

17 January 2020

THE WEEK AHEAD

In Review

- **U.S. employment** rose 145,000 in December, underperforming expectations. The unemployment rate held steady at 3.5% while wage growth decelerated to 2.9% Y/Y.
- **U.S. inflation** underwhelmed in December. The **CPI** rose 0.2% M/M (+2.3% Y/Y), while the core gained 0.1% M/M and held steady at 2.3% Y/Y. Meanwhile, the headline **PPI** rose 1.3% Y/Y (+0.1% M/M), while core PPI decelerated to 1.1% Y/Y. Lack of inflation pressures will likely keep the Fed on pause.
- **U.S. retail sales** rose 0.3% M/M in December, as expected. Excluding autos, retail sales jumped 0.7% M/M. On a year-ago basis, retail sales rose 5.8%.
- **U.K. CPI** underwhelmed in December, but the BoE will likely remain on hold. Headline CPI decelerated to 1.3% Y/Y, while the core rate slowed to 1.4% Y/Y.
- **Eurozone industrial production** rebounded slightly in November, rising 0.2% M/M. However, October's reading was revised down to -0.9% M/M (previously -0.5% M/M). Despite the modest gain in November, IP is set to be a drag on Q4 GDP growth.
- **China exports** bounced back better than expected in December, rising 7.6% Y/Y on the back of favorable base effects and strong demand outside of the U.S. **Imports** jumped 16.3% Y/Y after rising 0.8% Y/Y in November.
- **Japan core machine orders** jumped 18% M/M in November, led by non-manufacturing demand.

Watch List

Date		Consensus		Previous
U.S.				
Wed 1/22	FHFA House Price Index	0.3% M/M	▲	0.2% M/M
Wed 1/22	Existing Home Sales	5.42 mil	▲	5.35 mil
Thu 1/23	Leading Index	-0.2% M/M	▼	0.0% M/M
Fri 1/24	Markit Manufacturing PMI (Prelim)	52.6	▲	52.4
Europe				
Tue 1/21	German ZEW Survey Expectations	13.0	▲	10.7
Tue 1/21	U.K. Unemployment Rate	3.8%	-	3.8%
Thu 1/23	ECB Monetary Policy Meeting	0.0%	-	0.0%
Fri 1/24	Markit EZ Manufacturing PMI	46.7	▲	46.3
Fri 1/24	Markit German Manufacturing PMI	44.2	▲	43.7
Fri 1/24	Markit U.K. Manufacturing PMI	48.1	▲	47.5
Asia Pacific				
Tue 1/21	BOJ Policy Balance Rate	-0.1%	-	-0.1%
Wed 1/22	Japan Trade Balance	- ¥161.0 bil	▼	- ¥82.1 bil
Thu 1/23	Japan Consumer Price Index	0.7% Y/Y	▲	0.5% Y/Y
Thu 1/23	Jibun Bank Japan Mfg PMI (Prelim)	--		48.4

Arrows indicate consensus forecast compared to the previous period.

U.S.

- U.S. manufacturing is in for a bumpy ride, but recovery is on the horizon. The preliminary January **Markit manufacturing PMI** is set to edge slightly higher into expansionary territory thanks to easing trade tensions and a relatively weaker U.S. dollar.
- 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. Sentiment remains near an all-time high, though limited supply will continue pushing home prices higher.

EUROPE

- Despite weak inflation data, the **ECB is set to keep its policy rate steady** next week. We look for whether the ECB president will express comfort with the strength of the euro area recovery in her press conference following the meeting.
- **Manufacturing PMI** data should post modest increases, though will likely remain in contractionary territory as trade and policy uncertainties subside.

ASIA PACIFIC

- Despite subdued inflation and macroeconomic headwinds, **the Bank of Japan** is expected to keep its policy rate steady.

