Schroders

# Weekly market watch

As at Friday June 7, 2019

## Equities

| Region / Country | Index | Close | Net Change | Performance | |
|---|---|---|---|---|---|
| | | | | Year-to-date | 52-week |
| **Asia-Pacific** | | | | | |
| Hong Kong | HSI | 26,965.28 | (149.60) | 4.33% | -14.43% |
| India | BSE 30 | 39,615.90 | (216.07) | 9.84% | 11.77% |
| Japan | Nikkei | 20,884.71 | 283.52 | 4.35% | -7.97% |
| Singapore | STI | 3,166.29 | 23.29 | 3.18% | -7.86% |
| South Korea | KOSPI | 2,072.33 | 33.53 | 1.53% | -15.47% |
| Taiwan | WSE | 10,409.20 | 26.21 | 7.01% | -7.49% |
| Shanghai | COMPOSITE | 2,827.80 | (78.01) | 13.39% | -9.06% |
| **Europe** | | | | | |
| France | CAC | 5,364.05 | 156.42 | 13.39% | -1.58% |
| Germany | DAX | 12,045.38 | 318.54 | 14.08% | -5.65% |
| Italy | FTSE MIB | 20,360.59 | 558.48 | 11.11% | -4.66% |
| Russia | RTSI | 1,325.95 | 38.86 | 24.07% | 15.38% |
| UK | FTSE 100 | 7,331.94 | 170.23 | 8.97% | -4.55% |
| **Americas** | | | | | |
| Brazil | IBOV | 97,821.26 | 790.94 | 11.30% | 34.11% |
| Mexico | IPC | 43,291.33 | 542.17 | 3.97% | -5.76% |
| Nasdaq | CCMP | 7,742.10 | 288.95 | 16.68% | 1.26% |
| US | S&P 500 | 2,873.34 | 121.28 | 14.62% | 3.39% |
| US | DOW | 25,983.94 | 1,168.90 | 11.39% | 2.64% |

## Bonds

| | Close | Yield | | |
|---|---|---|---|---|
| | | Week ago | Month ago | Year ago |
| 10 Year Gilt | 0.8130 | 0.8860 | 1.1580 | 1.4000 |
| 10 Year OAT | 0.0850 | 0.2100 | 0.3270 | 0.8270 |
| 10 Year Bund | -0.2570 | -0.2020 | -0.0380 | 0.4840 |
| 10 Year Japan | -0.1200 | -0.0940 | -0.0520 | 0.0550 |
| 10 Year Treasuries | 2.0809 | 2.1246 | 2.4566 | 2.9204 |

