Schroders

Weekly market watch

As at Friday September 6, 2019

Equities

Region / Country	Index	Close	Net Change	Performance	
				Year-to-date	52-week
Asia-Pacific					
Hong Kong	HSI	26,690.76	966.03	3.27%	-1.05%
India	BSE 30	36,981.77	(87.16)	2.53%	-3.30%
Japan	Nikkei	21,199.57	495.20	5.92%	-4.96%
Singapore	STI	3,144.48	37.96	2.47%	0.32%
South Korea	KOSPI	2,009.13	41.34	-1.56%	-11.94%
Taiwan	WSE	10,780.64	162.59	10.83%	-0.61%
Shanghai	COMPOSITE	2,999.60	113.36	20.28%	11.00%
Europe					
France	CAC	5,603.99	123.51	18.46%	6.87%
Germany	DAX	12,191.73	252.45	15.46%	1.98%
Italy	FTSE MIB	21,947.33	624.43	19.77%	6.92%
Russia	RTSI	1,340.52	47.20	25.43%	27.14%
UK	FTSE 100	7,282.34	75.16	8.24%	-0.50%
Americas					
Brazil	IBOV	102,935.40	1,800.79	17.12%	34.70%
Mexico	IPC	42,707.66	85.16	2.56%	-12.33%
Nasdaq	CCMP	8,103.07	129.68	22.12%	2.28%
US	S&P 500	2,978.71	54.13	18.82%	3.50%
US	DOW	26,797.46	435.21	14.88%	3.08%

Bonds

	Close	Yield		
		Week ago	Month ago	Year ago
10 Year Gilt	0.5060	0.4790	0.5150	1.4160
10 Year OAT	-0.3380	-0.4030	-0.2640	0.6950
10 Year Bund	-0.6380	-0.7000	-0.5360	0.3550
10 Year Japan	-0.2370	-0.2690	-0.1820	0.1110
10 Year Treasuries	1.5602	1.4961	1.7023	2.8731

Base lending rates

Prime Rates	Latest	6 months ago	12 months ago
US	5.25	5.50	5.00
Canada	3.95	3.95	3.70
Japan	1.48	1.48	1.48
Britain	0.75	0.75	0.75
ECB	0.00	0.00	0.00
Switzerland	0.50	0.50	0.50
Australia	1.00	1.50	1.50
Hong Kong	5.38	5.38	5.25

% change is for indication only; local currency except where stated.

