

In Review

- The **ISM manufacturing index** underwhelmed, falling from 48.1 to 47.2 in December—its lowest level since June 2009—with declines in new orders, employment and production.
- The **ISM nonmanufacturing index** rose from 53.9 to 55.0 in December, above expectations as the service sector remains resilient.
- **U.S. trade deficit** narrowed from -\$46.9B to -\$43.1B—its lowest level in over 3 years as imports plunged 1%, while exports gained 0.7%. Imports from China fell 22% M/M.
- **U.S. factory orders** fell 0.7% M/M in November. Durable goods orders were revised down to -2.1% M/M in November (previously -2%).
- **Euro Area CPI** accelerated to 1.3% Y/Y in December from 1% in November, according to the preliminary release. Energy drove the headline higher due to the reversal of negative base effects. Core CPI remained at 1.3% Y/Y, and the ECB is set to stay on hold.
- **Eurozone business and consumer sentiment** rose from 101.2 to 101.5 in December, as eurozone headwinds subsided.
- **China CPI** held steady at 4.5% Y/Y in December as food and pork prices decelerated. **PPI** slid 0.5% Y/Y in December after falling 1.4% in November. Inflation data leaves the PBOC with more wherewithal to loosen monetary policy.
- **Japan confidence** rose for the third-straight month to 39.1 in December, as it rebounds following the consumption tax hike.

Watch List

Date		Consensus		Previous
U.S.				
Tue 1/14	NFIB Small Business Optimism	104.8	▲	104.7
Tue 1/14	Consumer Price Index	0.2% M/M	▼	0.3% M/M
Wed 1/15	Producer Price Index	0.2% M/M	▲	0.0% M/M
Wed 1/15	'Phase One' Deal Signing			
Thu 1/16	Retail Sales Advanced	0.3% M/M	▲	0.2% M/M
Thu 1/16	NAHB Housing Market Index	74	▼	76
Fri 1/17	Housing Starts	1376K	▲	1365K
Fri 1/17	Building Permits	1470K	▼	1482K
Fri 1/17	U of Mich. Consumer Sentiment	99.3	-	99.3
Europe				
Wed 1/15	U.K. Consumer Price Index	1.5% Y/Y	-	1.5% Y/Y
Wed 1/15	Eurozone Industrial Production	-1.6% Y/Y	▲	-2.2% Y/Y
Fri 1/17	Euro Area Consumer Price Index	1.3% Y/Y	▲	1.0% Y/Y
Fri 1/17	U.K. Retail Sales	2.0% Y/Y	▲	1.0% Y/Y
Asia Pacific				
Tue 1/14	China Trade Balance	\$45.25B	▲	\$38.73B
Wed 1/15	Japan Core Machine Orders	--		-6.0% M/M
Wed 1/15	Japan Producer Price Index	--		0.1% Y/Y
Thu 1/16	China Industrial Production	5.9% Y/Y	▼	6.2% Y/Y
Thu 1/16	China GDP 2019Q4	6.0% Y/Y	-	6.0% Y/Y

Arrows indicate consensus forecast compared to the previous period.

U.S.

- The U.S. **housing market** is expected to continue its strong performance. Lower mortgage rates, easier financial conditions, and a solid labor market are pushing up demand for housing. However, supply and labor constraints will keep a lid on sales.
- **Retail sales** are expected to have accelerated somewhat in December versus November, as a late Thanksgiving likely pushed holiday shopping into December. Consumption should drive Q4 GDP growth, but the pace will slow compared with Q3.

EUROPE

- **EZ inflation** is set to remain below the ECB's target in December. The drag from energy on the Y/Y growth rate will be removed this month, as the negative base effects subside, but the ECB will likely remain on hold.

ASIA PACIFIC

- **China's trade balance is set to increase** as both exports and imports are expected to rise.
- A Chinese trade delegation led by Vice Premier Liu He is scheduled to travel to the U.S. on January 13 to sign the **'Phase One' partial trade deal** between the U.S. and China.

