Market Update

Week 04: 21 January 2019

MONTAGE WEALTH MANAGEMENT

Global Output Growth

- A slowdown here, a slowdown there, here, there, everywhere a slowdown

The Organisation for Economic Cooperation and Development (OECD) sounds like trouble to us[1].

Really though, the OECD is sounding like trouble for all of us. Sat in their French headquarters, OECD boffins compile what they consider to be a composite leading indicator (or CLI) and which is intended to anticipate economic activity 6 to 9 months hence. Now, we're sceptical about the veracity of that particular claim but we're not cynical; it is worth noting what they have to say.

And here, in fact, is what they had to say last week…

'In the United States and Germany, the tentative signs of easing growth momentum, that were flagged in last month's assessment, have been confirmed with easing growth momentum remaining the assessment for Canada, the United Kingdom and the Euro area as a whole, including France and Italy. In Japan, the CLI continues to point to stable growth momentum.

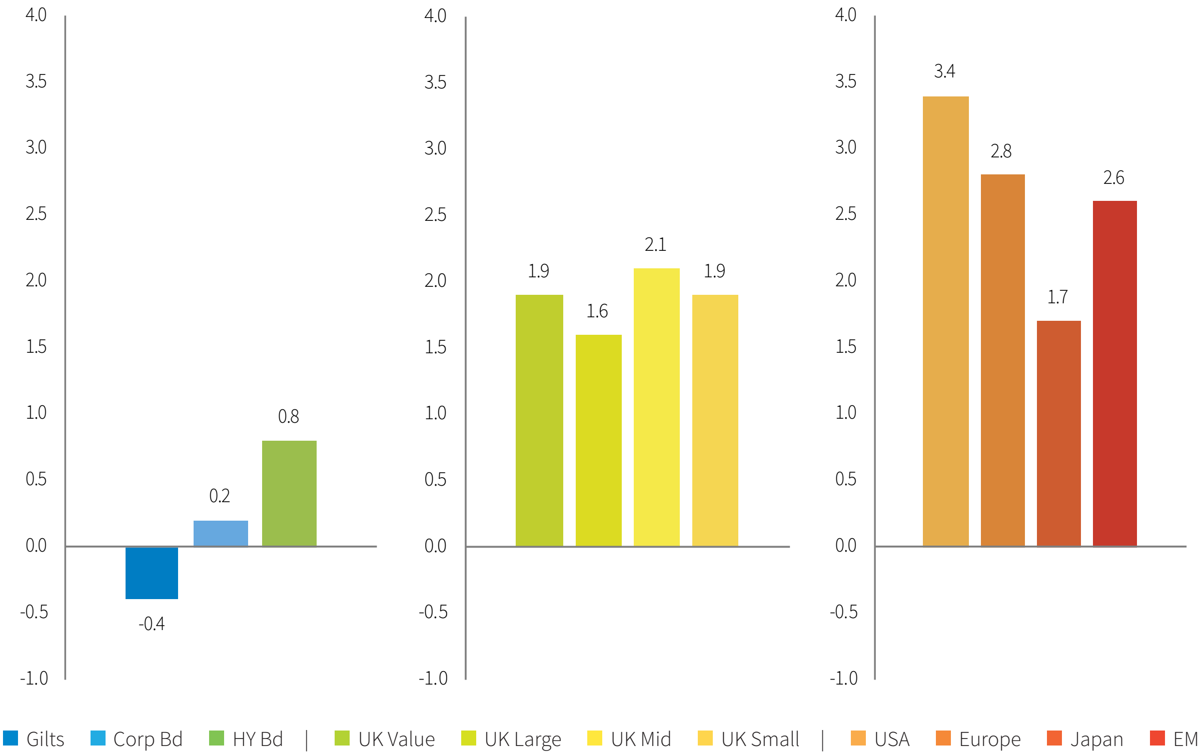
Among major emerging economies, stable growth momentum remains the assessment for the industrial sector in China and now also for India, while in Brazil and Russia the CLIs continue to anticipate easing growth momentum'.

Actually, there's not a lot in there that we don't already know, though it is comforting to see 'stable growth' sustained in China. Let's hope it stays that way for a while longer.

[1]There's something about grand-sounding, Paris-based bodies that set our nerves on a edge a little. We blame the 1790s. Back then, during the French Revolution, the ill-named Committee of Public Safety presided over the apt-named Reign of Terror.

Last Week

In Markets



Other Developments

UK Inflation

This time last year we suggested that the 3.1% increase in the Consumer Price Index represented the peak and that, from there, inflation would fall to target much sooner than was widely anticipated. At that time the International Monetary Fund expected inflation to come in at 2.6% during 2018. Indeed, the British Chamber of Commerce pencilled-in a rate as high as 2.7% and Morgan Stanley called for an increase at 2.9%.