Equity Markets

US

- The Dow Jones Industrial Average and the S&P 500 rose modestly Friday, as modestly weaker-than-expected U.S. employment data supported the hope that the Federal Reserve would cut interest rates at its meeting later this month. However, the Nasdaq fell modestly due to weakness in tech stocks. All three indexes rose in the holiday shortened week, supported by news that trade negotiators from China and the U.S. would meet early next month. The Dow Jones Industrial Average rose 0.26% on Friday and 1.49% for the week to close at 26,797.46. The S&P 500 index rose 0.09% on Friday and 1.79% on the week to 2,978.71. The Nasdaq Composite fell 0.17% on Friday but rose 1.76% for the week to close at 8,103.07.
- Top U.S. and Chinese trade negotiators – Chinese Vice Premier Liu He, U.S. Trade Representative Robert Lighthizer and U.S Treasury Secretary Steven Mnuchin -- will hold a face-to-face meetings in "early October" in Washington, China's Commerce Ministry announced Thursday. The office of the U.S. Trade Representative (USTR) confirmed that a meeting would take place "in coming weeks." Deputy level negotiators will meet this month for "serious" discussions in preparation for the meeting, the Chinese Commerce Ministry said, while the USTR said the deputies would meet to "lay the groundwork for meaningful progress" in October. The agreement to meet came after the top negotiators, along with a series of other officials on the Chinese side, held a phone conversation on Thursday, the first such contact since August 13. Politico reported Friday that in that phone call China had offered to buy a "modest amount" of U.S. agriculture products, but that that offer could be contingent on the U.S. lifting sanctions on Chinese telecommunications equipment giant Huawei or delaying the U.S. tariff rate increase now scheduled to go into effect October 1. Depending on how the negotiations go, U.S. President Trump is also considering delaying the second tranche of new U.S. tariffs on Chinese-made consumer products now set for December 15, Politico said. As it stands, the October meeting would likely come after the week-long National Day holiday the first week of October, and so come after the current U.S. plan to raise the tariff rate on $250 billion of Chinese imports to 30% from 25% on October 1. That date, the 70th anniversary of the founding of the People's Republic of China, is high symbolic for the Chinese. Expectations for the October meeting remain muted, with comments from both sides suggesting they are digging in for a drawn-out conflict. New US tariffs of 15% on about $110 billion of Chinese imports went into effect on Sunday, as did the first tranche of higher Chinese tariffs on $75 billion of U.S. imports. The second tranche of this set of U.S. and Chinese tariffs are due to go into effect December 15, absent progress to defuse the trade conflict.
- WeWork is considering pricing its initial public offering as low as $20 billion, less than half its $47 billion valuation in its last funding round from Japan's SoftBank and the $50-60 billion valuation it had initially hoped for, after investor raised doubts about its ability to become profitable in the near future. Banks working with WeWork were concerned about overvaluing the IPO, given the sharp declines in stock prices of the Lyft and Uber since their debuts earlier this year. The company hopes to raise $3 billion from the IPO, with another $6 billion coming from a loan that is contingent on the initial offering.
- Prices for shares in Lyft and Uber hit record lows last week after California looked set to pass a law requiring the ride-hailing app companies to treat drivers as employees rather than independent contractors. The bill would give drivers a guaranteed minimum wage and the right to paid leave. Both companies are pushing back against the bill, which would increase their already high losses. Uber shares are now down 34% since their peak on June 28, while Lyft shares are down 42% since their closing peak on their first day of trading on March 29.
- Google has been accused of secretly using hidden web pages to feed the personal information from its users to advertisers, circumventing EU regulations that require transparency and consent, the Financial Times reported. The revelation comes after the company reached a $170 million settlement with the U.S. Federal Trade Commission for its YouTube unit illegally collecting children's personal data without parental consent.
- Exxon Mobil has agreed to sell all its Norwegian oil and gas properties for about $4 billion, Reuters reported Thursday. Exxon said in June it was looking to sell its Norwegian assets, consisting of minority stakes in more than 20 fields operated by Norwegian producer Equinor and Anglo-Dutch oil major Royal Dutch Shell. Var Energi, backed by Italy's ENI, is the buyer, Norwegian newspaper Dagen Noeringsliv reported, with the deal expected to close at the end of September. Shares in Exxon, the world's largest publicly traded oil company, posted a strong rise on the news.
- Software company Symantec has received a takeover offer of more than $16 billion from private equity firms Permira and Advent International for the entire firm, which would scuttle its $10.7 billion deal with semiconductor giant Broadcom a month ago to buy Symantec's enterprise software unit, the Wall Street Journal reported. It is unclear whether Symantec is interested in breaking its deal with Broadcom. Broadcom had offered to buy all of Symantec, but that deal fell through. Sources said the private equity firms could wait for the Broadcom deal to be finalized and then buy the rest of Symantec.
- Sotheby's said Thursday its shareholders had approved the sale of the auction house to billionaire Patrick Drahi for $3.7 billion. The deal is expected to close in the fourth quarter this year.
- SmileClubDirect, the direct to consumer teeth straightening vendor, is seeking to raise up to $1.3 billion in an initial public offer in coming weeks. The company claims that its products are 60% cheaper and take half the time to straighten teeth

than do traditional orthodontist-prescribed braces. The company plans to sell 58.5 million shares at $19 to $22 per share. If the shares are sold at the top end of the range, it would give the company an $8.5 billion valuation.