## 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 and on the week as comments from Federal Reserve Chairman Jay Powell on Tuesday and weaker-than-expected U.S. employment data on Friday reinforced expectations that the U.S. central bank could soon cut interest rates to offset the impact of the U.S.-China trade tension. The Dow Jones Industrial Average rose 1.02% on Friday and 4.71% for the week to close at 25,983.94, its best week in six months after six straight weekly declines. The S&P 500 index rose 1.05% on Friday and 4.41% on the week to 2,873.34. The Nasdaq rose 1.66% on Friday and 3.88% for the week to close at 7.742.10.
- Relations between China and the U.S. continued to deteriorate last week, with Beijing and Washington throwing rhetorical jabs at each other. Beijing issued a white paper laying the blame for the collapse of trade talks squarely on the U.S. The office of the U.S. Trade Representative and U.S. Treasury Department issued a joint statement in response, charging Beijing was playing a blame game. U.S. President Donald Trump repeated that he could soon slap tariffs on the $300 billion of Chinese imports not now subject to tariffs, most likely after the G-20 leaders' summit meeting at the end of the month. Beijing said it would take countermeasures if the U.S. deployed more tariffs. U.S. Treasury Secretary Steven Mnuchin and Chinese central bank governor Yi Gang were due to meet at the weekend at the G-20 finance ministers and central bank governors meeting in Japan, the first time senior Chinese and U.S. officials have met since the talks collapsed May 10.
- Trump announced late Friday that he had suspended his plan to impose a 5% tariff on all Mexican imports starting June 10 after reaching a deal with Mexico that included "strong measures" to stop the flow of illegal immigrants into the U.S. However, the deal did not include some of the more dramatic measures demanded by the U.S. The U.S. will immediately expand a program of returning asylum-seekers who cross its southern border with Mexico while their cases are being considered. Mexico will offer jobs, health care and education to them. In addition, Mexico will step up efforts to curb illegal immigration, especially on its southern border with Guatemala. The agreement defuses the situation, at least for the time being, that analysts had warned could have a large negative impact on both economies.
- The U.S. Department of Justice (DoJ) and the Federal Trade Commission (FTC) agreed to divide jurisdiction over large tech companies, with the DoJ taking jurisdiction over Google and Apple, while the FTC will oversee Facebook and Amazon. The DoJ is preparing an antitrust investigation against Alphabet Inc.'s Google unit, the Wall Street Journal reported a week ago. The FTC previously investigated Google but ended it in 2013 without taking action. While no other probes are now planned, legal experts said that the two agencies would not have agreed to divide jurisdictions if they did not plan to investigate. The moves come amid growing calls for new regulation of hi-tech companies. The House of Representatives Judiciary Committee also announced its own investigation of the companies. Tech stocks fell sharply on the news.
- Beyond Meat, one of the best performing initial public offerings this year, reported strong earnings growth in the first quarter, pushing its stock price up further. The maker of expensive vegetarian burgers saw net revenues more than triple to $40.2 million, above expectations for $39.9 million. The company revised up its full year net revenue estimate to $210 million, which would be up 140% from a year earlier, and above analysts' expectations for $205 million.
- Amazon is interested in buying prepaid cellphone service Boost Mobile from U.S. wireless carriers T-Mobile and Sprint, Reuters reported. The deal would allow Amazon to use T-Mobile's wireless network for at least six years. T-Mobile and Sprint have offered to sell Boost to reduce their market share in the prepaid wireless segment to help win approval of their $26 billion merger plan. The two companies are also considering selling some wireless spectrum to satisfy demands by the Department of Justice to approve the merger.
- FedEx said Friday it will end its express air delivery contract with Amazon because of the latter is building its own delivery network. The current contract ends June 30. FedEx will continue to handle Amazon packages through its ground and international networks. Amazon spreads its deliveries among FedEx, United Parcel Service (UPS) and the U.S. Postal Service, as well as its own delivery network. FedEx said Amazon represented 1.3% of its total revenues last year, or less than $1 billion. FedEx said it will focus on a broader array of retail clients, including Walmart, Target and the Walgreen Boosts Alliance.
- Some of the world's largest mining companies disclosed Friday that more than a dozen of their tailing pond dams failed stability tests in recent years, with a break in some of those dams a risk to human lives. Under pressure from civic organization after the collapse of a Vale SA dam in Brazil earlier this year killed 270 people, Anglo American PLC, Barrick Gold Corp., Newmont Goldcorp Corp., BHP Group Ltd, and Glencore PLC each issued documents providing details of their dams.

## UK

- The FTSE 100 rose 0.99% on Friday and 2.38% on the week to close at 7,331.94 on prospects that global central bank would ease monetary policy to offset the impact of the U.S.-China trade tension.
- The UK's Brexit plan remains in limbo after the resignation of Prime Theresa May on May 24. Former foreign minister Boris Johnson, a staunch proponent of Brexit, remains the leading candidate to replace May, but has competition from a dozen other Tories for the job. It is unclear that he can do any better than May in securing support for an exit deal without a mandate provided by a general election or a second referendum on the Brexit question, both of which remain possible. With May's departure, the prospect of a no-deal Brexit increased. Some in May's Conservative party have called for the government to start preparations for a no-deal Brexit that could occur on or before October 31, the European Union's deadline for an agreement. But Parliament has voted on several occasions against a no-deal Brexit and House of Commons speaker John Bercow indicated that he would use the powers of his office to block a no-deal Brexit. Still, it is unclear that Parliament would vote again against a no-deal Brexit, as the last motion to prevent such an outcome won by just one vote.
- UK fund manager Neil Woodford battled last week to save his company and his reputation, as the last of his big clients withdrew its money. Openwork, Woodford's last large client, ended its 330-million-pound mandate on Thursday, following the move by wealth manager St. James's Place to pull its 3.5-billion-pound investment from the fund. The Abu Dhabi Investment Authority, another long-time client, withdrew its money in recent weeks. At the end of Thursday, the Woodford Investment Management group had less than 5 billion pounds in capital, down from 8.6 billion pounds at the end of the previous week, as retail clients continued to pull their money out of its funds. Parliament and financial regulators plan to investigate the rapid demise of the funds managed by Woodford, once one of the most respected stock pickers in London.
- Ford Motor Co. announced Thursday that it would close its Bridgend Engine Plant in 2020, with loss of 1,700 jobs, due to changing customer demand and loss of contract work for Jaguar Land Rover. The move is part of its restructuring plan to cut 10% of its global workforce to save $600 million. The move by Ford is the latest blow to the UK auto industry, after Honda announced that it would close its Swindon manufacturing plant in 2021, with a loss of 3,500 jobs.

