

This week in detail

The US December labour market report was stronger than expected, with nonfarm payrolls increasing by 312,000 jobs

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The week ahead

In the coming week, minutes from the US Federal Open Market Committee (FOMC) and European Central Bank (ECB) December policy meetings may shed more light on the configuration of future policy

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Market moves

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Equities

Global stocks rebounded towards the end of the week amid a strong US labour market report and as China cut the bank reserve ratio

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Bonds

US Treasuries and core European government bonds gained amid global growth concerns

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Currencies

The euro was weighed down by weaker than expected eurozone PMI data

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Commodities

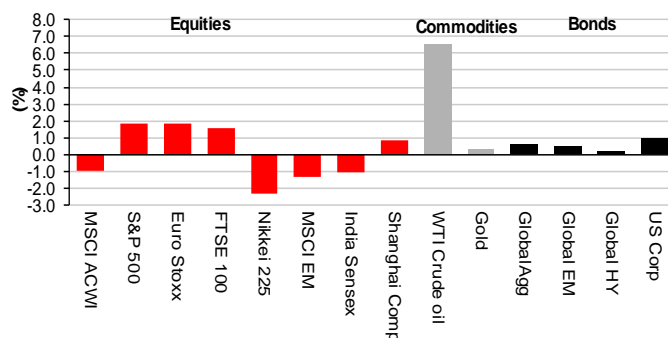
Oil prices were boosted by OPEC production data

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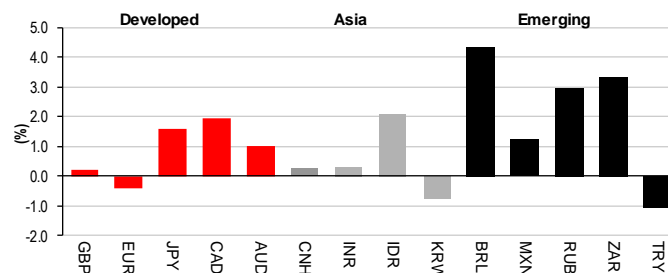
Market data

Market trends

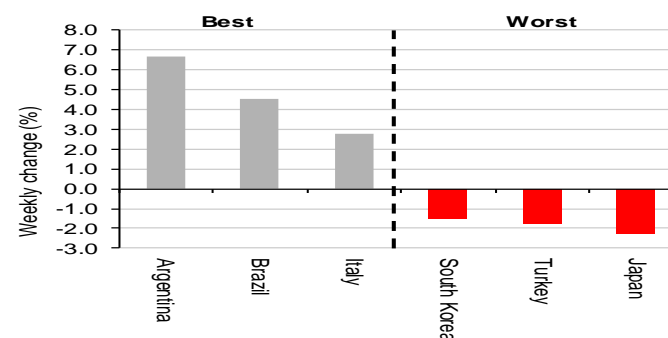
Movers and shakers



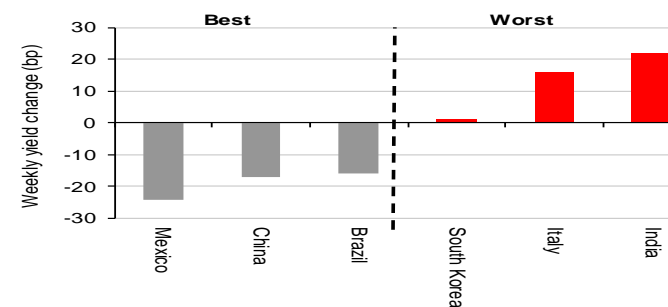
Currencies (versus US dollar)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 4 January 2019. All the above charts relate to 28/12/2018 – 04/01/2019.

Past performance is not an indication of future returns.

This week in detail

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Monday 31 December	China	Official Manufacturing PMI	Dec	50.0	49.4	50.0
Wednesday 2 January	Eurozone	Manufacturing PMI	Dec F	51.4	51.4	51.4P
Thursday 3 January	US	ISM Manufacturing Index	Dec	57.5	54.1	59.3
Friday 4 January	Eurozone	Composite PMI	Dec F	51.3	51.1	51.3P
	Eurozone	CPI Inflation	Dec	1.7%	1.6%	2.0%
	US	Nonfarm Payrolls	Dec	184K	312K	155K
	US	Fed Chair Powell, Bernanke and Yellen speak at the American Economic Association				