UK

- The FTSE 100 rose 0.15% on Friday and 1.04% on the week to close at 7,282.34, as the vote to prevent a no-deal Brexit combined the weaker pound exchange rate due to Brexit uncertainty attracted investors.
- The outlook for Brexit clouded over last week, though the chance of a no-deal exit diminished somewhat. Prime Minister Boris Johnson lost a series of key votes in Parliament blocking a no-deal Brexit and stopping his attempt to call a snap election. On Tuesday, the House of Commons voted 328 to 301 to pass legislation prohibiting a no-deal Brexit and ordering the prime minister to negotiate an extension of the European Union's current October 31 deadline for the UK to leave the EU. A total of 21 members of Johnson's Conservative Party, led by former chancellor Philip Hammond, voted with the opposition to pass the bill. The bill was approved by the House of Lords on Friday and, with the expected approval of Queen Elizabeth II, will become law on Monday. Earlier, MP Phillip Lee had defected to the opposition, removing Johnson's then one-vote majority. The defection of the other 21 Tories, who will not be able to stand for re-election as Conservatives, left Johnson unable to pass a bill calling for a new election on October 15. Opposition parties agreed that they would support a new election only after Johnson takes the no-deal option off the table. Johnson said he would rather be "dead in a ditch" than ask the EU for another a further delay in Brexit and would instead redouble his efforts to renegotiate the transition deal with the EU before the EU leaders' summit on October 17-18. He rejected speculation that he would be forced to resign if could not reach a better transition deal. EU chief negotiator Michael Barnier warned on Thursday that the transition deal talks were in "paralysis" because the UK negotiator provided no proposal that would break the deadlock over the "backstop" provision in the deal that would prevent a hard border from being erected between Northern Ireland, a part of the UK, and the Republic of Ireland, part of the EU, by keeping the UK in a customs union with the EU for an indefinite period. Complicating matters, the UK Parliament will shut down for five weeks starting this week until Oct. 14, little more than two weeks before the European Union's Oct. 31 deadline for the UK to accept the current transition deal or leave the EU without one.
- The pay dispute between British Airways and its 4,300 pilots escalated on Friday, with the airline threatening to take away travel perks if the pilots strike on Monday and Tuesday as planned. If the strike goes ahead, it would ground almost all its 850 flights on Monday, affecting some 280,000 customers. Only a handful of flights are expected to operate the first two days of the week. After nine months of unsuccessful negotiations with BA management, pilots have threatened to ground planes for an extended period to force a pay agreement. Pilots have asked for a three-year deal with better profit-sharing, with BA offering an 11.5% pay rise over the period.
- A surge in complaints about improperly sold payment protection insurance (PPI) will wipe out a third of Royal Bank of Scotland's annual profit, the bank said on Wednesday. The number of last-minute complaints ahead of the deadline was "significantly higher than expected," the bank said, adding it will make provisions of 600 million to 900 million pounds in its third quarter results to pay the claims.
- Lloyds Banking Group said Tuesday it had agreed to buy Tesco Bank's mortgage portfolio for 3.8 billion pounds, after a price war drove down its profits. Lloyds will pay a 2.5% premium compared the book value for Tesco's mortgages, with 23,000 customers transferred to Lloyds' unit.
- Merger talks between UK-based law firm Allen & Overy with U.S.-based O'Melveny & Myers collapsed last week after the two firms could not agree on a valuation for the combined business. Brexit and fluctuations in the pound-dollar exchange rate also complicated negotiations. The announcement marked the failure of Allen & Overy, with 1.6 billion pounds in annual revenue, to break into the U.S. market.
- Iconic UK retailer Marks and Spencer was dropped from the FTSE 100 stock index on Wednesday as its stock has dropped 40% since the start of 2018 due to severe online competition and weak growth in its grocery business. The company, a founding member of the FTSE 100 in 1984. The change will take place on September 23.