## Europe (ex. UK)

- On the continent, the Eurofirst 300 rose 0.91% on Friday and 2.22% on the week to close at 1,485.53 as weak German economic data and comments from the European Central Bank rise expectations that monetary policy could be eased soon to boost the economy.
- Italian-American automaker Fiat Chrysler Automobiles (FCA) withdrew its 33-billion-euro bid to merge with French carmaker Renault on Thursday because of interference by the French government. Shares in both companies fell on the news. "Political conditions in France do not currently exist for such a combination to proceed successfully," FCA said in a statement. The decision came after the Renault board postponed a meeting on the proposed merger for a second time on the request of the French government, its largest shareholder with a 15% stake. The French government kept making new demands for the merger, including getting explicit agreement from Japanese automaker Nissan, which owns a large non-voting stake in Renault and is part of a three-way alliance with Renault and Mitsubishi, according to reports. The merger would have created the world's third largest automaker after Toyota and Volkswagen.
- Fitch on Friday cut its credit rating for Deutsche Bank, the latest blow to the embattled financial institution. Fitch cut the rating to BBB, two notches above junk, on concerns that the bank would be able to take the steps necessary for its restructuring plan and "limited progress" in the program so far.
- The Swiss financial regulator Weko fined four British and American banks 90 million Swiss francs for rigging the foreign exchange market. Barclays, JPMorgan, Citibank and Royal Bank of Scotland formed a cartel that shared information to manipulate exchange rates, sources told the Financial Times. UBS avoided a fine because it disclosed the arrangement to authorities. Credit Suisse has fighting the allegations and has refused to settle. Weko's move comes after the European Union fined the same four banks, plus Japan's Mitsubishi UFJ last month for manipulating the foreign exchange market.

## Japan

- The Nikkei 225 index rose 0.53% on Friday and 1.38% on the week to close at 20,884.71 as signs that global central banks would offset impact of the U.S.-China trade tension reassured investors.
- Toyota reached agreement with Chinese firms Contemporary Amperex Technology (CATL) and BYD so supply it with batteries for its electric cars for the first time, as it brought forward its plan to make electric vehicles. Toyota now plans for half its global vehicle sales to come from electric vehicles by 2025, much sooner than the original goal of 2030, given demand for such vehicles is rising much faster than previously anticipated. The acceleration in electric car sales means

Toyota will need more batteries sooner. CATL, which also has a deal with Honda, is the world's largest battery maker, having surpassed Japan's Panasonic in 2017. Toyota will also expand its domestic battery supply arrangements to include GS Yuasa and Toshiba in addition to Panasonic.
- Mitsubishi Heavy Industries confirmed that it is in talks to buy Bombardier regional jet business, which would add to its own struggling regional jet program. Such an acquisition would put Mitsubishi in direction competition with Boeing, which recently bought a controlling stake in Brazil's Embraer, Bombardier main competition in the regional jet business. Bombardier had revenues of $1.8 billion last year and lost $157 million. The loss includes its turbo-prop plane business, which it just sold to De Havilland Aircraft for $300 million.

### Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite Index fell 1.17% on Thursday and 2.45% during the holiday shortened week to 2,827.80, on trade tension concerns. The market was closed Friday for the Dragon Boat holiday.
- Hong Kong's Hang Seng index rose 0.26% on Thursday, pushing the index up 0.24% on the week to 26,965.28 despite continued U.S.-China trade tensions. The market was closed Friday for a public holiday.
- Taiwan's Taiex fell 0.50% on Thursday and 0.85% for the week to 10,409.20, as U.S.-China trade tensions weighed on sentiment in the holiday shortened week.
- South Korea's Kospi rose 0.16% on Friday and 1.50% for the week to close to 2,072.33 as investors continued to take a wait-and-see attitude toward the impact of the U.S.-China trade tension.
- The Singapore Straits Times Index rose 0.64% on Friday and 1.56% for the week to close at 3,166.29, as worries about Asian and global trade eased.

### Emerging Markets

- Brazil's Bovespa rose 0.63% on Friday and 0.82% on the week to 97,821.26, the third straight weekly gain, despite U.S.-China trade tension concerns. The Brazilian Supreme Court ruled that state-run companies do not need congressional approval to sell subsidiaries, clearing the way for Petrobras to proceed with its divestment plan.
- Mexico's IPC rose 0.33% on Friday and 1.27% on the week to 43,291.33, despite U.S. President Trump's threat to impose a 5% tariff on Mexican imports into the U.S. and Fitch downgrading the country's sovereign debt rating due to trade tensions on worries about the national oil company Pemex.
- India's BSE 30 rose 0.22% on Friday after the Reserve Bank of India cut its main interest rate for the third time this year but fell 0.25% on the week to 39,615.90 on continued worries about data showing first quarter growth was the weakest in four years.
- Russia's RSTI rose 0.46% on Friday and 3.02% on the week to close at 1,325.95, after Russian President Vladimir Putin and Chinese President Xi Jinping a "new era" of stronger cooperation between the two countries.

## Alternative Assets

- Oil futures prices rose for second straight day on Friday, with prices erasing their loss for the week after falling into a bear market on Wednesday. Data on Friday showing the largest decline in the number of active U.S. oil rigs in six weeks also buoyed prices. July West Texas Intermediate (WTI) crude rose 2.7% on Friday and 0.9% for the week to $53.99 per barrel. August Brent crude on London's ICE Futures Exchange closed the trading period at $63.29 a barrel, up 2.6% on Friday and 2.1% on the week.
- Gold futures rose on Friday for the eighth straight trading session as the weaker-than-expected U.S. employment report pushed down the dollar and U.S. Treasury yields. Gold prices rose on the week for only the fourth time in the last 12 weeks. August gold futures rose 0.3% on Friday and 2.7% on the week to close at $1,346.10 per troy ounce, the highest level since February 20.

## Fixed Income

### US

- The yield on benchmark 10-year Treasuries fell to 2.0809% on Friday from 2.1298% at the close of the previous week, as investors continued to buy safe-haven bonds due to the escalation of U.S.-China trade tensions.
- The Federal Reserve is closely monitoring developments in trade negotiations and is prepared to act "as appropriate" to sustain the U.S. economic expansion, Fed Chair Jay Powell said Tuesday. His comments come on the heels of U.S.

President Donald Trump's latest plans to impose tariffs on Mexican goods, which roiled markets in the past week, setting off fears of prolonged trade tensions and calls for the Fed to lower interest rates this year. "We do not know how or when these issues will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2% objective." In remarks kicking off a high-profile two-day conference to review the Fed's policy framework, Powell also warned that policymakers must take seriously the risk of persistently low inflation dragging down inflation expectations, in turn raising the risk that interest rates would need to be cut to zero again. "Core inflation is currently running a bit below 2% on a trailing 12-month basis. In this setting, a similar low-side surprise, if it were to persist, would bring us uncomfortably closer to the (effective lower bound). My [Federal Open Market Committee] colleagues and I must -- and do -- take seriously the risk that inflation shortfalls that persist even in a robust economy could precipitate a difficult-to-arrest downward drift in inflation expectations."

