

8 February 2019

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Investment Weekly

This week in detail

The Bank of England shifted to a more dovish policy stance at its February policy meeting

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The week ahead

In the coming week, the UK Parliament will vote on Prime Minister Theresa May's latest update on Brexit negotiations

[Read more>](#)

Market moves

[Read more>](#)

Equities

Global stocks were weighed down by economic growth and US-China trade concerns

[Read more>](#)

Bonds

Global growth concerns pushed government bond yields lower

[Read more>](#)

Currencies

The euro was weighed down by investor fears about the economic outlook

[Read more>](#)

Commodities

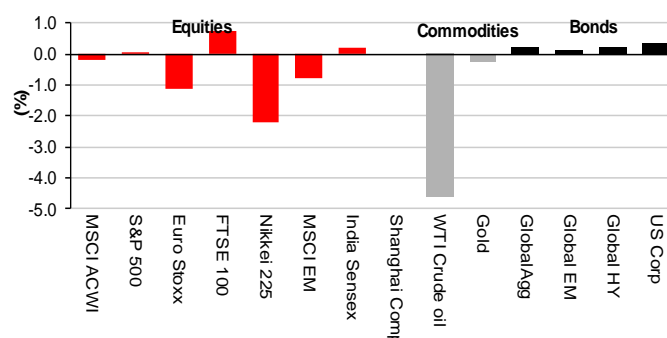
Oil and gold prices hit by stronger US dollar

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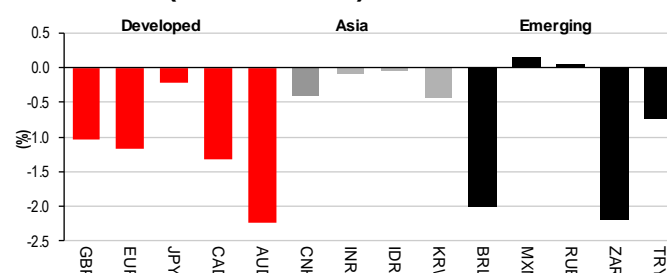
Market data