P – Preliminary, F – Final

In the US, December nonfarm payrolls increased by 312,000 jobs, much higher than the expected 184,000

In the US, December nonfarm payrolls increased by 312,000 jobs, much higher than an expected 184,000. Two-month net revisions also recorded a 58,000 gain. Strong service sector results helped the result, but the manufacturing sector's contribution also surprised to the upside – gaining by 32,000 jobs versus an expected 20,000. The unemployment rate ticked up modestly to 3.9% (expected: +3.7%), while annual wage gains accelerated to 3.2% yoy (expected: +3.0%). The latter is a positive signal for household spending, but policymakers are likely to monitor whether wage pressures will lead to higher inflation. On Friday, US Federal Reserve (Fed) Chair Powell stressed that policymakers will be “patient” and there is no preset policy path at a joint panel with his two predecessors. Re-emphasizing data dependency, he held up the Fed's flexibility in 2015 as an example, when the central bank slowed policy normalisation due to tightening financial conditions. Powell further touched upon his preference to let the balance sheet wind-down continue on a scheduled pace but said he wouldn't hesitate if circumstances warrant a change to this stance. Finally, the **ISM Manufacturing Index** declined 5.2 points (pts) to 54.1 in December, significantly lower than an anticipated 57.5. Activity declined amid ongoing US-China trade tensions and tariffs, with respondent comments suggesting widespread caution on the outlook and spending plans. For the month, production decreased 6.3 pts to 54.3 and new orders slipped 11.0 pts to 51.1. Nonetheless, customer inventory continued to be characterised as “too low,” suggesting little sign of overproduction and possibly auguring a rebound if policy factors were to abate.

Chinese manufacturing data deteriorated

In Europe, headline eurozone inflation fell to 1.6% yoy, driven mainly by declines in oil prices. Meanwhile, core inflation held at 1.0% yoy, implying a continuing lack of underlying price pressures in the region.

In Asia, China's official manufacturing PMI declined to 49.4 in December, its lowest level since February 2016. Both the production and new order sub-indexes fell. The deterioration came amid ongoing US-China trade tensions and weaker credit growth data.

The week ahead

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 07 January	Germany	Factory Orders (working day adjusted, yoy)	Nov	-2.6%	-2.7%
	US	Durable Goods Orders (mom)	Nov F	0.0%	0.8%
	US	ISM Non-Manufacturing Index	Dec	59.5	60.7
Tuesday 08 January	Germany	Industrial Production (seasonally adjusted, mom)	Nov	0.3%	-0.5%
Wednesday 09 January	Eurozone	Unemployment Rate	Nov	8.1%	8.1%
	US	FOMC December Meeting Minutes			
	Mexico	CPI (yoy)	Dec	4.8%	4.7%
	Canada	Bank of Canada Interest Rate Decision	Jan	1.75%	1.75%
Thursday 10 January	China	CPI (yoy)	Dec	2.1%	2.2%
	Eurozone	ECB Publishes Account of Dec. 12-13 Governing Council Meeting			
Friday 11 January	Brazil	IBGE Inflation IPCA (yoy)	Dec	3.8%	4.1%
	India	Industrial Production (yoy)	Nov	-	8.1%
	US	CPI (yoy)	Dec	1.9%	2.2%

P – Preliminary, F – Final

In the coming week, minutes from the US Federal Open Market Committee (FOMC) and European Central Bank (ECB) December policy meetings may shed more light on the configuration of future policy

US CPI inflation data and the ISM non-manufacturing print will also be useful to assess the state of the US economy

US and Canada

Following a disappointing result for December's manufacturing **ISM** print, investors will look to the **non-manufacturing** component for any confirmation of a sharp activity slowdown.

Mid-week, **minutes** for the **December 18-19 FOMC meeting** may provide more colour on policymakers' assessment of financial conditions as they try to sustain the current expansion without sparking an inflation flare-up.

Meanwhile, headline **US CPI inflation** is anticipated to slow 0.3 percentage points (ppts) to 1.9% yoy, partially due to lower energy prices. Subtracting more volatile components, core inflation is predicted to remain at 2.2% yoy.

Elsewhere, the **Bank of Canada** is expected to keep its overnight rate steady at 1.75%. Although the central bank is looking to raise its policy rate back to a neutral stance, a recent oil price slump and modest consumption growth from indebted households warrant caution.

