

Market Update

Week 02: 07 January 2019



USA Employment Situation

- Tasty

The consensus called for something like 166,000 new jobs to be listed in the December Nonfarm Payroll report. The highest forecast we can see came in at 215,000. In the event the Bureau of Labor Statistics counted a whopping 312,000 new posts. Not only that, a further 58,000 came by way of revisions to the October and November estimates. December was the 99th consecutive monthly gain. Feast on that, stock market. The next two jobs reports – out early in February and March – will provide a reasonably reliable impression of how the US economy is doing as we move into the new year. We suspect those are going to be market movers too.

USA Monetary Policy

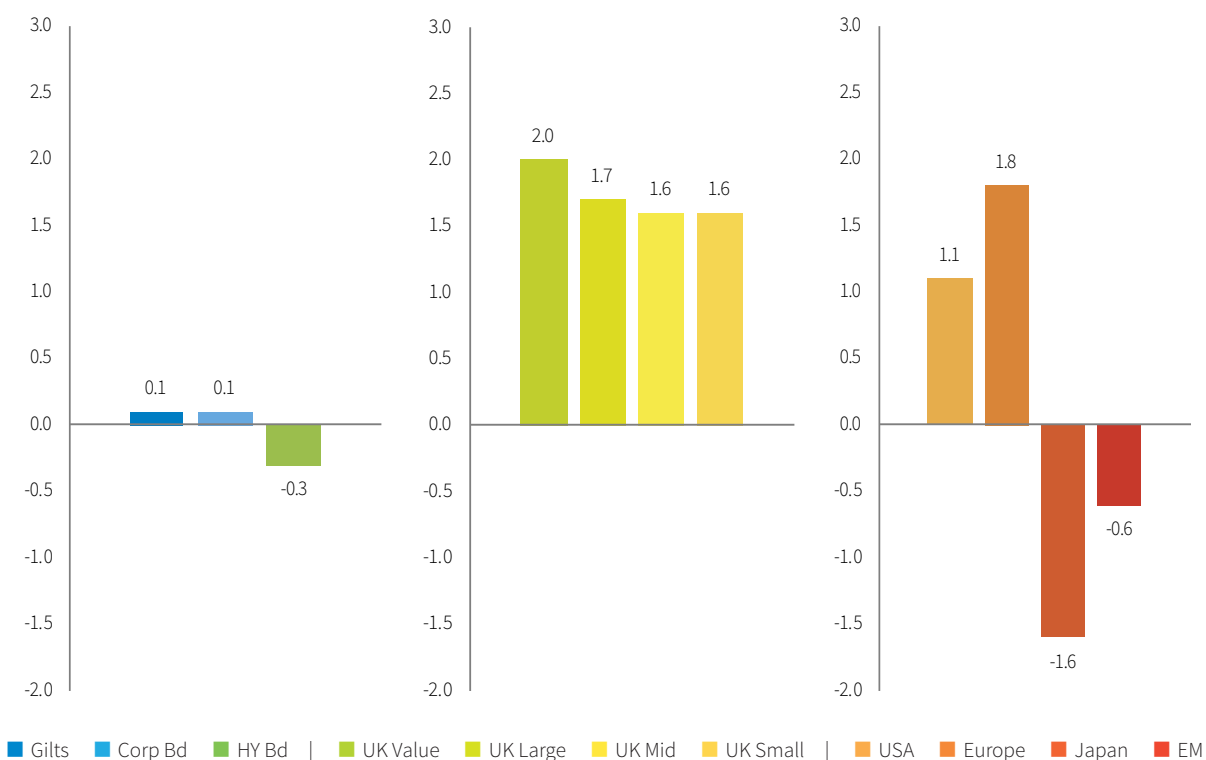
- One statement, two interpretations

‘Overall, we would say that the picture for the rest of the world remains consistent with continued growth here in the United States... financial markets have been sending different signals’. That is how Jerome Powell, Chairman of the Federal Reserve Board of Governors began a series of comments reminding investors that interest rates are not on a pre-set path and that the Federal Open Market Committee was ‘prepared to adjust policy quickly and flexibly’. That was exactly what some market participants wanted to hear and financial instruments are now priced to reflect the greater possibility of a rate cut than of rate hike in 2019. We’re deeply sceptical of that.



Last Week

In Markets



Other Developments

China Manufacturing Output

There's a reason Chinese stocks have fallen into a bear market; the broader Chinese economy is slowing. Evidence for that is contained in the most recent Purchasing Managers' Index reports for the manufacturing sector.

