UK Week in Markets

Week ending 03 February 2019

Empower Results®

Key News and Events

- There was little progress in the US-China trade talks last week during a meeting between US and Chinese representatives. However, the US President Donald Trump said that he would send US Treasury Secretary Steven Mnuchin and U.S. Trade Representative Robert Lighthizer to China in mid-February for the next round of talks.
- The UK Prime Minister Theresa May won parliamentary backing to reopen Brexit negotiations with the European Union (EU) to negotiate 'alternative arrangements' on the backstop. However, the EU maintained that there can be no further negotiations on the withdrawal agreement and adopted another set of contingency measures for a “no-deal” scenario.
- US Federal Reserve policy makers left interest rates unchanged as expected but pledged to take a patient approach towards further interest rate rises and indicated greater flexibility on reducing the size of the Fed's balance sheet.

Market Moves

- Global equity markets rose over the week as risk sentiment improved following the Federal Reserve's announcement that they would take a patient approach to future rate rises. The MSCI AC World Index rose by 1.3% in local currency terms and rose by 2.1% in sterling terms. The Consumer Staples sector was the best performer at (+2.6%) in local currency terms. The Financials sector was the worst performer at (-0.3%) in local currency terms.
- UK equities were the best performing region in local currency terms (+3.1%). Asia Pacific equities were the worst performing region in local currency terms (-0.3%). Japanese equities were the worst performing region in sterling terms (+0.8%).
- The 10-year gilt yield fell by 6bps to 1.25% and the 20-year gilt yield fell by 4bps to 1.68%. 10-year US treasury yields fell by -6bps to 2.69%. German Bund yields fell by -3bps to 0.17% and French government bond yields fell by 3bps to 0.57%. Greek government bond yields fell by 16bps to 3.90% following the successful release of the country's first new bond issuance since it exited its third bailout programme in August.
- The Over 5-year real yield fell by 5bps to -1.57% and the UK 20-year real yield fell by 7bps to -1.77%. 20-year breakeven inflation rose by 2bps to 3.37%.
- The US high yield bond spread over US treasury yields fell by 5bps to 429bps over the week. The spread of USD denominated EM debt over US treasury yields fell by 7bps to 354bps over the week. The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) fell by 4bps to 140bps over the week.
- The S&P GSCI index rose by 0.9% in USD terms over the week. The S&P GSCI Energy index rose by 1.5% as the price of Brent Crude oil rose by 1.8% to US$63/BBL. Industrial metal prices rose by 0.7% as copper prices rose by 3.3% to US$6,098/MT. Agricultural prices fell by 0.2% and gold prices rose by 1.9% to US$1,319/Oz.
- Sterling depreciated by 0.7% on a trade weighted basis over the week. Sterling weakened by 0.6% against the US dollar and fell 1.2% against the euro, ending the week at $1.31/£ and €1.14/£. The US dollar decreased by 0.3% against the Japanese yen, ending the week at ¥109.38.

Economic Releases

- Economic releases in the US were encouraging. A measure of national factory activity, the Institute of Supply Management's (ISM) manufacturing index for January, bucked expectations of a 0.3-point decline and climbed to 56.6, recording the 28th straight month of growth. The sub-index measuring New Orders rose to 58.2 from 51.3 whilst Employment sub index slipped to 55.5 from 56. The ISM Prices Paid sub-index dropped to 49.6 from 54.9 but this was largely driven by lower raw material prices. January's non-farm payroll release surpassed analyst forecasts of 165k with 304k new jobs being added over the month; well ahead of downwardly revised 222k reading in December. The unemployment ticked up to 4.0% from 3.9%, but it can be partially attributed to the temporary effect of federal government shutdown and increasing labour force participation.

- In the UK, the Markit Manufacturing Purchasing Managers' Index (PMI) fell to a three-month low of 52.8 in January from 54.2 in December. The PMI stock of Purchase Index rose to a record high of 56.3 amidst Brexit uncertainty whilst PMI manufacturing new orders dropped to 48.2 indicating a contraction. Growth in the Nationwide House Price Index slowed to 0.1% in January from 0.5% in December but above market expectations of being unchanged. Elsewhere, the GfK consumer confidence index held at -14 in January, the lowest level since July 2013.

- Euro Area GDP expanded by just 0.2% in Q4 2018, as the Italian economy fell into technical recession in the second half of 2018. This took year-on-year GDP growth to 1.2% from 1.6% seen in the previous quarter, the weakest since 2013. Inflation slowed with headline consumer price inflation decelerating by 0.2% to 1.4% in the year to January but met consensus estimates. However, core inflation increased by 0.1% to 1.1%. The German inflation rate held steady with the EU-harmonized Consumer Price Index increasing by 1.7% year-on-year in January. Elsewhere, German retail sales fell 2.1% in the year to December 2018, defying expectation of it increasing by 1.5%. The 4.3% decline in December was the worst since May 2007.

- In Japan, the final reading of the Nikkei manufacturing PMI ticked higher to 50.3 in January, up from a preliminary reading of 50.0 recorded in the previous month. Based on preliminary data, Japanese industrial production contracted by 0.1% in December; slower than an expected 0.5% fall and significantly less than November’s 1.0% decrease. Retail sales rebounded by 0.9% in December from the previous 1.1% decline recorded in November due to increased consumer spending. Japan’s labour market strengthened as the jobless rate for December inched slightly lower to 2.4% (lowest rate in 26 years), against forecasts of it remaining at 2.5%. However, the job-to-applicant ratio remained unchanged at 1.63.

- In China manufacturing sector contracted for the second consecutive month. The official Chinese manufacturing PMI for January marginally inched higher to 49.5 from 49.4. Also, the official non-manufacturing index rose to 54.7 from 53.8 over the month. The Caixin manufacturing PMI, which focuses more on small and mid-sized Chinese businesses, further contracted to 48.3 in January, lower than consensus estimates of slowing down to 49.6. The Caixin services PMI edged lower to 53.6 over the same month against expectations of it slowing down to 53.4. Overall, the Caixin composite PMI fell to 50.9 in January, down from 52.2 in December.

Contact Information

Joshua Roberts
Aon - London
+44 (0) 20 7086 7087
joshua.roberts.2@aon.com

Indranil Mukherjee
Aon - Bangalore
+91 80 3091 8454
indranil.mukherjee@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

Aon Hewitt Limited
Registered in England & Wales No. 4396810
Registered office: 122 Leadenhall Street, London, EC3V 4PT
Authorised and regulated by the Financial Conduct Authority.