Market trends

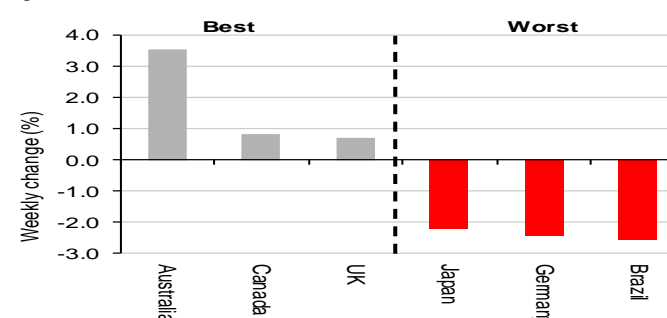
Movers and shakers



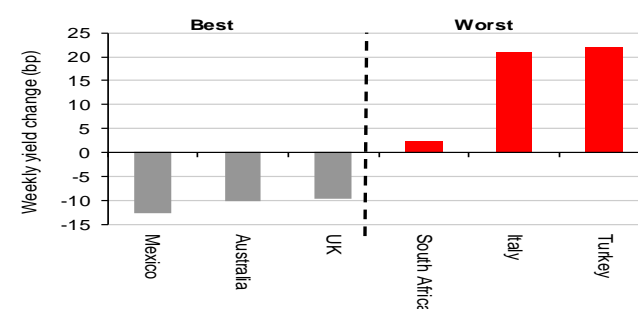
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 8 February 2019. All the above charts relate to 01/02/2019 – 08/02/2019. 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 04 February	Turkey	CPI (yoy)	Jan	20.3%	20.4%	20.3%
	US	Durable Goods Orders (mom)	Nov F	1.5%	0.7%	0.8%
Tuesday 05 February	Australia	Reserve Bank of Australia Interest Rate Decision	Feb	1.50%	1.50%	1.50%
	Eurozone	Markit Composite PMI	Jan F	50.7	51.0	50.7 P
	US	ISM Non-Manufacturing Index	Jan	57.1	56.7	58.0
	Brazil	COPOM Interest Rate Decision	Feb	6.50%	6.50%	6.50%
Wednesday 06 February	Germany	Factory Orders (working day adjusted, yoy)	Dec	-6.7%	-7.0%	-3.4%
	Germany	Industrial Production (seasonally adjusted, mom)	Dec	0.8%	-0.4%	-1.3%
Thursday 07 February	India	RBI Interest Rate Decision (repurchase rate)	Feb	6.50%	6.25%	6.50%
	UK	Bank of England Publishes Inflation Report and Interest Rate Decision	Feb	0.75%	0.75%	0.75%
	Mexico	CPI (yoy)	Jan	4.5%	4.4%	4.8%
	Mexico	Banco de Mexico Interest Rate Decision	Feb	8.25%	8.25%	8.25%
	US	Fed Chair Jerome Powell Hosts a Town Hall Meeting with Educators in Washington				
	Russia	Central Bank of Russia Interest Rate Decision	Feb	7.75%	7.75%	7.75%
	Brazil	IBGE Inflation IPCA (yoy)	Jan	3.8%	3.8%	3.8%
P – Preliminary, F – Final						

The Bank of England shifted to a more dovish policy stance at its February policy meeting

In the **US**, the **ISM Non-Manufacturing Index** eased 1.3 points to 56.7 in January, below an expected reading of 57.1. New orders and business activity declined from elevated levels but the latest report continued to suggest a healthy economic backdrop. Meanwhile, responding to a question at a meeting with educators, **US Federal Reserve (Fed) Chair Jerome Powell** reiterated that labour market and inflation developments were key inputs to upcoming policy decisions. Later in the gathering, Powell said the US economy was in a “good place,” citing low unemployment and inflation trending near policymakers’ 2.0% yoy target.

As expected, the **Bank of England** kept policy rates on hold at its February meeting. The minutes from the meeting noted how intensifying Brexit uncertainty and slowing global growth was showing signs of weighing on the UK’s economic performance. Overall, the Monetary Policy Committee signalled a dovish shift in forward guidance by not significantly pushing back against current market pricing of future rate hikes (roughly one 25-bps hike over the next two years).

German industrial sector data for December disappointed, although there were some positive developments

In **Germany**, December **factory orders** and **industrial output** data disappointed market expectations, confirming the sector entered a technical recession in the second half of last year. More positively, there was an uptick in orders stripping out more volatile bulk items, and there was also a surge in auto orders, reflected in a rebound in auto output during the month.

Turkey’s headline inflation edged up 0.1 ppt to 20.4% yoy in January, slightly above consensus expectations of 20.3% yoy. Overall, with a relatively stable lira, the pace of price changes was similar to those observed in December, with sizeable downward contributions from base effects and regulated prices.

The Reserve Bank of India unexpectedly voted to cut interest rates

In **Brazil**, the **central bank** voted unanimously to maintain the SELIC rate at 6.50%, as expected. Rates have been kept at a record low level since early 2018 amid benign inflation readings and high economic slack. Meanwhile **Mexico’s central bank** held its overnight rate at 8.25%. Despite a recent inflation slowdown, the bank maintained a hawkish tone, citing upside inflation risks from foreign exchange volatility as well as a recent minimum wage hike.

In **Asia**, the **Reserve Bank of India** unexpectedly voted 4-2 to cut the repurchase rate by 25 bps to 6.25%. It also changed its monetary policy stance to neutral from calibrated tightening. The statement had a clear dovish stance as inflation projections were downgraded significantly, indicating the bank is open to further easing should inflation remain subdued.