December's PMI from official sources, released a few days ago, stands at 49.4. Coming in below the neutral 50.0 mark, the survey's respondents are indicating that manufacturing output is contracting a little. At the same time the unofficial report, compiled by Markit/Caixin, fell to 49.7. Taken together we can conclude, loosely, that output is falling at both large, state-owned firms (the focus of the official report) and smaller, private enterprises (as reflected in the unofficial report).

We take it that both external and domestic demand for Chinese goods are subdued as is consistent with a slowing global economy. A Sino-US trade dispute is at least partly responsible for all of this, but there is good reason to believe a slowdown in Chinese output growth is inevitable. Policymakers face a choice – they can continue with moves to deleverage a debt-ridden economy and accept an orderly slowdown as output moves to more sustainable levels, or they can encourage further borrowing to underpin high rates of growth today and risk a more spectacular, disorderly slowdown in future. In so far as we can tell, China is responding to the US challenge by encouraging even more lending.

That is not a good response over any timeframe barring the immediate.

The economy undoubtedly faces greater downward pressure,” says one... Beijing adviser. “How bad it will become, and how strongly we should stimulate the economy will largely depend on how soon we can settle the trade dispute with the US.

Wall Street Journal
06 January 2019

This Week

Monday

Eurozone retail sales

US factory orders

US non-manufacturing PMI

Tuesday

Australia trade

Japan consumer confidence

Germany industrial production

Eurozone business and consumer sentiment

US trade

Wednesday

Germany trade

Eurozone employment situation

Canada monetary policy

US crude oil stocks

US monetary policy minutes

Thursday

China inflation

Euro zone monetary policy meeting

US home sales

Japan national accounts

Friday

UK trade








UK GDP

UK industrial production

Brazil inflation

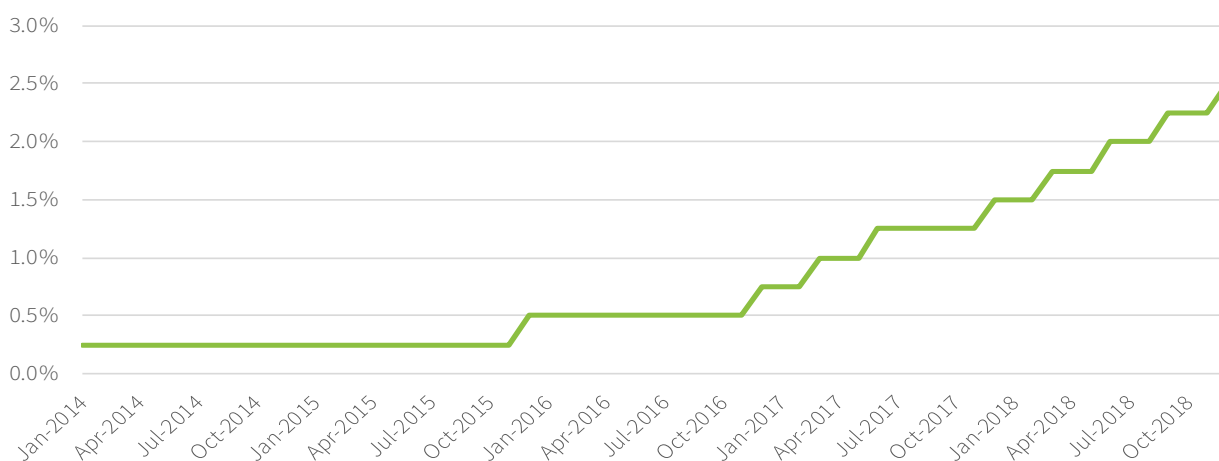
US inflation

Market Dashboard

	Bank Base Rate	- 0.75%
	Inflation (Y-o-Y)	▼ 2.3%
	Unemployment Rate	- 4.1%
	Wage Growth	- 3.3%
	House Prices	▼ £212,281
	3 Month Trade (£B)	- -10.3
	GDP (Y-o-Y)	- 1.5%

Market Data ▲▼	
Equity Index Levels	
FTSE 100	▲ 6,837
S&P 500	▲ 2,532
DAX	▲ 10,768
Nikkei 225	▼ 19,562
Bond Yields	
10 year UK Gilt	▼ 1.15
10 year US Treasury	▼ 2.67
10 year German Bund	▼ 0.21
10 year Japanese GB	▼ 0.03
Commodity Prices (\$)	
Brent Crude	▲ 57.4
Gold Bullion (per t oz)	▲ 1,286

US Fed Funds Rate



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