Europe

The **minutes from the ECB's December** policy meeting may shed some light on the current thinking among members of the bank's Governing Council with regard to the potential impact of the region's economic slowdown on future policy.

German industrial sector data for November 2018 will be useful for assessing which of the country's carmakers have recovered from disruptions last year relating to emissions-testing guidelines.

Emerging markets

China's CPI inflation is expected to moderate to 2.1% yoy in December from 2.2% in November, largely driven by non-food components. Fuel price inflation likely eased following the movement in international oil prices. Meanwhile, PPI inflation is expected to fall to a 26-month low of 1.6% yoy in December amid recent commodity price weakness.

India's industrial production growth may have eased in November on the back of base effects as the Diwali festival fell in November in 2018 (rather than in October in 2017). Some high-frequency data has also indicated some moderation in sequential growth momentum.

In **Mexico**, **CPI inflation** is anticipated to pick up to 4.8% yoy in December, as higher food prices offset the impact of energy price declines. Convergence towards policymakers' 2%-4% yoy target range has been slow amid currency volatility and lingering fiscal policy uncertainties.

In **Brazil**, the **IBGE inflation IPCA** measure is expected to slow 0.3 ppts to 3.8% yoy in December, partially due to an oil price rout. The central bank recently said its focus on downside inflation risks has modestly increased. Economic slack remains high and unemployment elevated, resulting from a slower than anticipated recovery.

Market moves

Equities

Global stocks rebounded towards the end of the week amid a strong US labour market report and as China cut the bank reserve ratio

Bonds

US Treasuries and core European government bonds gained amid global growth concerns

Currencies

The euro was weighed down by weaker than expected eurozone PMI data

Commodities

Oil prices rose and were boosted by OPEC production data

Equities

In a holiday-shortened week, **US equities** opened the week higher as stocks were supported by weekend news of progress in the US/China trade negotiations. During the course of the week, stocks fell amid a global technology sell-off and after the ISM Manufacturing Index for December came in much weaker than expected, which fuelled economic growth concerns for 2019. However, on Friday, stocks recovered after China announced trade talks would be held on 7-8 January, a stronger than expected labour market report and dovish comments from US Federal Reserve Chair Jerome Powell. The S&P 500 Index ended the week 1.9% higher. Meanwhile, Canada's S&P/TSX Composite Index gained 1.4%.

In **Europe, stocks** pared back losses to end a thin-trading holiday week higher, as China announced new monetary stimulus (the People's Bank of China (PBoC) cut the key reserve ratio by 1 ppt to encourage more lending from commercial banks) ahead of next week's US/China trade talks. The EURO STOXX 50 Index closed higher (+1.9%). At the country level, the UK's FTSE 100 Index (+1.5%) was supported by stronger than expected services PMI data.

Asian stock markets ended the week mixed, with weakness particularly seen in the region's smaller, export-dependent economies, amid global growth concerns. Taiwan's TAIEX was the worst-performing major market in the region. Japan's Nikkei 225 Index also fell (-2.3%). In India, fiscal deficit concerns weighed on sentiment, with the SENSEX 30 Index posting a weekly loss of 1.1%. Meanwhile, Chinese stocks rallied on Friday amid news that the US and China will hold trade talks next week and a better than expected Caixin/Markit services PMI. After market close on Friday, the PBoC announced a 1 ppt cut to the reserve ratio requirement (RRR), as expected.

Bonds

US Treasuries rose (yields fell) this week on the back of robust demand for safe assets as equities sold off on concerns over the global economic outlook following weaker than expected manufacturing data in the US and China. However, there was some paring back of gains on Friday following a better than expected US labour market report and as the prospect of trade talks between China and the US supported risk sentiment. Overall, the US Treasuries curve flattened with 10-year yields closing 5 bps lower at 2.67% and two-year yields retreating 2 bps to 2.49%. Canadian 10-year bonds also gained, with yields closing down 2 bps at 1.93%.

In **Europe, core government bonds** also rose (yields fell) as risk aversion supported demand for perceived "safe-haven" assets. Benchmark German 10-year bund yields closed 3 bps lower at 0.21%. In contrast, riskier peripheral government bonds sold off with 10-year Italian bonds underperforming (10-year yields rose 16 bps to 2.90%) as investors prepared for an increase in issuance from the Italian government.