The week ahead

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 11 February	UK	GDP (qoq)	Q4	0.3%	0.6%
Tuesday 12 February	India	CPI (yoy)	Jan	-	2.2%
	India	Industrial Production (yoy)	Dec	-	0.5%
Wednesday 13 February	Sweden	Riksbank Interest Rate Decision	Feb	-0.25%	-0.25%
	UK	CPI (yoy)	Jan	2.0%	2.1%
	Eurozone	Industrial Production (seasonally adjusted, mom)	Dec	-0.2%	-1.7%
	US	CPI (yoy)	Jan	1.5%	1.9%
	Japan	GDP (seasonally adjusted, qoq annualised)	Q4	0.4%	-2.5%
Thursday 14 February	China	Trade Balance (USD bn)	Jan	32.0	57.1
	Eurozone	GDP (seasonally adjusted, qoq)	Q4	0.2%	0.2% P
	US	Retail Sales Advance (mom)	Dec	0.1%	0.2%
	UK	UK Parliament Votes on PM Theresa May's Latest Brexit Statement			
Friday 15 February	China	CPI (yoy)	Jan	-	1.9%
	Japan	Industrial Production (mom)	Dec F	-	-0.1%
	UK	Retail Sales ex Auto Fuel (yoy)	Jan	2.5%	2.6%
	US	Industrial Production (mom)	Jan	0.1%	0.4%
	US	University of Michigan Index of Consumer Sentiment	Feb P	94.0	91.2

P – Preliminary, Q – Quarter, F – Final

In the coming week, investors may need to keep an eye on Capitol Hill developments given the risk of another US government shutdown

US

In the week ahead, investors may need to keep an eye on **Capitol Hill developments**. Stopgap funding expires at midnight on 15 February, shutting down the government for the second time this year if lawmakers are unable to reach a consensus regarding a raft of issues, including a southern border wall.

Meanwhile, January's headline **CPI inflation** reading is expected to edge 0.4 ppts lower to 1.5% yoy on the back of gasoline price declines. Core inflation has been holding relatively steady and is anticipated to dip 0.1 ppt to 2.1% yoy.

Turning to consumers, the delayed **December retail sales** report is projected to show a modest 0.1% mom gain. Looking past the headline number, the core retail sales control group is expected to rise 0.4% mom, rounding out 2018's final quarter with healthy gains.

Meanwhile, **industrial production** is pencilled in for a 0.1% mom uptick in January. In the details, manufacturing activity is forecast to edge up 0.2% mom. This follows a 1.1% mom jump in the prior report, which was partially boosted by vehicle production.

Finally, the **University of Michigan Index of Consumer Sentiment** is predicted to rise 2.8 pts to 94.0 in February. Buying conditions sub-indices and inflation expectations are also important indicators to monitor, with the former trending modestly downwards since September 2018.

Europe

UK Prime Minister Theresa May is expected to make a statement to the UK Parliament on 13 February on the **state of play with the European Union regarding Brexit negotiations**. The following day, MPs will **vote on this statement**, which they can amend – allowing them an opportunity to avert a “no-deal” Brexit.

The **UK's GDP growth** is anticipated to slow to 0.3% qoq in Q4 2018, following 0.6% in the prior quarter. Business survey evidence suggests Brexit-related uncertainty is a key factor behind the recent weakness. Meanwhile, January **CPI inflation** could edge slightly lower to 2.0% yoy, on the back of energy price effects along with the waning impact of previous sterling weakness. Elsewhere, **retail sales** (excluding auto fuel) are seen edging up slightly (+0.2% mom), following a large decline in December. Despite lingering Brexit uncertainty and subdued consumer confidence, the underlying trend in sales is a fairly healthy 3.1% yoy.

Eurozone industrial production is likely to edge lower in December (-0.2% mom), with

The UK Parliament will vote on Prime Minister Theresa May's latest update on Brexit negotiations

already released data for Germany showing a 0.4% mom contraction over the month.

