



# UK Week in Markets

Week ending 14 July 2019

## Key News and Events

- In his testimony to Congress, Federal Reserve (Fed) Chairman Jerome Powell highlighted the risks to US economic outlook, hinting at a probable interest rate cut by the Fed at its next meeting later this month. Expectations of easing monetary policy helped US equities to reach new highs, as the S&P 500 index reached a record high of 3,000.
- US-China trade negotiations appear to have ran into difficulties over the week. US President Donald Trump suggested on Twitter that Beijing is reneging on its promises at the G20 meeting last month to purchase more American agricultural products.
- The French Senate approved a new “Digital tax” which will impose a 3% tax on the French revenue of digital companies. In response, the Trump administration ordered an investigation into the planned tax, which could potentially result in retaliatory tariffs being imposed on French or European imports.
- Tensions in the Middle East escalated further as Iranian gunboats attempted to impede a British oil tanker in the Strait of Hormuz.

## Market Moves

### Global Equities

- Global equity markets rose in local currency terms over the week.
- The MSCI AC World Index rose by 0.1% in local currency terms and fell by 0.2% in sterling terms.
- The Energy sector was the best performer, returning 1.4% in sterling terms.
- The Health Care sector was the worst performer, returning -2.0% in sterling terms.

### Regional Equities

- US equities were the best performing region in local currency terms (+0.8%). The S&P 500 Index and Dow Jones Industrial Average rose to a record high of 3,000 and 27,000 respectively.
- European equities were the worst performing region in local currency terms (-1.1%) in a week in which the European Commission downgraded its growth and inflation forecasts for the Euro Area.
- US equities were the best performing region in sterling terms (+0.4%).
- Emerging Market equities were the worst performing region in sterling terms (-1.2%).

### Government Bonds

- The 10-year gilt yield rose by 9bps to 0.82% and the 20-year gilt yield rose by 7bps to 1.31%.
- 10-year US treasury yield rose by 6bps to 2.11%, supported by better than expected US inflation data.
- At the 10-year maturity, German Bund yield rose by 13bps to -0.22% and French government bond yield rose by 11bps to 0.04%.
- Italian government bond yields fell by 4bps to 1.76%. Italy successfully sold newly issued 50-year government bonds to investors over the week, indicating improved investor sentiments in Italian assets.

### Inflation-linked Bonds

- The Over 5-year real yield rose by 3bps to -1.86% and the UK 20-year real yield rose by 8bps to -2.04%.
- 20-year breakeven inflation was unchanged at 3.38%.

### Credit

- Sterling Investment Grade bonds fell over the week, returning -0.4%.
- The US high yield bond spread over US treasury yields rose by 4bps to 402bps over the week.
- The spread of USD denominated EM debt over US treasury yields fell by 1bps to 339bps over the week.
- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 2bps to 120bps over the week.

### Commodities

- The S&P GSCI index rose by 3.2% in USD terms over the week.
- The S&P GSCI Energy index rose by 4.1% as the price of Brent Crude oil rose by 3.9% to US\$67/BBL, supported by rising tensions in the Middle East and a drop in US Crude oil inventories.
- Industrial metal prices rose by 1.7% as copper prices rose by 1.6% to US\$5,950/MT.
- Agricultural prices rose by 1.9% and gold prices rose by 1.4% to US\$1,408/Oz.

### Currencies

- Sterling strengthened by 0.4% against the US dollar and rose by 0.2% against the euro, ending the week at \$1.26/£ and €1.12/£.
- The US dollar decreased by 0.4% against the Japanese yen, ending the week at ¥108.02.

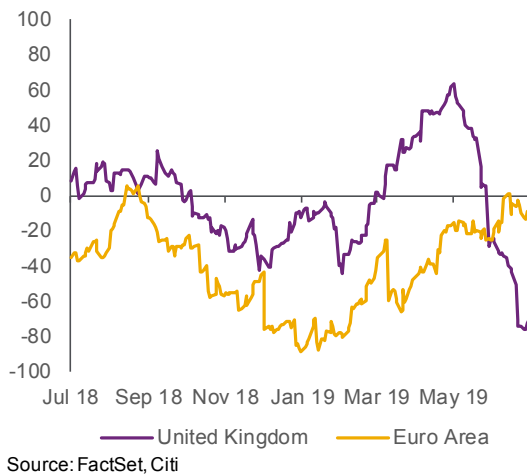
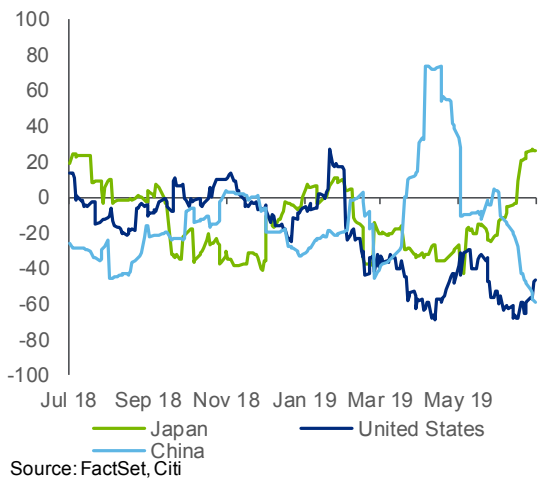
## Economic Releases

### Highlighted Last Week Releases

Region	Description	Comment
US	CPI MoM	Consumer prices in the US rose by 0.1% in the month of June, in line with the previous month's inflation rate but above expectations of a 0% inflation reading. Core inflation, which excludes volatile food and energy components, reached 0.3% in June, above the 0.1% inflation rate recorded previously.
UK	Industrial Production MoM	Industrial production rose by 1.4% in the month of May, rebounding from the 2.9% drop recorded previously. This meant that industrial production in the year to May is now up by 0.9%, benefiting from a rebound in the production of basic materials and energy products.
China	GDP YoY	China's economy grew by 6.2% year-on-year in Q2 2019, the slowest growth rate since the Chinese government calculated the current series of GDP data in 1992. This came amidst ongoing trade tensions between China and the US which dampened demands for Chinese exports.

### Economic Surprise

The index measures economic data relative to expectations. A positive number indicates that economic data has outperformed expectations.



## Contact Information

### **John Chung**

Aon - London

+44 (0) 20 7086 6199

[john.chung.3@aon.com](mailto:john.chung.3@aon.com)

### **Nikhil Anto**

Aon - Bangalore

+91 80 6621 8236

[nikhil.anto@aon.com](mailto:nikhil.anto@aon.com)

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