Europe (ex. UK)

- On the continent, the Eurofirst 300 rose 0.28% on Friday and 1.96% on the week to 1,522.54 on hopes for an easing of U.S.-China trade tensions.
- A phone call between French Finance Minister Bruno Le Maire and Japanese minister for Economy, Trade and Industry Hiroshige Seko reaffirmed their support for the alliance of France's Renault SA and Japan's Nissan Motor Co., according to a joint statement. The meeting was the latest sign that the two governments are working toward resolving differences between the two carmakers that was destabilized by the arrest last year of Chairman Carlos Ghosn, the architect of the alliance that includes Japanese carmaker Mitsubishi. Both companies are working to rebalanced their relationship, with Renault reducing its 43% stake in the Japanese automaker. The intent of the talks is to revive Renault's attempt to merge with Fiat Chrysler Automobiles EV, which was called off in June when Renault could not get Nissan's backing.

- Danish toymaker Lego, famous for its building blocks, said its revenues increased 4% in the first half of the year to 14.8 billion Danish kroners ($2.2 billion). Profits fell 16% to 3.5 billion Danish kroners, as the company made a conscious decision to investment more. The company will invest heavily in ecommerce and open another 160 brand-name stores worldwide this year, an increase of almost 40%, as the family owned company seeks to stay relevant with kids while drawing on the lessons of failed US retailer Toys R Us and the collapse of the Nordic region's biggest toy retailer, Top Toy.

Japan

- The Nikkei 225 index rose 0.54% on Friday and 2.39% for the week to 21,199.57 on hopes for breakthrough in trade negotiations between the U.S. and China set for early October.
- The trade dispute between Japan and South Korea entered a new arena last week, with the two countries clashing over catch quotas for Bluefin tuna at an international conference in Portland, Oregon to control stocks of popular fish. Both countries want to increase their quotas, while the U.S. opposes any increase in the quotas. A Japanese official called the Korean demand "excessive" and said Japan does not intend to allocate any of its quota to South Korea, in view of the continuing Korean ban on seafood from the Fukushima and seven other districts after the March 2011 meltdown of the nuclear power plant there. The week before, tensions eased somewhat, after Japan approved the first shipment of hydrogen fluoride, used in the production of semiconductors, to South Korea since Japan tightened export controls in July.. Both countries have removed the other from their respective "white lists" of countries given preferential trade treatment. The dispute burst into the open on July 4, when Japan tightened controls on exports to South Korea of materials critical to the manufacture of semiconductors. Japan's move came following Seoul's decision to let South Korean courts seize assets of Japanese companies to compensate individuals who claimed to have been forced to work for Japanese companies during World War II, after the country's Supreme Court ruled that a 1965 treaty in which Japan paid compensation to South Korea did not cover claims by individuals.
- Nissan is discussing stopping sales and marketing in South Korea as it has been one of the hardest hit by boycott of Japanese goods resulting from the continued bilateral trade dispute, the Financial Times reported. Nissan sold only 58 cars in South Korea in August, less than half the number of a year earlier. While Nissan sales in South Korea have never been large, and the parent company continues to struggle with low profitability, its departure could nevertheless become a precedent followed by other Japanese companies.
- Mitsubishi Aircraft Corp's long-delayed SpaceJet regional aircraft got a boost on Thursday when U.S. regional carrier Mesa Air Group Inc. signed a memorandum of understanding to negotiate a potential 100-plane deal. The two companies will discuss terms for a firm order of 50 M100 jets, with the option to purchase 50 more. The price tag for the potential deal was not announced. Deliveries of the aircraft would begin in 2024. Mesa flies 145 regional jets for American Airlines Group Inc. and United Airlines Holdings Inc. Delivery of the first M100s to launch customer ANA Holdings Inc. has been delayed several times as Mitsubishi changed the design to reduce weight but is now expected next year.
- Nissan Motor Co. CEO Hiroto Saikawa and other executives were found by an internal investigation of having received improper compensation, Reuters reported Wednesday. The revelations raised doubts about the company's pledge to improve governance standards after the scandal involving former chairman Carlos Ghosn last year. Saikawa apologized on Thursday and said he would return the money from stock-related compensation – tens of millions of yen -- from "a scheme of the Ghosn era." The company has no plans at the moment to ask Saikawa to resign, Reuters reported Friday.