Asia

Japan's Q4 GDP growth is expected to rebound following the impact of natural disasters

Japan's GDP for Q4 is expected to rise by 0.4% qoq, erasing some of the decline observed in Q3 (-0.6%) as the economy recovers after temporary adverse events (natural disasters). Private consumption is seen as a key factor supporting the economy, with an increase of 0.8% qoq. Capital expenditure, after abnormally weak momentum in Q3, is expected to rebound. Meanwhile, net trade will continue to drag GDP growth lower as import volumes rose substantially more than exports in Q4.

China's external trade data for January likely fell further, especially for imports (-11% yoy, after -7.6% in December), while exports are expected to drop by 2.7% yoy, based on relatively weak new export orders in the Markit and official manufacturing PMI surveys. However, due to base effects, the trade surplus is expected to fall from USD57.1 billion in December to USD32.0 billion.

Market moves

Equities

Global stocks were weighed down by economic growth and US-China trade concerns

Bonds

Global growth concerns pushed government bond yields lower

Currencies

The euro was weighed down by investor fears about the economic outlook

Commodities

Oil and gold prices hit by stronger US dollar

Equities

US equities opened higher at the start of the week, led by a rally in the technology sector. However, as the week progressed, stocks sold off on disappointing corporate earnings releases. Investor risk appetite was also hit as a Trump administration official said a “sizable distance” remained before there could be a successful conclusion to US-China trade negotiations and following news that President Donald Trump is unlikely to meet Chinese President Xi Jinping before the 1 March deadline for more tariffs. Without a meeting by the deadline, it becomes more likely that the US could raise tariffs as planned. Overall, the S&P 500 Index was **little changed**, while the Nasdaq rose **0.5%**. Meanwhile, Canada's S&P/TSX Composite Index ended higher **(+0.8%)**.

However, **European equities** fell this week amid investor concerns over the outlook for the eurozone economy after the European Commission (EC) significantly cut its GDP growth forecasts for the region. The EC now expects the eurozone to expand by 1.3% this year, from its prior November projection of 1.9%. The EURO STOXX 50 Index ended the week down **1.1%**, while the German DAX fell **2.4%** as disappointing industrial data fuelled fears of an imminent eurozone recession. Italy's FTSE MIB fell **1.1%** amid concerns over the country's fiscal sustainability. The UK's FTSE 100 Index bucked the regional trend and rose **0.7%** on the back of a weaker British pound.

Japanese stocks dropped over the week, with an acceleration on Thursday and Friday, as US officials hinted at the risk that a trade deal between the US and China will not be concluded before the next round of tariff hikes, increasing risk aversion among investors. The Nikkei 225 Index finished the week down 2.2%. The decline in Korea's KOSPI (-1.2%), also reflected concerns about the global economic outlook. Elsewhere, stocks were little changed, with markets in China and Taiwan closed for the week due to Lunar New Year celebrations. India's SENSEX 30 Index rose 0.2%.

Bonds

Growth worries drove **US Treasury** yields lower this week (prices rose). Yields rose early in the week ahead of significant bond auctions for the three-year, 10-year and 30-year tenures on Tuesday and Wednesday. After the initial ascend, yields reversed course on Tuesday as investors fretted about the global growth outlook. Overall, US 10-year yields ended the week **5 bps lower at 2.63%** and two-year notes closed at **2.47%**.

Core **European government bond** yields declined (prices rose) and Italian spreads over German bunds widened on growth and budget concerns. The EC cut growth expectations for nearly all member states, but especially so for Italy where the growth outlook for 2019 was trimmed from 1.2% to 0.2%. This raised doubts about the sustainability of Italy's debt path and triggered a surge in Italian bond yields. Disappointing German industrial production and orders data added to the overall growth fears. German 10-year yields dropped **8 bps to 0.09%**, French equivalents dropped **3 bps to 0.54%** and Italian yields jumped **21 bps to 2.96%**. UK gilt yields also declined this week as the Bank of England downgraded its growth expectations and its inflation outlook turned more dovish.