10 January 2020 | *The Week Ahead*

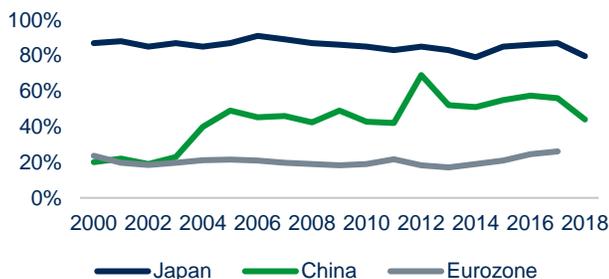
The Highlights

IRAN TENSIONS CAUSE OIL JITTERS

If you look at the week-over-week change in oil prices, you would think it was a relatively ho-hum time in oil markets. However, the ride in between was quite bumpy. Oil prices jumped nearly 5% following the January 2 U.S. military strike that killed Iranian general Qasem Soleimani. A retaliatory strike by Iran saw oil prices jump another 5% on January 7, before tensions de-escalated and WTI finished the week below \$60/barrel, hitting its lowest level since mid-December.

New threats could re-emerge, but **the price response was not as asymmetrical as historical convention would dictate**. Classically, a military event in the Middle East that has the potential to disrupt significant OPEC production and paralyze take-away capacity from the region would lead to a calamitous spike in global oil prices. Yet, we witnessed an almost orderly pricing in and pricing out of a risk premium in oil markets over the course of the week. **What's different this time is that the U.S. economy is no longer dependent upon Middle East oil** as the surge in domestic production from technological gains in fracking have resulted in energy independence. **The same is not true for other major economies such as China, Japan and the eurozone**, whose growth prospects are closely tethered to the uninterrupted flow of oil from the Middle East. While an immediate inflation surge could be expected from a jump in oil prices, this notion can be offset by those higher input prices weighing on global growth prospects. This can create a feedback loop whereby the initial inflation concern from higher oil prices quickly dissipates.

Percent of Oil from the Middle East



Source: Bloomberg, EIA, Eurostat, IEA. As of January 3, 2020.

Perhaps not as obvious and flying in the face of conventional wisdom would be a deflationary impact that results from the week's events. U.S.-led sanctions have essentially negated Iran's export capacity, and OPEC production cuts have kept the world from an oil glut that would depress prices. If a peaceable carrot-and-stick approach inspires Iran to modify its behavior, that carrot could come in the form of more production and export capacity being allowed. While this scenario would likely require Saudi Arabia and Russia to push for more OPEC +1 production cuts to support prices, the thought of additional supply may be enough to put a lid on prices at a minimum and perhaps even drive down inflation expectations.

WORLD BANK LOWERS GROWTH OUTLOOK

The World Bank lowered its global growth forecast by 0.2 percentage points for 2019, 2020, and 2021, now expected to increase 2.4%, 2.5%, and 2.6%, respectively. After the weakest pace in 2019 since the global financial crisis, global growth is set for a tepid rebound this year and next. However, risks to the outlook are elevated, stemming from high levels of global debt, climate change, and restrictive and uncertain trade policies. U.S. GDP is forecast to rise 2.3% in 2019 (-0.2 ppt), and slow to 1.8% in 2020 (+0.1 ppt). Euro Area GDP is set to rise 1.1% in 2019 (-0.1 ppt) and slow modestly to 1.0% in 2020 (-0.4 ppt). China's GDP is expected to expand 6.1% in 2019 (-0.1 ppt) and slow to 5.9% in 2020 (-0.2 ppt).

POLICY

Hong Kong, in an attempt to stabilize the region, had its first major shuffle this week since the protests broke out. Luo Huining will assume the role as the Hong Kong liaison with Beijing. Markets in Hong Kong were up on Monday before this week's events with Iran.

Spain selected a prime minister this week, ending a year of political deadlock. The Socialist leader, Pedro Sánchez, will assume the role and serve for the next four years. So far it appears to be a great challenge to pass new laws, including a national budget, which must be done in the coming months. Sánchez has also called for raising taxes on corporations and the wealthy in order to boost the minimum wage.