Asia-Pacific (ex. Japan)

- Mainland China's Shanghai Composite Index rose 0.46% on Friday and 3.93% on the week to 2,999.60, its best weekly gain in two months, on news that Chinese and U.S. trade negotiators would hold face-to-face talks again in early October and expectations for an easing of monetary policy to boost growth.
- Hong Kong's Hang Seng index rose 0.66% on Friday and 3.76% on the week to 26,690.76, on hopes for an easing to U.S.-China trade tensions and expectations of monetary measure to support mainland growth. In addition, city Chief Executive Carrie Lam formally withdrew the extradition bill at the center of anti-government protests.
- Taiwan's Taiex rose 0.22% on Friday and 1.53% on the week to 10,780.64, supported by news that China and the U.S. would resume trade talks in early October.
- South Korea's Kospi rose 0.22% on Friday, the third straight daily gain, and 2.10% for the week to close to 2,009.13 on hopes that U.S.-China trade talks in early October will make progress to ease trade tensions.
- The Singapore Straits Times Index fell 0.08% on Friday but rose 1.22% for the week to close at 3,144.48 on hopes for an easing of trade tensions between the U.S. and China.

Emerging Markets

- Brazil's Bovespa rose 0.68% on Friday and 1.78% on the week, to 102,935.43, on rising expectations of a Federal Reserve rate cut later this month after weaker-than-expected U.S. jobs figures, Chinese moves to boost lending to support its economy, and news that U.S.-China trade talks would resume in early October.
- Mexico's IPC fell 0.06% on Friday but rose 0.02% on the week to 42,707.66 as investors took a wait-and-see stance on the economy amid worries about a global slowdown.
- India's BSE 30 rose 0.92% on Friday after a government official indicated support for the nation's auto sector, but still fell 0.94% on the week to 36,981.77 after economic growth data for the June quarter, the weakest since in six years, reinforced concerns about the economic outlook.
- Russia's RSTI rose 0.19% on Friday and 3.65% for the week to close at 1,340.52, as higher prices during the week for oil, Russia's largest export, boosted sentiment.

Alternative Assets

- Oil futures prices rose on Friday on reports that the U.S. oil rig count and U.S. crude inventories both declined for the third week in a row. October West Texas Intermediate (WTI) crude rose 0.4% on Friday to $56.52 per barrel, with prices up 2.6% on the week. The November Brent crude contract on London's ICE Futures Exchange closed the trading period at $61.54 a barrel, up 1% on the day and 3.9% on the week.
- Gold futures prices fell on Friday, pulling prices down for the week, after Federal Reserve Chair Jerome Powell gave an upbeat assessment of the U.S. economy. December gold futures fell 0.7% on Friday to $1,515.50, leaving the yellow metal down 0.9% on the week.