Currencies

The **euro** closed lower **(-1.2%)** against the US dollar this week as investor fears about the eurozone economic outlook weighed on the common currency. Meanwhile the British pound fell **(-1.0%)** on lingering Brexit uncertainty.

Most **Asian currencies** depreciated slightly against the US dollar over the week, although the Malaysian ringgit rose significantly **(+0.6%)** as high real rates continue to support the currency, especially after the Fed adopted a more dovish stance at its January meeting. The Japanese yen depreciated by **0.2%**, amid mixed economic data.

Commodities

Crude oil prices fell this week, weighed down by a stronger US dollar, and lingering economic growth and trade concerns. Overall, Brent fell **1.1% to USD62.1 a barrel**.

Meanwhile, **gold prices** also struggled amid the stronger dollar, although gold found some support from its status as a perceived “safe-haven” asset amid weak risk appetite. The precious metal finished the week down **0.2% to USD1,315 per troy ounce**.

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)	490	-0.2	5.0	-1.8	-2.1	7.6	530	435	14.4
North America									
US Dow Jones Industrial Average	25,106	0.2	5.5	-4.1	5.2	7.6	26,952	21,713	15.2
US S&P 500 Index	2,708	0.0	5.2	-3.5	4.9	8.0	2,941	2,347	16.1
US NASDAQ Composite Index	7,298	0.5	5.8	-3.1	7.7	10.0	8,133	6,190	20.7
Canada S&P/TSX Composite Index	15,633	0.8	7.0	1.8	3.8	9.1	16,586	13,777	14.3
Europe									
MSCI AC Europe (USD)	428	-0.8	3.5	-2.2	-10.6	6.0	498	391	12.5
Euro STOXX 50 Index	3,136	-1.1	2.6	-3.1	-7.2	4.5	3,596	2,909	12.4
UK FTSE 100 Index	7,071	0.7	3.1	-1.0	-1.4	5.1	7,904	6,537	12.4
Germany DAX Index*	10,907	-2.4	1.0	-5.4	-11.0	3.3	13,204	10,279	11.7
France CAC-40 Index	4,962	-1.1	3.9	-3.3	-3.7	4.9	5,657	4,556	12.6
Spain IBEX 35 Index	8,857	-1.8	0.1	-3.5	-9.2	3.7	10,291	8,286	11.3
Italy FTSE MIB Index	19,352	-1.1	1.9	-0.4	-13.9	5.6	24,544	17,914	9.6
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	513	0.4	7.2	4.3	-9.1	7.6	592	459	13.2
Japan Nikkei-225 Stock Average	20,333	-2.2	0.6	-9.6	-7.1	1.6	24,448	18,949	14.7
Australian Stock Exchange 200	6,071	3.6	6.1	2.4	3.1	7.5	6,374	5,410	15.7
Hong Kong Hang Seng Index	27,946	0.1	8.0	6.6	-8.2	8.1	31,978	24,541	10.7
Shanghai Stock Exchange Composite Index	2,618	0.0	3.6	-0.7	-19.7	5.0	3,488	2,441	9.9
Hang Seng China Enterprises Index	10,957	-1.0	8.1	2.4	-11.5	8.2	12,961	9,762	8.1
Taiwan TAIEX Index	9,932	0.0	3.9	-0.1	-5.7	2.1	11,262	9,319	13.6
Korea KOSPI Index	2,177	-1.2	7.5	4.0	-9.6	6.7	2,517	1,985	10.4
India SENSEX 30 Index	36,546	0.2	1.6	3.7	6.2	1.3	38,990	32,484	22.2
Indonesia Jakarta Stock Price Index	6,522	-0.3	4.1	9.1	-0.4	5.3	6,693	5,558	15.7
Malaysia Kuala Lumpur Composite Index	1,687	0.2	0.8	-2.0	-8.3	-0.2	1,896	1,627	16.3
Philippines Stock Exchange PSE Index	8,071	-0.9	4.8	14.7	-6.6	8.1	8,758	6,791	16.9
Singapore FTSE Straits Times Index	3,202	0.4	2.5	3.5	-6.3	4.3	3,642	2,956	12.4
Thailand SET Index	1,652	0.0	3.6	-1.8	-7.6	5.6	1,853	1,547	14.8
Latam									
Argentina Merval Index	36,664	0.2	11.4	19.3	18.2	21.0	37,562	24,618	8.6
Brazil Bovespa Index*	95,343	-2.6	3.6	11.4	16.9	8.5	98,589	69,069	11.9
Chile IPSA Index	5,379	-1.4	3.0	2.9	-4.8	5.4	5,763	4,999	15.5
Colombia COLCAP Index	1,469	0.5	7.3	3.1	-2.4	10.8	1,582	1,291	11.9
Mexico S&P/BMV IPC Index	43,180	-1.3	-0.8	-2.3	-9.8	3.7	50,603	39,272	13.3
EEMEA									
Russia MOEX Index	2,503	-0.7	4.7	2.6	12.4	5.6	2,552	2,065	5.7
South Africa JSE Index	53,244	-1.3	2.1	-1.5	-6.0	1.0	60,299	50,033	13.3
Turkey ISE 100 Index*	102,452	-0.5	13.0	9.6	-10.3	12.3	119,245	84,655	7.2

