



# UK Week in Markets

Week ending 28 April 2019

## Key News and Events

- Despite Parliament resuming after their Easter recess there remains no progress with Brexit. Talks between Labour and the Conservatives seem to have stalled and the Government is reluctant to hold a further vote on the Deal given the continued likelihood that it would once again be defeated. The upcoming local elections this Thursday, with elections scheduled across 248 councils, will deflect attention away from Brexit and provide a barometer for voter dissatisfaction over the Government's inability to deliver Brexit.
- A new round of US-China trade negotiations will begin in Beijing this week with an aim of finally reaching a trade deal. Elsewhere, US President Donald Trump expressed optimism over reaching a new bilateral trade deal with Japan by May 2019. However, reports suggested that Japanese Prime Minister Shinzo Abe is refusing to grant access for US Farmers to the country's agricultural market which diminishes the possibility of a quick US-Japan trade deal.
- In the third Spanish general elections in four years, the ruling socialist party (PSOE) won 123 of the 350 seats in the parliament. Prime minister Pedro Sanchez still needs to seek the support of other parties to reach the 176 seats necessary to form a government. However, PSOE may be able to govern without support of Catalan separatists which removes a major hurdle in governance. The centre-right People's Party was the big loser (-16%) as it leaked votes to Vox, a far-right nationalist party, and the centre-right Citizens party – a potential coalition partner for PSOE should they be unable to find a coalition on the left.

## Market Moves

- Global equity markets rose over the week supported by better than expected corporate earnings reports. Microsoft became the third company to top \$1 trillion in market value following better than expected sales and earnings, particularly for its expanding cloud services suite. The MSCI AC World Index rose by 0.7% in local currency terms and rose by 1.0% in sterling terms. The Health Care sector was the best performer at (+3.4%) in local currency terms. The Materials sector was the worst performer at (-1.5%) in local currency terms.
- US equities were the best performing region in local currency terms (+1.2%) and sterling terms (+1.8%). Health Care (3.7%) and Financials (1.3%) were the best performing sectors. Emerging Market equities were the worst performing region in local currency terms (-0.7%) and sterling terms (-0.7%). Emerging Markets returns were dragged down by China's underperformance (-1.82%). Fears over reduction of monetary stimulus following better than expected Q1 GDP data weighed over equity markets. Index heavy weights Financials (-0.59%) and Information Technology (-0.93%) sectors added to the fall.
- The 10-year gilt yield fell by 6bps to 1.14% and the 20-year gilt yield fell by 4bps to 1.60%. 10-year US treasury yields fell by -6bps to 2.50% as weakness in the details of the Q1 GDP report and a slowdown in the PCE index pushed yields lower. German Bund yields fell by -4bps to -0.02% and French government bond yields fell by 1bps to 0.36%. Italian government bond yields rose by 16bps to 2.60%.
- The Over 5-year real yield fell by 1bps to -1.71% and the UK 20-year real yield fell by 1bps to -1.82%. 20-year breakeven inflation fell by 3bps to 3.43%.
- USD denominated EM debt underperformed over the week, returning -0.7%. The US high yield bond spread over US treasury yields rose by 2bps to 375bps over the week. The spread of USD denominated EM debt over US treasury yields rose by 8bps to 351bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 1bps to 123bps over the week.
- The S&P GSCI index fell by 1.2% in USD terms over the week. The S&P GSCI Energy index fell by 0.5% despite the price of Brent Crude oil increasing by 0.3% to US\$72/BBL. Initially, crude oil prices rallied as the US confirmed it will end temporary waivers for certain countries buying Iranian crude oil and Germany and Poland halted Russian oil imports. However, prices fell back later due to sharp rise in US crude inventories (highest since 2017). Industrial metal prices fell by 1.1% as copper prices fell by 0.9% to US\$6,393/MT. Agricultural prices fell by 1.9% and gold prices rose by 0.7% to US\$1,284/Oz.
- Sterling depreciated by 0.0% on a trade weighted basis over the week. Sterling weakened by 0.6% against the US dollar and rose 0.2% against the euro, ending the week at \$1.29/£ and €1.16/£. The US dollar decreased by 0.3% against the Japanese yen, ending the week at ¥111.56.

## Economic Releases

- US economic growth unexpectedly accelerated significantly by a quarter-on-quarter annualized rate of 3.2% in the Q1 2019, well ahead of the previous reading of 2.2% and expectations for a growth of 2.3%. However, underlying personal consumption growth disappointed and slowed to 1.2% from 2.5% over the same period. Growth over the first quarter was predominantly driven by a build-up in inventories and a boost to net trade. The Fed's preferred measure of inflation, the core Personal Consumption Expenditure (PCE) index, missed expectations of a move down to 1.4% from 1.8% and slowed to 1.3% – further from the Fed's 2% inflation target. On a more positive note, orders for durable goods rebounded by 2.7% in March, significantly ahead of the 0.8% growth expected by the analysts after contracting by 1.1% in the previous month. Orders for non-defense capital goods (excluding aircraft), which is viewed as a proxy for business investment, exceeded expectations of a 0.2% increase in March and rose 1.3%.
- In the UK, the Confederation of British Industry's (CBI) Business Optimism indicator improved to -13 in April from -23. Export prospects fell to their lowest level since mid-2009 and British factories increased their inventory levels at the fastest pace since 1950 ahead of Brexit. The CBI industrial orders balance swung back into negative territory in April, moving to -5 from +1 and below market expectations of +2. Elsewhere, Public Sector Net Borrowing excluding Banking Groups recorded £1.7bn, above estimates of £0.4bn.
- Euro area consumer confidence fell to -7.9 in April from -7.2 against expectation for a modest improvement to -7. In Germany, the April IFO Business Climate index dropped to 99.2 from an upwardly revised 99.7 in March and below expectations of it improving to 99.9.
- The Bank of Japan (BoJ) kept its monetary policy unchanged and suggested that interest rates could remain at ultra-low levels at least for another year. Furthermore, the BoJ cut both economic growth and inflation forecasts for the fiscal year starting April 2020. Based on preliminary data, industrial production contracted by 4.6% year-on-year (the steepest decline since 2015), due to slowing demand for exports of automobiles and manufacturing equipment. On a monthly basis, industrial production fell by 0.9% in March against expectations of it remaining flat. Retail sales rose by 0.2% in March, down from an upwardly revised 0.4% in February but above expectations of sales remaining flat. Japan's jobless rate rose to 2.5% in March, more than the expected increase to 2.4% from 2.3%. However, the job-to-applicant ratio remained unchanged at 1.63.
- In China, industrial profits rebounded in March thereby ending four consecutive months of slower profit growth. Industrial profits grew by 13.9% year-on-year in March, which partially eases concerns about slowing momentum in the Chinese economy.

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