Currencies

The euro fell (-0.4%) against the US dollar this week, as weaker than expected eurozone PMI data weighed on the common currency. Meanwhile, the British pound rose (+0.2%) amid lingering Brexit uncertainty.

Most **Asian currencies** edged up against the US dollar this week, led by the Japanese yen, Indonesian rupiah and Thai baht as the dollar index fell amid a retreat in Treasury yields. The rupiah advanced after central bank intervention and the sovereign's first bond auction of the year saw the government sell more bonds than expected, with the biggest issuance in three years. Despite its retreat on Friday, the Japanese yen rallied against the US dollar amid thin liquidity and demand for safety assets. Meanwhile, the Korean won and Taiwanese dollar weakened on the back of equity weakness and foreign equity outflows.

Commodities

Crude oil prices rose this week, as media reports suggested that OPEC production had been significantly curtailed in December, ahead of planned cuts scheduled to take place this month. Overall, WTI crude oil ended 6.6% higher to USD48.3 a barrel. **Gold prices** also rose this week (+0.3% to USD1,285 per troy ounce), boosted by perceived "safe-haven" demand amid lingering global economic growth concerns.

Market data

	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
Equity Indices									
World									
MSCI AC World Index (USD)	448	-1.0	-7.9	-13.5	-14.3	-1.6	551	435	12.9
North America									
US Dow Jones Industrial Average	23,433	1.6	-6.4	-12.0	-6.5	0.5	26,952	21,713	14.0
US S&P 500 Index	2,532	1.9	-6.2	-12.7	-7.1	1.0	2,941	2,347	14.8
US NASDAQ Composite Index	6,739	2.3	-5.9	-14.5	-4.8	1.6	8,133	6,190	18.7
Canada S&P/TSX Composite Index	14,427	1.4	-4.2	-9.9	-12.1	0.7	16,586	13,777	12.9
Europe									
MSCI AC Europe (USD)	398	-1.0	-6.5	-12.5	-19.8	-1.3	524	391	11.4
Euro STOXX 50 Index	3,042	1.9	-4.6	-9.9	-14.8	1.3	3,687	2,909	11.8
UK FTSE 100 Index	6,837	1.5	-2.6	-7.8	-11.2	1.6	7,904	6,537	11.6
Germany DAX Index*	10,768	2.0	-5.0	-12.1	-18.2	2.0	13,597	10,279	11.4
France CAC-40 Index	4,737	1.2	-5.5	-12.5	-12.5	0.1	5,657	4,556	11.7
Spain IBEX 35 Index	8,738	2.9	-3.6	-6.2	-15.3	2.3	10,643	8,286	10.9
Italy FTSE MIB Index	18,832	2.8	-2.7	-8.6	-16.3	2.8	24,544	17,914	9.1
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	465	-2.2	-7.3	-8.0	-20.2	-2.5	617	459	11.5
Japan Nikkei-225 Stock Average	19,562	-2.3	-11.2	-18.4	-16.8	-2.3	24,448	18,949	14.1
Australian Stock Exchange 200	5,619	-0.6	-1.6	-9.0	-7.5	-0.5	6,374	5,410	14.3
Hong Kong Hang Seng Index	25,626	0.5	-6.0	-3.7	-16.6	-0.8	33,484	24,541	9.8
Shanghai Stock Exchange Composite Index	2,515	0.8	-5.7	-10.9	-25.7	0.8	3,587	2,441	9.2
Hang Seng China Enterprises Index	10,030	0.4	-8.0	-4.9	-17.8	-0.9	13,963	9,762	7.4
Taiwan TAIEX Index	9,383	-3.5	-7.0	-12.5	-13.5	-3.5	11,270	9,319	12.1
Korea KOSPI Index	2,010	-1.5	-4.9	-11.6	-18.5	-1.5	2,607	1,985	8.5
India SENSEX 30 Index	35,695	-1.1	-1.2	1.5	5.1	-1.0	38,990	32,484	20.6
Indonesia Jakarta Stock Price Index	6,275	1.3	2.0	9.0	-0.3	1.3	6,693	5,558	14.9
Malaysia Kuala Lumpur Composite Index	1,670	-1.3	-1.5	-6.7	-7.4	-1.2	1,896	1,627	15.9
Philippines Stock Exchange PSE Index	7,761	4.0	0.7	9.4	-11.2	4.0	9,078	6,791	16.2
Singapore FTSE Straits Times Index	3,059	0.2	-3.4	-5.3	-12.6	-0.3	3,642	2,956	11.8
Thailand SET Index	1,575	0.7	-5.8	-8.9	-12.1	0.7	1,853	1,547	13.6
Latam									
Argentina Merval Index	32,303	6.6	1.1	4.4	1.1	6.6	35,462	24,618	7.4
Brazil Bovespa Index*	91,841	4.5	3.6	10.7	16.8	4.5	92,701	69,069	11.0
Chile IPSA Index	5,189	1.6	0.8	-2.6	-7.9	1.6	5,895	4,999	14.3
Colombia COLCAP Index	1,357	2.3	-3.1	-10.6	-11.4	2.3	1,598	1,291	10.8
Mexico S&P/BMV IPC Index	42,455	2.4	1.4	-12.8	-14.7	2.0	51,121	39,272	12.8
EEMEA									
Russia MOEX Index	2,407	2.0	-1.5	-2.4	9.5	2.0	2,502	2,065	5.3
South Africa JSE Index	52,203	-0.5	-0.1	-5.1	-12.2	-1.0	61,777	50,033	12.5
Turkey ISE 100 Index*	88,831	-1.8	-5.4	-6.0	-23.1	-2.7	121,532	84,655	5.9