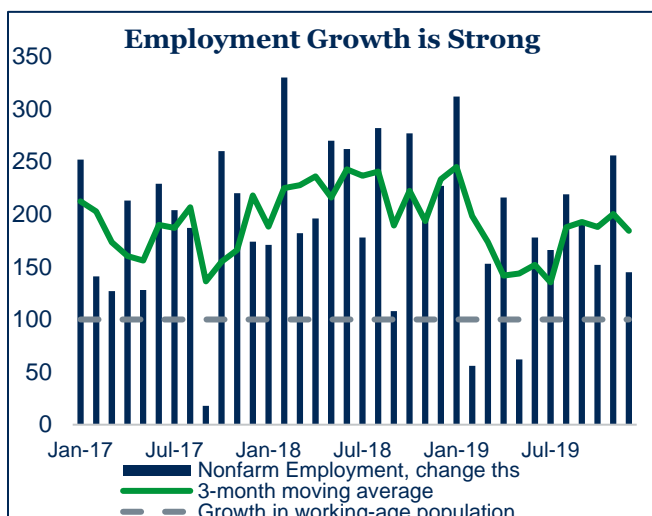
The Highlights

'PHASE ONE' SIGNED, SEALED, DELIVERED

The U.S.-China 'Phase One' trade deal was signed on Wednesday. China has agreed to purchase an additional \$200 billion (above 2017 levels) of U.S. goods ranging from manufacturing to agricultural products over the next two years. Investors reacted positively to the signing as U.S. equities reached new all-time highs, while futures went higher in Australia, Hong Kong, and Japan. Other items in the deal include greater regulations surrounding intellectual property, requiring each country to refrain from unfair competitive currency devaluations, and the removal of investment barriers such as foreign equity limitations and discriminatory regulatory requirements to U.S. financial service providers. While the U.S. reduced its tariff rate on another \$112 billion worth of goods from 15% to 7.5%, the Phase One deal could add as much as 0.4% to U.S. GDP. 25% tariffs remain in place on much of what the U.S. buys from China as an enforcement mechanism.

TAKING THE PULSE ON EMPLOYMENT

U.S. employment rose 145,000 in December, with a net 14,000 downward revision to the prior two months, trend job growth is averaging 184,000 over the past three months. Though below consensus expectations, job growth remains above working-age population growth.



Source: Bloomberg, BLS. As of January 16, 2020.

The unemployment rate held steady at 3.5% as labor supply increased by 209,000. The prime-age labor force participation rate rose to a cyclical high of 82.9% and momentum is solid. Wage growth decelerated to 2.9% Y/Y from 3.1% in November, as there is still room before wage pressures intensify. Subdued wage growth bodes well for the Fed's stance to remain on hold.

HOLIDAY RETAIL SALES WRAP UP

Strong retail sales growth in December confirms holiday shopping moved with a late Thanksgiving. Headline retail sales rose 0.3% M/M, as expected. Autos were a sizeable drag on the headline, while a 2.8% M/M rise in gasoline station sales was a boon. Excluding autos and gas, sales gained 0.5% M/M, above expectations, and 12 of the 13 major categories posted gains. November and December combined sales were up 4.6% from 2018. The year-ago rate was boosted by favorable base effects, as December 2018 sales slowed with the government shutdown. While December sales were strong, downward revisions to November core sales and a weaker October core print will likely lead to a slight slowing in fourth quarter consumption growth—though it will remain the growth driver of Q4 GDP.

POLICY

China was taken off the U.S. Currency Manipulator watchlist prior to the trade deal signing. Traders cheered the move as the yuan reached its strongest close in six months. Policy analysts fear the watchlist is becoming a diplomatic bargaining tool which could affect foreign-exchange markets in the future.

South Korean regulators are eyeing suspected fraudsters in the nation's small-cap stocks. There has recently been a growing appetite among retail investors for small-caps, especially those tied to biotechnology. The Financial Supervisory Service said fraudulent activity has surged lately and a crackdown is coming.

Taiwan's newly elected, pro-democratic President Tsai Ing-wen can reinforce a winning run for the country's financial markets. The result should extend positive investor sentiment toward Taiwan and provide a short-term boost to biotechnology- and wind energy-related stocks, which gained ahead of Saturday's election on expectations that government support will continue.