Fixed Income

US

- The yield on benchmark 10-year Treasuries rose to 1.5602% on Friday, from 1.4961% at the close of the previous week, as news that U.S.-China trade negotiations would resume in October increased investors' risk appetite. The two-year/10-year yield curve remained inverted, which typically precedes an economic downturn.
- Federal Reserve Chair Jay Powell said he will "act as appropriate" to sustain a U.S. economic expansion facing "significant risks" like a global slowdown, trade policy uncertainty and weak inflation. Although the robust labor market and consumer sector have showed staying power, inflation has been muted and near-term risks are to the downside, he said Friday. He also said the Fed is not expecting or forecasting a recession. "We are watching geopolitical risks -- Brexit and Hong Kong -- incoming data and financial conditions broadly, carefully," he said, "and we will act as appropriate to sustain the expansion." The Fed has an obligation to use its tools to support the economy, he added. Powell's comments will likely cement market expectations for a quarter-point interest rate cut at the Fed's next meeting on September 17-18, bringing the benchmark fed funds rate target to 1.75% to 2.0%. The most likely outlook for U.S. growth is still a "favorable" one, Powell told a forum at the University of Zurich hours before the Fed heads into its communications blackout ahead of a policy meeting. With the unemployment rate staying near a 50-year low, the labor market remains in a "quite a strong position," he said. The August jobs report, which came in slightly below expectations Friday, nevertheless indicated that hiring continued at a pace "well above" one needed to absorb new workers and "was consistent with that of a labor market that continues to tighten," Powell said. Firms added 130,000 payrolls last month, while most economists estimate the breakeven rate to be roughly 100,000. Powell noted that trade uncertainty continues to weigh on businesses investment decisions, but declined to comment on trade policy specifics. The economy is "in a good place," supporting a range of views on the Federal Open Market Committee, Powell said, referring to several officials arguing there is no need to lower interest rates. "I expect we'll have strong support for the decision we reach," he said.
- U.S. economic activity continued to grow at a modest pace through August as tariffs and general trade uncertainty continued to weigh and overall manufacturing activity weakened slightly from the previous report, according to the Federal Reserve's latest report on Current Economic Conditions, known as the Beige Book. Most Fed districts reported slight to modest growth. The Atlanta district saw a moderation in growth, reporting softer manufacturing activity. Two Fed districts, Cleveland and Minneapolis, reported flat growth as manufacturing slowed. The impact of tariffs on pricing was mixed with some districts anticipating that the effects would not be felt for months, the report said. Most districts indicated modest price increased since the last report. However, many manufacturers and some other businesses reported delaying making investment decisions due to trade uncertainty. Price increases were modest overall with retailers and manufacturers reporting slight increases in input costs. Manufacturing reported a limited ability to raise prices putting

pressure on growth, while other firms noted an ability to pass along price increases. Labor markets stayed tight with the pace of wage growth staying at a "modest to moderate" level throughout the country. Several districts cited tight labor markets across segments and skill levels constraining overall business activity. Labor shortages limited business expansion in some areas. Consumer spending reports were mixed, though auto sales for most districts grew at a modest pace, on par with the previous reporting period. Tourism remained solid in most reporting districts. Housing sales were constrained by a lack of inventory while new home construction remained flat.