*Indices expressed as total returns. All others are price returns.

	1-week Change (%)	1-month Change (%)	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Equity Indices - Total Return							
Global equities	-1.0	-7.8	-13.2	-1.6	-12.6	21.7	22.5
US equities	-1.5	-9.2	-15.4	-2.3	-9.0	26.6	42.8
Europe equities	-1.0	-6.4	-12.2	-1.3	-17.4	9.1	-3.6
Asia Pacific ex Japan equities	-2.2	-7.1	-7.6	-2.5	-18.0	26.3	16.3
Japan equities	0.5	-6.3	-13.6	-0.1	-15.2	12.2	15.4
Latam equities	4.9	3.7	2.9	5.0	-6.3	65.0	-1.7
Emerging Markets equities	-1.4	-6.1	-5.6	-1.7	-18.4	32.6	9.2

All total returns quoted in US-dollar terms and subject to one-day lag.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Emerging Markets Latin America Total Return Index, and MSCI Emerging Markets Total Return Index.

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bond indices - Total Return	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	526	0.5	1.4	2.7	2.3	0.4
JPM EMBI Global	775	0.5	1.5	0.5	-4.3	0.6
BarCap US Corporate Index (USD)	2,848	0.9	1.5	1.3	-1.5	0.7
BarCap Euro Corporate Index (Eur)	243	-0.2	-0.1	-0.6	-1.6	-0.2
BarCap Global High Yield (Hedged in USD)	456	0.2	-1.1	-2.6	-3.1	0.1
Markit iBoxx Asia ex-Japan Bond Index (USD)	195	0.4	1.3	1.6	-0.3	0.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	244	-0.1	0.5	-1.0	-3.6	-0.1

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Currencies (vs USD)	Latest	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.14	1.14	1.13	1.15	1.21	1.15	1.26	1.12	-0.4
GBP/USD	1.27	1.27	1.27	1.30	1.36	1.28	1.44	1.24	0.2
CHF/USD	1.01	1.02	1.00	1.01	1.03	1.02	1.09	0.99	-0.3
CAD	1.34	1.36	1.33	1.29	1.25	1.36	1.37	1.23	1.9
JPY	108.51	110.27	112.77	113.91	112.75	109.69	114.55	104.56	1.6
AUD	1.41	1.42	1.36	1.41	1.27	1.42	1.48	1.23	1.1
NZD	1.48	1.49	1.44	1.54	1.40	1.49	1.56	1.34	0.4
Asia									
HKD	7.84	7.83	7.80	7.84	7.82	7.83	7.85	7.79	-0.1
CNY	6.87	6.88	6.84	6.87	6.49	6.88	6.98	6.24	0.1
INR	69.73	69.93	70.51	73.58	63.41	69.77	74.48	63.25	0.3
MYR	4.14	4.15	4.15	4.15	4.01	4.13	4.20	3.85	0.4
KRW	1,124	1,116	1,105	1,130	1,062	1,111	1,145	1,054	-0.8
TWD	30.85	30.70	30.68	30.80	29.59	30.55	31.17	28.96	-0.5
Latam									
BRL	3.72	3.88	3.85	3.88	3.23	3.88	4.21	3.12	4.2
COP	3,193	3,254	3,176	3,035	2,887	3,254	3,303	2,685	1.9
MXN	19.42	19.66	20.52	19.11	19.29	19.65	20.96	17.94	1.2
EEMEA									
RUB	67.54	69.55	66.88	66.91	56.95	69.35	70.84	55.56	2.9
ZAR	13.96	14.43	13.85	14.87	12.30	14.35	15.70	11.51	3.2
TRY	5.33	5.27	5.39	6.16	3.75	5.29	7.24	3.72	-1.1