*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	-0.2	5.1	-1.5	7.7	-0.1	44.3	37.2
US equities	0.0	5.4	-3.0	8.4	6.4	53.2	61.0
Europe equities	-0.8	3.6	-1.9	6.1	-7.9	28.3	4.6
Asia Pacific ex Japan equities	0.4	7.3	4.8	7.7	-6.6	48.3	33.2
Japan equities	-2.1	0.4	-4.5	3.1	-10.8	23.2	28.1
Latam equities	-3.5	2.8	8.4	11.0	-1.7	77.3	10.9
Emerging Markets equities	-0.8	6.8	5.2	7.9	-8.2	52.2	25.1

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.

	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
Bond indices - Total Return						
BarCap GlobalAgg (Hedged in USD)	530	0.2	1.1	3.3	4.1	1.1
JPM EMBI Global	807	0.1	3.2	5.3	1.7	4.7
BarCap US Corporate Index (USD)	2,901	0.3	2.3	3.8	2.1	2.6
BarCap Euro Corporate Index (Eur)	248	0.5	2.1	1.2	0.9	1.6
BarCap Global High Yield (Hedged in USD)	477	0.2	2.8	2.0	2.3	4.6
Markit iBoxx Asia ex-Japan Bond Index (USD)	199	0.2	1.9	4.0	2.6	2.1
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	254	0.2	3.3	4.8	0.7	3.8

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 2018	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.13	1.15	1.14	1.14	1.22	1.15	1.26	1.12	-1.2
GBP/USD	1.29	1.31	1.27	1.31	1.39	1.28	1.44	1.24	-1.0
CHF/USD	1.00	1.00	1.02	0.99	1.07	1.02	1.09	0.99	-0.5
CAD	1.33	1.31	1.33	1.32	1.26	1.36	1.37	1.25	-1.3
JPY	109.73	109.50	108.75	114.07	108.74	109.69	114.55	104.56	-0.2
AUD	1.41	1.38	1.40	1.38	1.29	1.42	1.48	1.25	-2.3
NZD	1.48	1.45	1.49	1.48	1.39	1.49	1.56	1.34	-2.2
Asia									
HKD	7.85	7.85	7.84	7.83	7.82	7.83	7.85	7.79	0.0
CNY	6.75	6.74	6.85	6.93	6.33	6.88	6.98	6.24	0.0
INR	71.31	71.26	70.20	73.00	64.26	69.77	74.48	63.82	-0.1
MYR	4.07	4.10	4.12	4.16	3.93	4.13	4.20	3.85	0.6
KRW	1,124	1,119	1,124	1,117	1,088	1,111	1,145	1,054	-0.4
TWD	30.82	30.74	30.84	30.66	29.35	30.55	31.17	28.96	-0.3
Latam									
BRL	3.73	3.66	3.71	3.76	3.29	3.88	4.21	3.20	-2.0
COP	3,116	3,091	3,151	3,153	2,888	3,254	3,303	2,685	-0.8
MXN	19.08	19.11	19.35	20.20	18.89	19.65	20.96	17.94	0.1
ARS	37.84	37.17	37.56	35.49	19.96	37.67	41.54	19.62	-1.8
EEMEA									
RUB	65.44	65.48	66.90	66.92	58.42	69.35	70.84	55.56	0.1
ZAR	13.62	13.32	13.96	14.14	12.17	14.35	15.70	11.51	-2.2