10 January 2020

THE WEEK AHEAD

Key Financial Indicators

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	1.75%	0 bps	0 bps	-25 bps	-75 bps	-75 bps	0 bps
3 Month USD Libor	1.83%	-7 bps	-6 bps	-18 bps	-50 bps	-95 bps	-7 bps
3 Month Euribor	-0.39%	-1 bps	0 bps	3 bps	-3 bps	-8 bps	-1 bps
3 Month U.S. T-Bill	1.54%	-1 bps	2 bps	-16 bps	-68 bps	-91 bps	-1 bps
2-Year U.S. Treasury	1.58%	0 bps	-5 bps	15 bps	-31 bps	-101 bps	0 bps
10-Year U.S. Treasury	1.87%	-4 bps	4 bps	34 bps	-16 bps	-84 bps	-4 bps
10-Year German Bund	-0.27%	-8 bps	3 bps	33 bps	8 bps	-52 bps	-8 bps
10-Year U.K. Gilt	0.79%	-3 bps	4 bps	37 bps	-2 bps	-54 bps	-3 bps
10-Year JGB	-0.01%	1 bps	1 bps	20 bps	15 bps	-1 bps	1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.79%	N/A	0.2%	0.0%	-1.5%	7.1%	0.2%
Barclays Capital U.S. TIPS	1.96%	N/A	0.2%	0.4%	0.3%	8.1%	0.2%
Barclays Capital U.S. Aggregate	2.30%	40	0.1%	0.2%	-0.4%	8.7%	0.1%
Barclays Capital Global Aggregate	1.44%	39	-0.1%	0.5%	-0.2%	6.4%	-0.1%
Barclays Capital U.S. ABS	1.99%	37	0.2%	0.3%	0.2%	4.7%	0.2%
Barclays Capital U.S. MBS	2.51%	39	0.1%	0.4%	0.5%	6.4%	0.1%
Barclays Capital U.S. Corporate Investment Grade	2.86%	97	-0.1%	0.4%	0.5%	14.1%	-0.1%
BAML Euro Corporate Investment Grade	0.48%	96	0.2%	0.3%	-0.1%	6.9%	0.2%
Barclays Capital U.S. Corporate High Yield	5.10%	329	0.3%	2.0%	3.5%	11.9%	0.3%
BAML European Currency High Yield Non-Financial	2.94%	332	0.0%	1.0%	2.8%	10.4%	0.0%
CS U.S. Leveraged Loans	6.12%	450	0.4%	1.5%	2.7%	6.2%	0.4%
CS Western European Leveraged Loans Non-USD	4.47%	401	0.2%	0.7%	0.9%	4.3%	0.2%
JPM CEMBI Broad Diversified	4.90%	309	0.5%	1.4%	2.3%	12.8%	0.5%
JPM EMBI Global Diversified	4.89%	291	0.4%	2.3%	2.0%	13.9%	0.4%
JPM GBI-EM Global Diversified	5.19%	N/A	-0.3%	2.8%	3.9%	11.2%	-0.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,253.05	1.73%	0.7%	3.6%	13.0%	28.9%	0.7%
Euro STOXX 600 (Local)	418.36	3.42%	0.6%	2.7%	10.5%	21.0%	0.6%
U.K. FTSE 100 (Local)	7,574.93	4.34%	0.4%	4.6%	6.0%	10.4%	0.4%
Japan Nikkei 225 (Local)	23,204.76	1.92%	-1.9%	-0.6%	7.5%	14.9%	-1.9%
China Shanghai Composite (Local)	3,066.89	2.21%	0.5%	5.3%	5.3%	21.4%	0.5%
MSCI AC World (Local)	566.82	2.37%	0.6%	3.2%	10.5%	24.8%	0.6%
MSCI Emerging Markets (Local)	1,111.40	2.61%	0.1%	5.2%	10.8%	18.1%	0.1%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	431.04	-1.2%	2.0%	7.9%	2.3%	9.3%	-1.2%
WTI Crude (\$/bbl)	59.62	-2.5%	0.7%	13.3%	4.0%	20.3%	-2.5%
Copper (\$/lb)	2.82	0.9%	4.0%	10.0%	6.1%	6.0%	0.9%
Gold (\$/oz)	1,571.95	3.8%	7.7%	4.4%	12.3%	22.2%	3.8%
U.S. Dollar Index	97.30	0.9%	-0.4%	-1.9%	-0.1%	1.5%	0.9%
Euro (USD/EUR)	1.11	-0.9%	0.6%	1.5%	-0.9%	-2.8%	-0.9%
British Pound (USD/GBP)	1.31	-1.1%	-0.1%	7.2%	4.7%	2.9%	-1.1%
Japanese Yen (Yen/USD)	108.64	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%
Chinese Yuan (CNY/USD)	6.94	-0.3%	-1.3%	-2.6%	0.9%	1.2%	-0.3%

Source: FactSet and Bloomberg. As of Jan. 8, 2020.

10 January 2020 | *The Week Ahead*

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