Bonds	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	1-week Basis Point Change *
US Treasury yields (%)							
3-Month	2.41	2.37	2.41	2.21	1.40	2.35	4
2-Year	2.49	2.52	2.79	2.87	1.95	2.49	-2
5-Year	2.50	2.55	2.79	3.05	2.27	2.51	-5
10-Year	2.67	2.72	2.91	3.19	2.45	2.68	-5
30-Year	2.98	3.02	3.17	3.35	2.79	3.01	-4
10-year bond yields (%)							
Japan	-0.05	-0.01	0.07	0.15	0.05	-0.01	-4
UK	1.28	1.27	1.28	1.67	1.23	1.28	1
Germany	0.21	0.24	0.26	0.53	0.43	0.24	-3
France	0.70	0.71	0.66	0.87	0.78	0.71	-1
Italy	2.90	2.74	3.15	3.33	2.01	2.74	16
Spain	1.47	1.41	1.48	1.56	1.53	1.41	6
China	3.14	3.31	3.34	3.63	3.94	3.31	-17
Australia	2.23	2.36	2.53	2.71	2.68	2.32	-13
Canada	1.93	1.95	2.17	2.56	2.08	1.97	-2

*Numbers may not add up due to rounding

Commodities	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,285	0.3	3.8	7.1	-2.8	0.2	1,366	1,160
Brent Oil	57.4	7.9	-7.7	-31.3	-9.5	6.7	86	50
WTI Crude Oil	48.3	6.6	-9.6	-34.7	-17.0	6.4	76	42
R/J CRB Futures Index	173	1.4	-5.9	-12.8	-11.3	2.1	207	168
LME Copper	5,736	-4.4	-7.6	-8.8	-20.2	-3.8	7,348	5,725

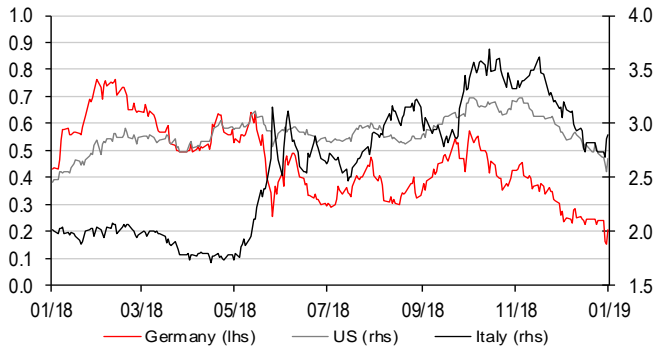
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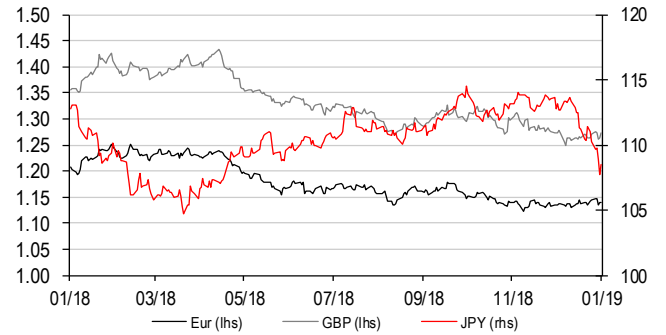
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Market Trends

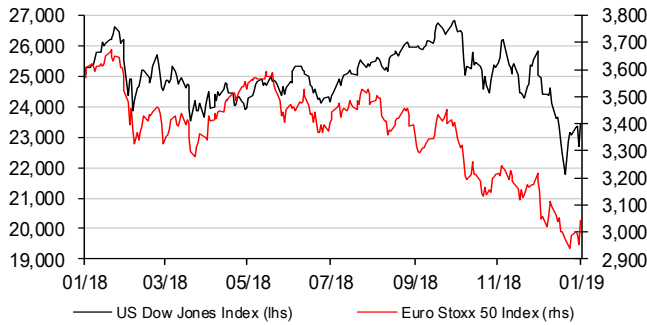
Government bond yields (%)



