Global Market Monitor 23 Jan 2019

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Summary – US labour market recovered. While the partial government shutdown delayed some key economic reports, those released on time mostly pointed to sustained growth momentum. Job market remained solid following stronger-than-expected growth in December. Initial claims for unemployment benefits continued to decrease in the first two weeks of January. Consumer Price Index slipped 0.1% month on month in December, but managed to rise 1.9% year on year. Producer Price Index softened 0.2% month on month, but increased 2.5% year on year. It suggested that inflation pressure remained moderate. Therefore, more and more Fed officials suggested to slow down the pace of rate hikes, which fanned market expectations that the bank would raise rates merely two times in 2019. In the past two weeks, Euro depreciated 0.7% against USD, while Euro Stoxx 50 equities index advanced 3.0%. In China, CSI 300 increased 2.1%. Elsewhere, Russia's MOEX recovered 3.3% and India's NSE CNX Nifty gained 1.8%.

US – Economic growth momentum continues. While the partial government shutdown delayed some key economic reports, those released on time mostly pointed to sustained growth momentum. Job market remained solid following stronger-than-expected growth in December. Initial claims for unemployment benefits continued to decrease in the first two weeks of January to 213,000 on January 12 from 231,000 in December. It suggested that job market held well as the government shutdown didn't bring any negative impact on private job market. Some other data were slightly short of expectations. NY Empire State Manufacturing Index fell to 3.9 on a monthly basis in January, far lower than the estimated 10.0. Industrial production edged up 0.3% month on month in December, which was marginally higher than the estimated 0.2%, but still far lower than November's 0.6%. The University of Michigan's Index of Consumer Sentiment stood at 90.7, falling sharply below estimates of 96.8.

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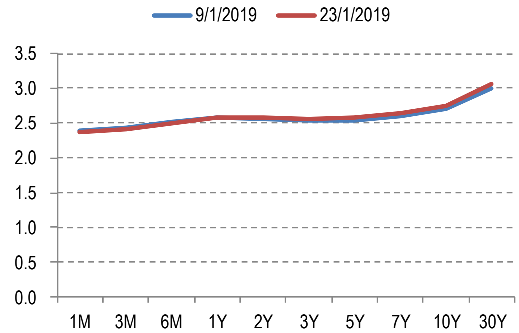
US stock markets continued to rebound from lows as China-US resumed trade talks and Donald Trump says a trade deal 'could very well happen'. Amid improving risk appetite, funds began to flow out from risk-aversion assets. Consequently, yields on treasury notes rose and yield curve steepened led by those on longer-term ones. Yields on 10-year and 30-year notes both rallied 11.6bps in the past two weeks to 2.785% and 3.098%, respectively.

Figure 1: S&P 500 Index

Source: Bloomberg and Core Pacific-Yamaichi

Figure 2: US Yield Curve



Source: Bloomberg and Core Pacific-Yamaichi

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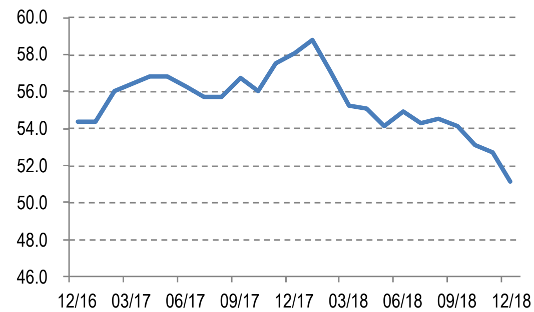
The EU – Timid economic figures. Unemployment rate edged down to 7.9% in November, from 8.0% in October. Seasonal adjusted industrial production declined a larger than expected 1.7% mom in November, compared with 0.2% mom gain in the previous month. Regarding inflationary pressure, CPI in December eased to 1.6% yoy. Amid this backdrop of lackluster economy, market now expects ECB will hike rate by mid-2020 at the earliest.