- Payrolls growth was much softer than expected in May, rising by only 75,000 compared with expectations for a 178,000 again. The weaker-than-expected May result followed a net downward revision of 75,000 in the previous two months. The unemployment rate remained at 3.6% in April. Analysts had lowered their forecasts modestly in the aftermath of the very weak 27,000 gain in the ADP report, but not as much as the ADP number would suggest. Hourly earnings rose only 0.2%, against expectations for a 0.3% gain, after an unrevised 0.2% increase in April. As a result, the year/year rate for earnings fell to 3.1% from 3.2% in the previous month. Average hours worked remained at 34.4 hours in May. The unemployment rate remained at 3.6% as expected, as the labor force participation rate was unchanged at 62.8%. The size of the labor force rose by 176,000, with the number of employed and the number of unemployed both rising proportionally. Private payrolls rose by only 90,000 in May, compared with the 172,000 increase expected. There were generally small gains across the categories, but a notable fourth consecutive decline in the retail sector. The largest gains were in the health care and leisure sectors. Government hiring fell 15,000 on state and local jobs declines, while federal hiring was up only 4,000 despite reports of hiring ahead of the 2020 Census.
- The international trade gap narrowed to $50.8 billion in April from a revised $51.9 billion gap in March, about as expected, based on data released by the Commerce Department Thursday. The unadjusted gap with China widened to $26.9 billion in April from $20.7 billion in March. There was a wider gap after seasonal adjustment as well. For the other major trading partners, there were larger gaps with the EU, Canada, and Japan, while there was a smaller gap with Mexico. The Census goods gap was revised lower to -$70.9 billion from the advance reading of -$72.1 billion that was incorporated into the previous estimate of first quarter GDP. Imports decreased on declines in all major categories, with capital goods ex-autos posting the largest decline (-$1.7 billion), followed by consumer goods (-$1.1 billion). At the same time, exports fell on declines in capital goods ex-auto (-$2.7 billion, -$2.3 billion aircraft), autos, and consumer goods, partially offset by gains in foods, feeds and beverages and industrial supplies and materials.
- First quarter nonfarm productivity was revised down slightly to a 3.4% pace of growth from the previously reported 3.6% gain, while unit labor costs were revised down sharply to a 1.6% pace of decline from the 0.9% decrease in the preliminary estimate. Q1 output growth was revised down slightly to a 3.9% pace from the 4.1% preliminary estimate, while hours worked growth was unrevised from the 0.5% rate in the preliminary estimate. Q1 compensation growth was revised down to a 1.8% pace from the previously reported 2.6% rate, while real compensation growth was revised down to 0.9% from 1.7% in the preliminary estimate. There were downward revisions to the Q4 readings as well, adding to concerns of slowing wage inflation. The year/year pace of productivity growth was unrevised from the 2.4% rate in the preliminary estimate, and was still up from the 1.7% year/year rate in the previous quarter. Unit labor costs now stand 0.8% lower than they were a year ago, a sharp downward revision from the 0.1% year/year gain in the preliminary report, following a 0.4% year/year gain in the fourth quarter. The Q1 rate of decline was the largest since Q4 2013.
- The value of new factory orders fell 0.8% in April, just above the 0.9% decrease expected by analysts, data released by the Commerce Department Tuesday morning showed. Durable goods orders were unrevised from the previously reported 2.1% increase. Nondurable goods orders rose 0.5% on increases in petroleum and coal, and tobacco and beverage products. Factory orders excluding transportation were up 0.3% in the month, the third straight gain of this size. Durables orders excluding transportation were unrevised from the previously reported flat reading. Transportation orders were down 5.9% in April. The unlisted transportation components were up 1.7% in the month, based on an MNI calculation. Nondefense capital goods new orders fell by 5.1% and were still down 1.0% when excluding aircraft.
- Construction spending posted a flat reading in April, below the 0.4% gain expected, data released by the Commerce Department Monday morning showed. Private residential construction fell by 0.6% in the month, following a 1.2% decline in March. Home building ex-new homes, also known as remodeling, saw a 2.5% decrease, while new home construction rose 0.4%, according to MNI calculations. Single-family home building was flat, while multi-family building posted a 2.3% increase. In addition to the decrease in private residential, private nonresidential construction fell by 2.9% in March. The main drivers of the category were manufacturing (-7.2%), commercial (-4.5%), and health care (-3.9%). Following an upward revision in March to a 0.5% increase from a previously reported 1.3% decline, public construction spending rose by 4.8% in April. The gain in public construction was driven by a 15.7% rise in health care building and a 6.8% gain in highway and street construction. State and local construction was up 4.6% in the month. Federal construction rose by 7.4%.