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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	1.84%	0 bps	-6 bps	-17 bps	-47 bps	-94 bps	-7 bps
3 Month Euribor	-0.39%	0 bps	1 bps	3 bps	-3 bps	-9 bps	-1 bps
3 Month U.S. T-Bill	1.57%	3 bps	1 bps	-10 bps	-57 bps	-87 bps	2 bps
2-Year U.S. Treasury	1.55%	-2 bps	-5 bps	-6 bps	-28 bps	-96 bps	-2 bps
10-Year U.S. Treasury	1.79%	-9 bps	-3 bps	2 bps	-30 bps	-92 bps	-13 bps
10-Year German Bund	-0.21%	6 bps	6 bps	22 bps	4 bps	-39 bps	-2 bps
10-Year U.K. Gilt	0.67%	-12 bps	-16 bps	-1 bps	-19 bps	-63 bps	-15 bps
10-Year JGB	0.01%	2 bps	3 bps	18 bps	13 bps	0 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.73%	N/A	0.6%	0.4%	0.4%	7.8%	0.8%
Barclays Capital U.S. TIPS	1.89%	N/A	0.6%	0.7%	1.9%	8.9%	0.8%
Barclays Capital U.S. Aggregate	2.23%	40	0.6%	0.5%	1.1%	9.3%	0.7%
Barclays Capital Global Aggregate	1.41%	38	0.2%	0.2%	0.6%	6.3%	0.0%
Barclays Capital U.S. ABS	1.94%	35	0.2%	0.4%	0.8%	4.8%	0.3%
Barclays Capital U.S. MBS	2.43%	39	0.3%	0.5%	1.1%	6.5%	0.3%
Barclays Capital U.S. Corporate Investment Grade	2.77%	96	0.9%	0.7%	2.4%	15.0%	0.8%
BAML Euro Corporate Investment Grade	0.50%	95	-0.1%	-0.1%	0.2%	6.3%	0.1%
Barclays Capital U.S. Corporate High Yield	5.02%	322	0.3%	1.5%	3.2%	11.6%	0.7%
BAML European Currency High Yield Non-Financial	2.89%	324	0.3%	0.7%	2.5%	9.9%	0.3%
CS U.S. Leveraged Loans	6.03%	442	6.5%	1.2%	3.0%	6.8%	0.7%
CS Western European Leveraged Loans Non-USD	4.41%	397	4.6%	0.6%	1.1%	4.5%	0.4%
JPM CEMBI Broad Diversified	4.81%	307	0.5%	1.6%	3.0%	12.9%	1.0%
JPM EMBI Global Diversified	4.85%	295	0.4%	1.6%	2.5%	13.8%	0.8%
JPM GBI-EM Global Diversified	5.15%	N/A	0.2%	1.8%	3.7%	10.5%	-0.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,289.29	1.73%	1.2%	3.9%	10.3%	28.6%	1.9%
Euro STOXX 600 (Local)	419.63	3.66%	0.3%	1.8%	6.5%	20.3%	0.9%
U.K. FTSE 100 (Local)	7,642.80	4.30%	0.9%	3.9%	6.0%	10.8%	1.3%
Japan Nikkei 225 (Local)	23,916.58	1.86%	3.1%	-0.4%	7.7%	16.4%	1.1%
China Shanghai Composite (Local)	3,090.04	2.19%	0.8%	4.1%	3.3%	20.2%	1.3%
MSCI AC World (Local)	573.76	2.34%	1.3%	3.5%	9.2%	24.4%	1.9%
MSCI Emerging Markets (Local)	1,137.98	2.54%	2.2%	4.5%	9.9%	17.3%	2.3%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	425.45	-1.3%	-0.6%	5.5%	-1.3%	5.2%	-2.5%
WTI Crude (\$/bbl)	57.86	-3.0%	-3.7%	9.6%	-2.4%	11.7%	-5.4%
Copper (\$/lb)	2.87	1.8%	3.2%	10.2%	6.0%	8.3%	2.7%
Gold (\$/oz)	1,549.00	-1.5%	5.6%	4.1%	9.7%	19.7%	2.3%
U.S. Dollar Index	97.23	-0.1%	0.1%	-1.1%	0.3%	1.2%	0.9%
Euro (USD/EUR)	1.12	0.3%	0.1%	1.0%	-1.0%	-2.5%	-0.7%
British Pound (USD/GBP)	1.30	-0.6%	-2.4%	1.9%	4.1%	1.7%	-1.7%
Japanese Yen (Yen/USD)	110.00	1.3%	0.7%	1.1%	1.9%	1.4%	1.2%
Chinese Yuan (CNY/USD)	6.89	-0.8%	-1.4%	-2.7%	0.2%	2.0%	-1.1%

Source: FactSet and Bloomberg. As of Jan. 15, 2020.

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