- Non-farm payrolls grew at a somewhat slower-than-expected pace in August, rising by 130,000 compared with market expectations for a 160,000 gain. This followed a net 20,000 downward revision to the previous two months. The unemployment rate remained at 3.7%, in line with market expectations. Hourly earnings increased 0.4% while the market median had looked for a 0.3% gain. As a result, the year/year rate for earnings rose to 3.2%. Average hours worked increased slightly to 34.4 in August after dipping marginally to 34.3 hours in July. The unemployment rate remained at 3.7%, in line with market expectations, though the labour force participation rate ticked upward by 0.2 percentage point to 63.2%. The size of the labor force increased to 163.9 million with the number of employed increasing and the number of unemployed decreasing. Before rounding, the unemployment rate fell to 3.6871% from 3.7116% in July. Private payrolls rose by 96,000 in August, far below the 150,000 increase expected by markets. Earlier in the week, the ADP national employment report had recorded a 195,000 gain in private payrolls. The retail and mining sectors recorded losses of 11,000 and 5,000, respectively. Wholesale trade and education and health care payrolls also fell relative to July. Government payrolls rose by 34,000 in August, largely reflecting the hiring of temporary census workers, the BLS said.
- Chinese tariffs on U.S. exports remain a significant issue for U.S. manufacturers as sector activity contracted for the first time in three years, Institute for Supply Management economist Tim Fiore told MNI. The U.S.-China trade dispute is unlikely to be resolved soon, he said. The ISM Manufacturing PMI contracted 2.1 points to 49.1 in August, ending 35 months of expansion and signaling trouble for future output and employment. Readings below 50 signal declining activity. The new orders index fell 3.6 points to 47.2 in August. Only three industries reported gains in new orders. Likewise, the production index fell 1.3 points to 49.5 with only half of the surveyed manufacturing industries reporting growth. The employment index also contracted, sinking 4.3 points to 47.4. "Things don't appear anywhere near resolved," Fiore, chair of the ISM Manufacturing Business Survey, said Tuesday. "The tariff situation is going to be here for the long haul." New export orders fell to a record low 43.3 reflecting a heightened concern among survey respondents about U.S.-China trade turbulence. Approximately one-third of comments regarding overall sentiment referenced tariff and trade-related apprehensions, according to Fiore. In an attempt to mitigate their exposure to trade escalations and impending tariffs, many manufacturers are seeking to move manufacturing operations out of China as quickly as possible, Fiore said. However, industry managers are still scrambling to figure out alternatives. "I don't think the manufacturing sector has it under control at all," he said. The recently-weakened yuan is no longer strong enough to offset the effects of tariffs on more than $100 billion of consumer goods from China, he said, predicting that operations will most likely relocate to places like Mexico. Half of the manufacturing industries surveyed reported a decrease in employment in August. Fiore said demand, which fell this month, heavily influences hiring activity and manufacturers are worried that staffing levels may already be too high. "About 25% of comments in the employment sector were related to maintaining current staffing levels," he said, suggesting potential declines in manufacturing employment moving forward.

UK

- The yield on 10-year Gilts rose to 0.5060% at the end of last week from 0.4790% the week as worries about the prospect of a no-deal Brexit and the U.S.-China trade conflict eased during the week.
- The UK's economy could shrink by as much as 5.5% and inflation peak at 5.25% if the country leaves the European Union without a transition deal, according to a worst-case scenario that assumes no fiscal stimulus that was published by the Bank of England on Wednesday. Unemployment would rise to 7%, according to the scenario, which Governor Mark Carney stressed was only the worst imaginable case and not a forecast. In evidence to the Treasury Select Committee, Carney said the Bank would do what it could do support the economy, although his Chief Economist Andy Haldane expressed caution about adding stimulus in the event of no deal. Carney said that the BOE would not intervene in the foreign exchange market in the event of a no-deal Brexit except "in the most extreme circumstances," where the market was malfunctioning. Instead it would let sterling adjust and use monetary policy to support the economy as far as possible. Carney painted a somber picture of the economic outlook. He said that trade tensions between U.S. and China had mutated into "an actual trade tension" and that, looking through the volatile data, the UK economy was growing very weakly. "The fundamentals of the major economies are still quite strong," he said, but added: "there is a risk we move to much slower growth and that there is limited ability to offset that." Carney stressed that a no-deal Brexit would be a supply side shock, that the economy would take time to adjust, and that monetary policy could do nothing to offset that. The BOE could only try to support demand, but its powers would be limited.
- The UK Halifax House Price Index rose 1.8 percent in the three months to August compared to the year-earlier period, slightly larger than the 1.5 percent rise in the period to July. It was the highest housing price growth since the three months to April. “Although the housing market will undoubtedly be influenced by events in the wider economy, it

continues to show a degree of resilience for the time being," Russell Galley, managing director of Halifax, said in a statement. "We should also not lose sight of the fact that the single biggest driver of both prices and activity over the longer-term remains the dearth of available properties to meet demand from buyers."