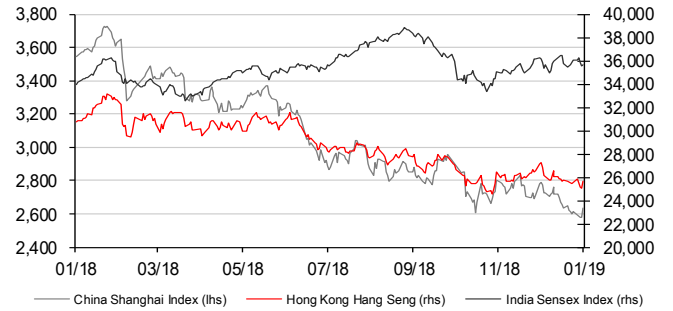
Major currencies (versus US dollar)



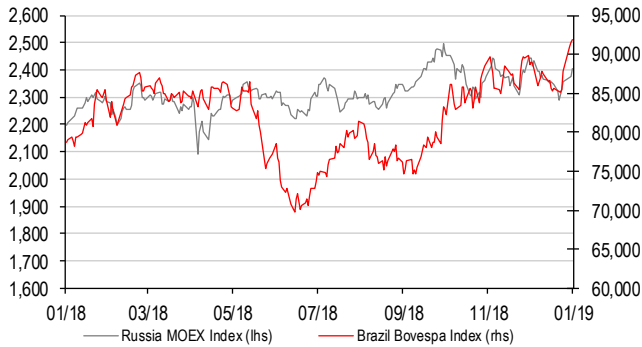
Global equities



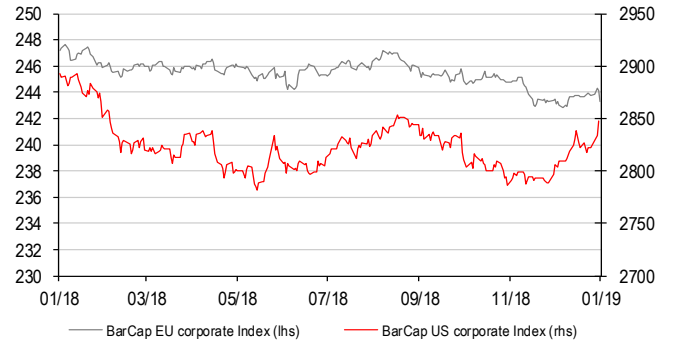
Emerging Asian equities



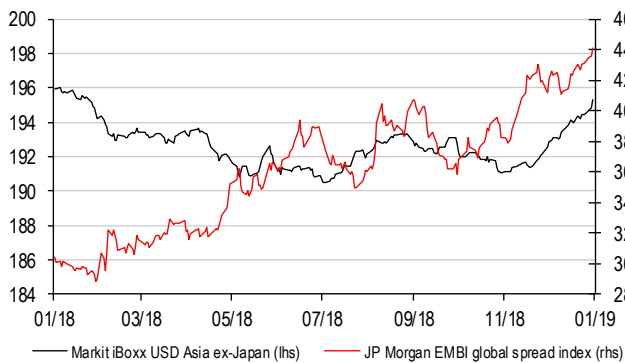
Other emerging equities



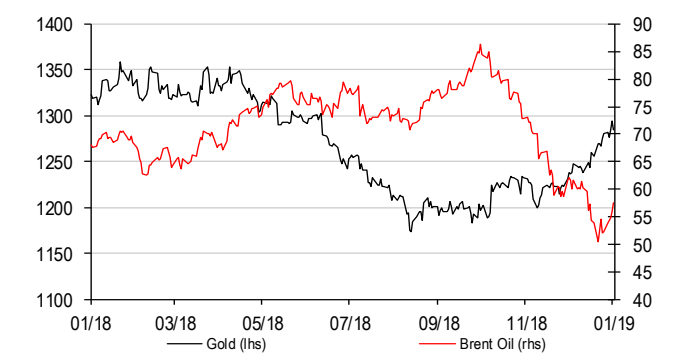
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 4 January 2019.

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