## UK

- The yield on 10-year Gilts fell to 0.8130% at the end of last week from 0.8860% the week before as investors moved into safe-haven bonds on worries about U.S.-China trade tensions and Brexit.
- The IHS Markit/CIPS UK Manufacturing PMI fell to 49.4 in May from 53.1 in April, indicating that manufacturing sector activity contracted for the first time since July 2016. The May decline was much larger than expected, with analysts predicting a smaller decline to 52.0. New orders posted their largest drop in three years, with new export orders dropping at their fastest pace in more than four years due to weaker demand from Asia and Europe. In addition, output growth fell to a 34-month low and employment dropped for the second straight month.
- The IHS Markit/CIPS UK Services PMI rose to 51.0 in May from 50.4 in April, increasing more than expected. The May result indicated the service sector expanded at its fastest rate in three months. New business increased for the first time since December, while job creation was the strongest in six months. Sentiment about the future rose to its highest level in eight months.
- The Halifax House Price Index rose 5.2% in the three months to May from the same period a year earlier, a slight acceleration from the 5.0% increase in the previous three-month period. The rise in March-May housing prices was the fastest since the three months to January 2017.
- New car registrations fell 4.6% in May from a year earlier, reflecting continued uncertainty over diesel emissions controls and the removal of incentives for purchases of hybrid vehicles. Increases registrations of petrol engine cars (+1.0%) and alternative fuel vehicles (+11.7%) were more than offset by a sharp decline in demand for diesel cars, which fell for the 26th consecutive month. In the January-May period, new car sales fell 3.1%.

## Europe (ex. UK)

- The yield on benchmark 10-year Bunds fell further into negative territory last week dropping to -0.2570% last Friday from -0.2020% the previous week, on worries about the impact of U.S.-China trade tensions on the global growth outlook.
- The possibilities of restarting quantitative easing, cutting interest rates or further extending forward guidance were all discussed by members of the European Central Bank's Governing Council at its monetary policy meeting on Thursday, President Mario Draghi told a news conference, as the ECB announced it would keep key rates on hold until at least the second half of 2020, a further extension of its previous guidance that there would be no rate change through the end of 2019. The ECB also offered pricing details for a third round of targeted longer-term refinancing operations, due to start in September. Council members were "unanimous," Draghi said, in deciding to set the interest rate at 10bps above the average main refinancing operations rate over the life of each operation. If banks use enough of the funds to lend to the real economy, the rate will be as low as 10 basis points over the deposit rate. "Risks surrounding the euro area growth outlook remain tilted to the downside, on account of the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets," Draghi said. "At the same time, further employment gains and increasing wages continue to underpin the resilience of the euro area economy and gradually rising inflation." Draghi said the possibility that the ECB could eventually restart its asset purchase program or further extend forward guidance was raised by some members, whilst others mentioned possible rate cuts. "The policy space is there and if contingencies materialize we stand ready to act," Draghi said, but added that the council had not discussed "which contingency would call for which instrument." "The use of forward guidance has been quite successful in steering market expectations. It has become the major monetary policy tool," he said. Draghi reiterated the Council's confidence in its baseline assumptions but said a change in forward guidance had become necessary due to the prolongation of uncertainties, as he called on "all countries" to achieve a more growth-friendly composition of public finances. The Governing Council will continue to "monitor carefully the bank-based transmission channel of monetary policy and the case for mitigating measures."
- European Central Bank staff macroeconomic forecasts showed that Eurozone annual real GDP is expected to increase by 1.2% in 2019, 0.1 percentage point more than expected in March, and by 1.4% in 2020, 0.2 percentage point lower. For 2021, the forecast was reduced by 0.1 percentage point to 1.4%. Harmonized inflation is predicted to reach 1.3% in 2019, 1.4% in 2020 and 1.6% according to June's ECB staff macroeconomic projections. Compared with March's assessment, the inflation outlook has been revised up by 0.1 percentage point for 2019, and down by 0.1 percentage point for 2020. Measures of underlying inflation "remain muted," Draghi said, "despite the somewhat better than expected data for the first quarter,' as global headwinds continue to weigh on the euro area outlook.
- Eurozone retail sales fell 0.4% in April from a month earlier, matching expectations, after remaining unchanged in March. Food, drinks, tobacco sales declined 0.4%, offsetting the 0.4% rise the previous month. Non-food sales also fell 0.4% in April after a 0.2% drop in March, due to weaker mail order and internet sales (-3.1% in April vs. +2.0% in March), textiles, clothing, footwear (-1.5% vs. +0.2%), and electrical goods and furniture (-0.6% vs. +0.6%). By contrast, auto fuel sales gained 0.1%, rebounding from the 0.7% drop the month before. Year-on-year, retail sales growth slowed to 1.5% in April from 2.0% in March.