	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2018	1-week Basis Point Change *
Bonds							
US Treasury yields (%)							
3-Month	2.41	2.39	2.44	2.35	1.54	2.35	3
2-Year	2.47	2.50	2.59	2.97	2.10	2.49	-4
5-Year	2.44	2.50	2.58	3.09	2.54	2.51	-6
10-Year	2.63	2.68	2.73	3.24	2.82	2.68	-5
30-Year	2.98	3.03	3.01	3.43	3.13	3.01	-5
10-year bond yields (%)							
Japan	-0.03	-0.02	0.00	0.12	0.08	-0.01	-1
UK	1.15	1.25	1.27	1.56	1.62	1.28	-10
Germany	0.09	0.17	0.23	0.46	0.76	0.24	-8
France	0.54	0.57	0.73	0.82	0.99	0.71	-3
Italy	2.96	2.75	2.95	3.39	1.99	2.74	21
Spain	1.23	1.22	1.51	1.61	1.44	1.41	1
China	3.11	3.11	3.15	3.50	3.90	3.31	0
Australia	2.10	2.21	2.30	2.76	2.89	2.32	-10
Canada	1.88	1.96	1.97	2.54	2.38	1.97	-8

*Numbers may not add up due to rounding

	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Commodities								
Gold	1,315	-0.2	2.3	7.4	-0.3	2.5	1,365	1,160
Brent Oil	62.1	-1.1	5.4	-12.9	1.9	14.9	85	50
WTI Crude Oil	52.7	-4.6	5.2	-14.0	-6.7	15.3	76	43
R/J CRB Futures Index	178	-1.4	1.2	-6.2	-7.2	4.9	207	168
LME Copper	6,246	1.7	5.8	1.5	-8.8	4.7	7,348	5,725

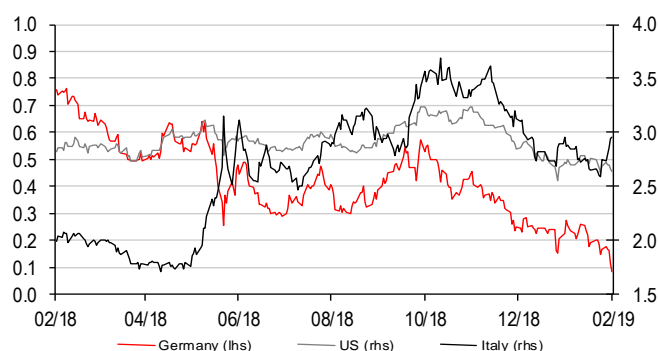
Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 8 February 2019.

Past performance is not an indication of future returns.