Over the past 2 weeks, Euro Stoxx 50 equities index rebounded 3.0%, while Euro lost 0.7% against USD.

Figure 3: Euro Stoxx 50 Index

Source: Bloomberg and Core Pacific-Yamaichi

Figure 4: Eurozone Markit composite PMI



Source: Bloomberg and Core Pacific-Yamaichi

China – China's economy grew 6.4% from a year earlier in December, down from 6.5% in the previous quarter. Seasonally adjusted growth moderated to 6.1% from 6.6%. Estimation based on current data shows that the nominal GDP growth rate dropped to 9.1% in the 4Q18 from 9.4% in 3Q18. Meanwhile, the estimated GDP deflator fell to 2.6% 2.7% in the third quarter to 2.6%. In terms of industries, the growth rate in the first and third industries declined in 4Q18, but that in the secondary industry picked up to 5.8% from 5.3% in 3Q18. On the other hand, the nominal GDP growth rate of the primary industry jumped to 8.4% in 4Q18 from -0.2% in 3Q18, but that of the secondary and tertiary industries slowed down.

China's stock markets rose with the CSI 300 up 2.1% in the past two weeks. The dollar softened 0.5% against the RMB.

Figure 5: CSI 300 Index

Source: Bloomberg and Core Pacific-Yamaichi

Figure 6: USDCNY

Source: Bloomberg and Core Pacific-Yamaichi

Russia – Russian shifted USD101 bn reserve into EUR, Yuan and JPY. Amid a new round of US sanctions, Russian Central bank shifted an equivalent of USD44 bn each into EUR and Yuan respectively while USD21 bn was invested in JPY. Russia has been pursuing for several years of reducing exposure to assets that could be affected by U.S. restrictions. Over the past 2 weeks, Russia CPI YoY (DEC) beat market consensus by 0.1% to 4.3%. Over the past 2 weeks, Russia MOEX equity index rose 3.3%, while Russian Ruble appreciated 1.3% against USD. Russian Central bank shift USD 101 bn reserve into EUR, Yuan and JPY, Russian Ruble thus appreciated.

Figure 7: MOEX Index

Source: Bloomberg and Core Pacific-Yamaichi

Figure 8: Russia Ruble Spot

Source: Bloomberg and Core Pacific-Yamaichi

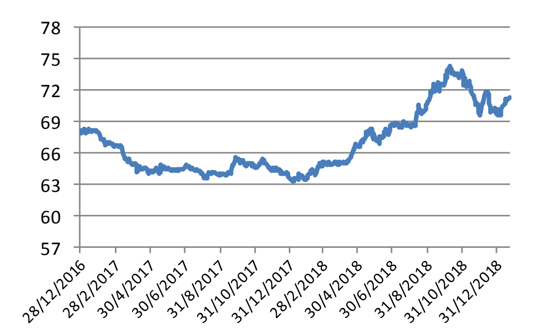
India – Expecting interim budget 2019. India CPI in December reduced from 2.33% to 2.19%, slightly below market expectation. Industrial Production in November plunged from 8.10% to 0.50%, well below expectation. Wholesale Prices in December dropped from 4.64% to 3.80%, below expectation.

India FY19 started positive but slightly on a sombre note with the equity market making a marginal gain in the first 15 days. Concerns about the deterioration in fiscal deficits ahead, the government has prompted woo voters to offload equities and bonds. Moreover, a visible sign of a slowdown in global markets in the form of a decline in export of China and contraction in India's global trade bring pressure to the market. Meanwhile, earnings performance of India Inc. for the quarter ended December and the Interim Budget 2019 in the first week of February 2019 would dictate the near-term movement of the market. Over the past 2 weeks, the India CNX Nifty equity index advanced 1.8%, while the India INR depreciated 1.6% against USD.

Figure 9: NSE CNX Nifty Index

Source: Bloomberg and Core Pacific-Yamaichi

Figure 10: Indian INR



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