- The Eurozone annual inflation rate fell sharply to 1.2% in May, below expectations for a decline to 1.3% and down from 1.7% in April, according to preliminary data. The April rate was the lowest since April last year, mainly due to a slowdown in costs of energy and services. The core annual consumer inflation rate rose 0.8% in May, down from 1.3% in April.
- The Eurozone seasonally-adjusted unemployment rate fell to 7.6% in April from 7.7% in March, falling below expectation for an unchanged rate. The April rate was the lowest since August 2008.
- German industrial production fell 1.9% in April from a month earlier, well below expectations for a 0.4 decline and erasing the 0.5% gain in March. The April drop was the biggest since August 2015, with most major categories declining: capital goods (-3.3%), intermediate goods (-2.1%), energy (-1.1%) and consumer goods (-0.8%). Construction output posted the sole gain, up 0.2%. Compared to a year earlier, industrial production fell 1.8% in April, double the 0.9% decline in March.
- German industrial orders rose 0.3% in April compared to a month earlier, following a 0.8% gain in March. The rise was due solely to a 1.1% increase in foreign demand as new orders rose from countries outside the Eurozone (5.7%) but declined from other countries in the Eurozone (-5.8%). Domestic orders fell 0.8%.
- The German trade surplus narrowed to 17.9 billion euros in April from 20.4 billion euros a year earlier. The April trade surplus was the smallest since January, as exports fell 0.5%while imports rose 2.1%.

## Japan

- The yield on 10-year Japanese Government Bonds fell to -0.1200% from -0.0940% a week earlier, on worries about U.S.-China trade tensions.
- The Bank of Japan Friday increased the scale of its purchases of Japanese government bonds with a remaining life of 10 to 25 years to Y200 billion from Y160 billion. The increase followed the BOJ's decision of reducing the frequency of its purchases of super long-term bonds to three times from four times monthly. The scale of Y200 billion is the middle of a permissible range of Y100 billion to Y300 billion. The scale of its purchases of JGBs with a remaining life of more than 25 years was left at Y40 billion. The BOJ also left the scale of its purchases of JGBs with a remaining life of 5 to 10 years at Y480 billion. The next focus is how and when the BOJ reduces the frequency of its purchases of medium-term bond buying to three times monthly from four.
- Combined capital investment by non-financial Japanese companies rose 6.1% on year in the January-March quarter, after rising 5.7% in October-December, a quarterly survey of capital investment and corporate profits by major companies released by the Ministry of Finance showed Monday. But combined capital outlays (excluding software) rose a seasonally adjusted 1.1% in Q1, slowing from +3.3% in Q4, indicating a likely downward revision to Q1 GDP data.
- Japan's average wages fell 0.1% on year in April, the fourth straight year-on-year drop following a 1.3% decline in March, with real wages also in negative territory, preliminary data released Friday by the Ministry of Health, Labour and Welfare showed. In real terms, average wages fell 1.1% on year in April, the fourth straight drop following a 1.9% fall in March. Total CPI minus imputed rents rose 1.0% on year in April, up from +0.6% in March. Base wages, the key to a steady recovery in cash earnings, rose 0.1% in April from a year earlier, the first rise in four months after falling 0.6% in the previous month. Overtime pay fell 1.1% on year in April, the fifth straight year-on-year drop after falling 1.5% in March.
- Japan's average monthly consumption expenditure per household increased 1.3% on a yearly basis in April, a survey released by Japan's Ministry of Internal Affairs and Communications showed Friday. Spending by households with two or more people slowed from the previous month's 2.1% gain but posted the fifth straight year-on-year rise. The April increase came in lower than the expected 3.0% gain. April's slowdown was a result of contracting expenditures on major items. Spending on housing fell 10.5% compared with March's 9.4% gain. The average real income of households with salaried workers decelerated to 1.1% year-on-year from March's 1.4%, the sixth straight monthly increase.

Source: Market News International

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