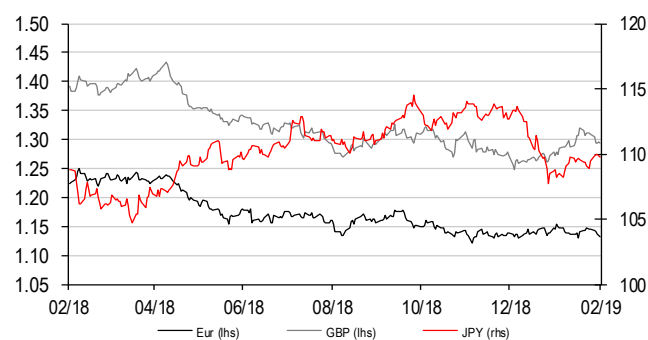
08/02/2019 Investment Weekly 7

Market trends

Government bond yields (%)



Major currencies (versus USD)



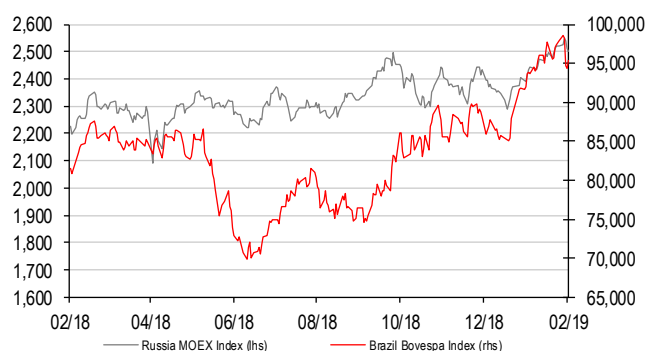
Global equities



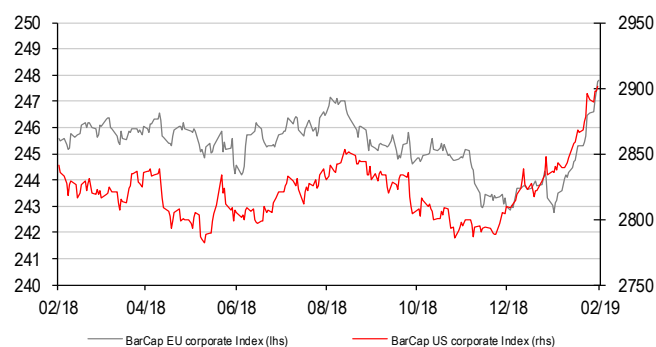
Emerging Asian equities



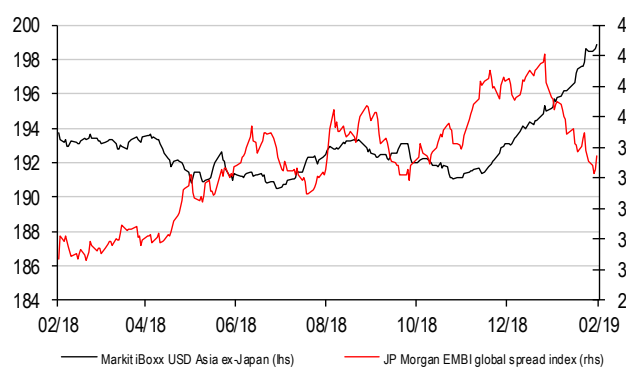
Other emerging equities



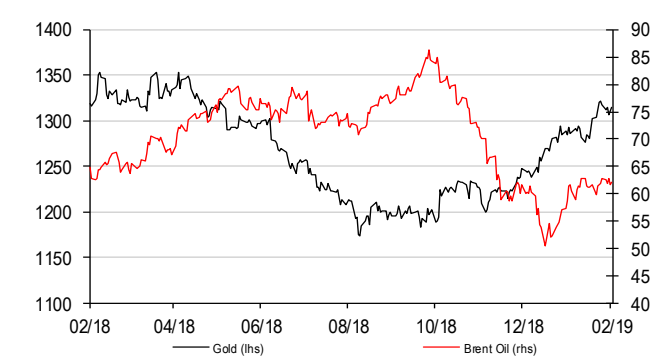
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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