Europe (ex. UK)

- The yield on benchmark 10-year Bunds rose to -0.6380% last Friday from -0.7000% the previous week, as worries about the impact of Brexit and the U.S.-China trade conflict on the Eurozone economy eased.
- Eurozone retail sales fell 0.6% in July from June, in line with market expectations. It was the largest monthly drop since December, led by a sharp decline in non-food sales (-1.0% vs. 1.1%). In addition, food, drinks, tobacco sales dropped 0.3% after a 1.3% gain in June, while fuel sales were flat compared to an increase of 1.8% the month before. Year-on-year, retail trade growth eased to 2.2% from 2.8% in June.
- Industrial production in Germany, the Eurozone's largest economy, dropped 0.6% in July compared to June, disappointing market expectations for a 0.3% increase. In addition, June production was revised down to show a 1.1% drop. In July, capital (-1.2%) and intermediate goods (-0.7%) both declined while energy production fell 1.3%. Consumer goods output rose 0.6% while construction production rose 0.2%. Compared a year earlier, July industrial production fell 4.2% after a downwardly revised 4.7% drop in June.
- German industrial orders dropped 2.7% in July compared to June, double the 1.5% decline expected and reversing the 2.7% growth in June. The July drop was the biggest since February, with big declines in both domestic orders and foreign demand. New orders from third countries fell 6.7%, while those from other Eurozone countries rose 0.3%. Orders decreased in all categories of goods during the month.

Japan

- The yield on 10-year Japanese Government Bonds rose to -0.2370% from -0.2690% a week earlier, as investors desire to buy risk-adverse assets declined on news or renewed trade negotiations between the U.S. and China.
- Bank of Japan Governor Haruhiko Kuroda said that cutting interest rates "further into the negative zone is always an option" for the BOJ, according to an interview with Japan's Nikkei. He also said that the central bank is growing increasingly concerned about mounting downside risks to the global economy from the U.S.-China trade tension. He again noted that rate cuts are one of the four policy options the BOJ has presented before. In its statement after July's policy board meeting, the BOJ had signalled a willingness to consider preemptive easing if necessary. "The Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost," the BOJ said. Kuroda suggested in the interview Thursday that circumstances have not worsened enough to merit such steps at this point. He maintained a bullish stance on Japan's economy, asserting that "we're maintaining momentum toward the price stability target" of 2% inflation and that "domestic demand -- consumer spending and capital investment -- are relatively firm." But he stressed that "caution is needed" in light of unpredictable conditions overseas, particularly with regard to the trade tension. While saying he considers it unlikely that the U.S. will enter a serious recession, Kuroda noted a slowdown in the global economy, centered on Europe and China. "I can't rule out the possibility that it will worsen further," Kuroda said. "We're considering a variety of possibilities, including combinations of these and improved versions," Kuroda added. The BOJ's two-day policy-setting meeting ending on Sept. 19 is scheduled after the U.S. Federal Reserve releases the results of its meeting the day before.
- Bank of Japan board member Goushi Kataoka said Wednesday that it is vital for the BOJ to take pre-emptive policy action as it would be too late to act after confirming a worsening of the underlying trend of prices through economic data. However, Kataoka didn't elaborate on how and when the BOJ would consider further easing. Kataoka was speaking to business leaders in Hakodate City. Kataoka, a former private-sector economist, has said previously it is appropriate for the BOJ to strengthen monetary easing by lowering the short-term policy interest rate. He also said that it is appropriate to revise the forward guidance for the policy rates to relate it to the price stability target.
- Japan's average monthly consumption expenditure per household increased 0.8% on a yearly basis in July, a survey released by Japan's Ministry of Internal Affairs and Communications showed Friday, down from the previous month's 2.7% gain, the eighth straight y/y rise. The increase came in lower than the 1.0% y/y gain expected. July's deceleration was a result of lower expenditures on major items. Spending on food dropped 0.2% after June's 1.0% gain, and spending on fuel, lighting and water fell by 3.4% from the previous month's 3.7% gain. The average real income of households with salaried workers slowed to a gain of 1.1% y/y after June's 3.5% growth.

Source: Market News International