast rising inflation over the next few years, its Inflation Report and minutes of its May Monetary Policy Committee meeting showed. While there were no dissenting votes or voices in the 9-0 vote to hold Bank Rate steady at 0.75%, Inflation Report projections showed the rate of price increases overshooting the 2.0% inflation target in two years' time and continuing to rise, reaching 2.16% three years out if -- as investors expect -- there is only one 25-basis-point rate hike over the next three years. Bank of England guidance was that the single hike the markets have priced in would be inconsistent with the MPC's remit, Governor Mark Carney said at the press conference, adding that a smooth Brexit transition would "require more, and more frequent interest rate increases, than the market currently expects." The market rate curves are, however, based on different assumptions than the MPC's collective projections, so any read across from one to the other is tricky. Investors, unlike the MPC, attach some probability to a disorderly Brexit whereas the Bank's projections are based on an average of outcomes that exclude the cliff-edge no-deal scenario. Carney noted that no Brexit deal "is still there as the default option," and the fact the BOE excludes it is a forecasting convention rather than a reflection of reality. The MPC could have signaled that markets were underpricing rate hikes through one or two dissenting votes for higher rates or at least a block of text in the minutes making the case for tightening. Instead, the collective message was that if Brexit proceeds smoothly then markets will need to reprice. The Committee, meanwhile, can afford to wait-and-see how things unfold. Domestic inflation indicators have been mixed and Brexit uncertainties could continue to drag on business investment and consumption. "The cost of waiting for further information was relatively low," the minutes said. The MPC's survey of businesses showed Brexit continuing to weigh on investment and that firms' planning was largely unaltered by the deadline for the UK's departure from the EU being pushed back from March to October. The BOE's near-term growth forecast was raised, to 0.5% on the quarter in Q1 from 0.2% previously, but this reflected in part the boost due to Brexit-related-stockpiling. Inflation was shown below target from Q3 2019 through Q4 2020, easing the pressure on the MPC to act immediately. The next key meeting for the MPC will be in August. The May minutes show that a hike then cannot be ruled out, although it will hinge on whether substantial progress is made in the Brexit process.

- Bank of England money and credit data showed a decline in mortgage approvals while the average interest rates paid by borrowers remained at all-time lows and unsecured credit growth atrophied. The data highlight how the rise in Bank Rate, from 0.25% to 0.75%, has not fed through to higher interest payments for many borrowers. The housing market overall, however, looks subdued. The number of mortgage approvals, a good indicator of future house purchases, fell to 62,341 in March from 65,340 in February, the lowest reading since December 2017. With London house prices declining and most surveys showing subdued house price inflation elsewhere, there is plenty of evidence of a soft housing market. The average interest rate on the stock of fixed 3-, 4- and 5-year mortgages hit posted fresh series lows in March. The average interest rate on the stock of all fixed rate mortgages was unchanged at 2.23% for the third consecutive month, a joint all-time low. Unsecured borrowing growth was very low in March, increasing by just stg0.549 million, down from stg1.229 billion in February and the lowest reading since November 2013. UK consumers, in March at least, did not fuel spending through unpaid credit card and other borrowing. As consumer confidence remains weak, these data raise questions over whether consumption will underpin economic growth in the months ahead.

Europe (ex. UK)

- The yield on benchmark 10-year Bunds rebounded back into positive territory last week, rising to 0.0250% on Friday from -0.0220% the previous week, as growth concerns easing after release of stronger-than-expected Eurozone first quarter growth data.
- The Eurozone economy grew 0.4% in the first quarter compared to the previous three months, double the 0.2% growth rate posted in the fourth quarter, according to a flash estimate released Tuesday. Spain's economy accelerated to 0.7%, while French GDP growth was unchanged at 0.3 percent. Eurozone grew 1.2% in the first quarter from a year earlier, the same pace as in the previous quarter and above market expectations for 1.1%.
- The Eurozone unemployment rate fell to 7.7% in March from 7.8% in February on a seasonally adjusted basis, beating market expectations for an unchanged rate. The March rate was the lowest since September 2008. In March 2018, the unemployment rate was 8.5%.
- The Eurozone annual inflation rate rose to 1.7% in April from 1.4% in March and was above expectations for 1.6%, a flash estimate showed. It is the highest inflation rate in five months, mainly boosted by costs for energy and services. The core annual inflation rate accelerated to 1.2% in April from 0.8% in March.
- The Eurozone economic sentiment indicator fell for a 16th consecutive month to 104 in April from a revised 105.6 in March and below market expectations for 105. It was the lowest reading since September 2016, mainly due to a steep deterioration in industry sentiment (-4.1 vs. -1.6 in March). In addition, morale worsened among consumers (-7.9 vs. -7.2), retailers (-1.1 vs. 0.3) and construction firms (6.7 vs. 7.5), while confidence among service providers was unchanged (at 11.5).
- Loans to households in the Eurozone rose 3.2% in March from a year earlier to 6.06 trillion euros, decelerating from a 3.3% gain the previous month and matching market expectations. Credit to non-financial corporations rose 3.5% to 4.51 trillion euros after a 3.8%increase in February. Private sector credit growth including households and non-financial

corporations eased to 3.1% in March from 3.2% in February. M3 money supply growth accelerated to 4.5% in March from 4.3% in February and was well above expectations for a deceleration to 4.2%.

Japan

- The yield on 10-year Japanese Government Bonds was unchanged -0.0400% last week as Japanese financial markets were closed for the extended Gold Week holiday.
- There were no data releases in Japan last week because of the special 10-day Golden Week holiday to celebrate the accession of new Emperor Naruhito.

Source: Market News International