Fast forward to today and the Office for National Statistics (ONS) estimates year-on-year inflation for December (and 2018 by extension) to be 2.1%; just 0.1% above the target set for the Monetary Policy Committee (MPC) by the Chancellor of the Exchequer.

Core inflation (which excludes the effect of volatile price changes in food, energy, alcohol and tobacco) is similarly close at 1.9%.

The ONS report is very good news indeed. Inflation which is near to target represents one less constraint for the Bank of England.

It gives the Old Lady of Threadneedle Street a little more room for manoeuvre in these uncertain times. Inflation can be allowed to move close to 1.0% in either direction (remaining inside the 1.0 to 3.0% target range) before the MPC has to be seen to be doing something. That amounts to a good deal of policy flexibility.

Chinese lawmakers have announced that they will convene on Jan. 29-30 for a previously unscheduled legislative session that will allow them to speed the review process for a long-awaited law on foreign investment. The bill, initially introduced in 2014, has faced repeated delays and has undergone multiple drafts. In its latest draft, published in 2018 amid an escalating trade war with the United States and growing grievances from foreign businesses, the bill aims to take a stronger line on protecting foreign investment and intellectual property rights. Specifically, the 39-article draft contains provisions to prevent the forcible transfer of intellectual property — addressing a core US concern.

Stratfor
17 January 2019

This Week

Monday
China GDP
China industrial production
China retail sales
South Korea GDP
Tuesday
UK employment situation
UK average earnings
Germany ZEW economic statement
Japan trade
Wednesday
Japan monetary policy
UK CBI survey
Eurozone consumer confidence
Thursday
Australia employment situation
Japan manufacturing PMI
Eurozone manufacturing PMI
Eurozone monetary policy
Friday
Germany ifo business sentiment
Russia unemployment

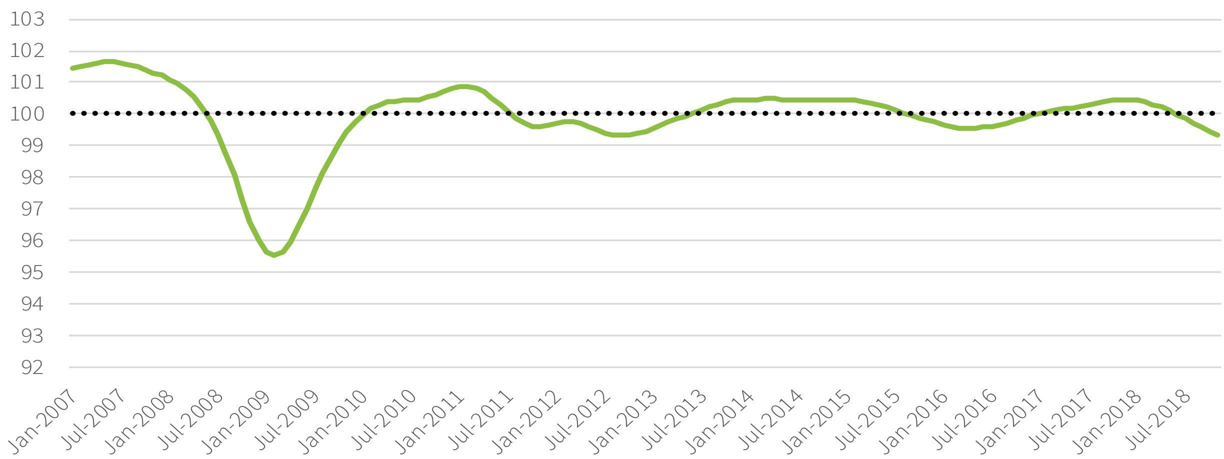
Market Dashboard

Bank Base Rate	–	**0.75%**
Inflation (Y-o-Y)	▼	**2.1%**
Unemployment Rate	–	**4.1%**
Wage Growth	–	**3.3%**
House Prices	–	**£212,281**
3 Month Trade (£B)	–	**-7.9**
GDP (Y-o-Y)	–	**1.5%**

Market Data ▲▼

Equity Index Levels		
FTSE 100	▲	**6,968**
S&P 500	▲	**2,670**
DAX	▲	**11,206**
Nikkei 225	▲	**20,666**
Bond Yields		
10 year UK Gilt	▲	**1.20**
10 year US Treasury	▲	**2.79**
10 year German Bund	▲	**0.26**
10 year Japanese GB	▲	**0.01**
Commodity Prices ($)		
Brent Crude	▲	**62.6**
Gold Bullion (per t oz)	▼	**1,281**

OECD CLI (100 = Long Term Average)



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