

31 January 2020

THE WEEK AHEAD

In Review

- **U.S. new home sales** underwhelmed, sliding 0.4% M/M in December, as limited inventories weighed on sales. However, sales are up 23% Y/Y, and residential investment will aid Q4 GDP growth.
- **U.S. durable goods orders** rose 2.4% M/M in December, according to the advance report. However, this was due to a 168.3% M/M jump in defense aircraft orders, while core capital goods orders slid 0.9%.
- The **FOMC** held rates steady at their January meeting, as expected.
- The **Conference Board consumer confidence index** beat expectations, rising to 131.6—its highest level since August. Both the present situation and future expectations components improved.
- **German IFO business climate index** surprised to the downside in January due to a decline in the expectations component, while current conditions increased. This breaks with the trend of strong gains in ZEW and Sentix.
- The **BOE** held rates steady, but maintained an easing bias.
- The **EZ unemployment rate** slid from 7.5% to 7.4% in December.
- **Japan's January flash manufacturing PMI** rose to 49.3, while the services PMI increased from 49.1 to 52.1, suggesting an increase in domestic demand.
- **Japan CPI** rose 0.8% Y/Y in December, above expectations, pushed higher by gasoline and accommodation prices. Underlying inflation remains subdued, which may keep the BOJ accommodative.

Watch List

Date		Consensus		Previous
U.S.				
Mon 2/3	ISM Manufacturing	48.4	▲	47.2
Mon 2/3	Iowa Caucus	--		--
Wed 2/5	Trade Balance	-\$46.6b	▼	-\$43.1b
Thu 2/6	ISM Non-Manufacturing	55.0	■	55.0
Fri 2/7	Change in Nonfarm Payrolls	158k	▲	145k
Fri 2/7	Unemployment Rate	3.5%	■	3.5%
Fri 2/7	Average Hourly Earnings	3.0% Y/Y	▲	2.9% Y/Y
Sat 2/8	Expanded Steel & Aluminum Tariffs	--		--
Europe				
Mon 2/3	EZ Markit Manufacturing PMI (final)	47.8	■	47.8
Wed 2/5	Germany Factory Orders	0.5% M/M	▲	-1.3% M/M
Wed 2/5	EZ Retail Sales	-0.4% M/M	▼	1.0% M/M
Fri 2/7	Germany Industrial Production	-0.2% M/M	▼	1.1% M/M
Asia Pacific				
Mon 2/3	Caixin China Manufacturing PMI	51.0	▼	51.5
Mon 2/3	Japan Markit Manufacturing PMI (final)			49.3
Fri 2/7	China Trade Balance			\$46.79b

Arrows indicate consensus forecast compared to the previous period.

U.S.

- **Employment** will likely show another strong performance in January, with a healthy increase in nonfarm payrolls. However, with slack remaining in the labor market, wage growth is not likely to materially accelerate.
- The **ISM manufacturing index** is expected to increase in January, but risks are tilted to the downside. Positive effects from the 'Phase One' deal will aid industries such as agriculture, and regional Federal Reserve manufacturing surveys in January point to improvement in the index. However, the Boeing production halt will weigh on transportation.

EUROPE

- **Eurozone retail sales** will likely take a step back M/M in December, after rising 1% M/M in November. Sales will remain solid on a year-ago basis.
- **German industrial production** should slide in December following a strong November, as industrial sector weighs on GDP. However, as trade tensions ease, Germany's manufacturing sector should bottom.

ASIA PACIFIC

- **China's Caixin manufacturing PMI** is likely to remain relatively unchanged in positive territory, however the coronavirus outbreak will weigh on Q1 growth.

The Highlights

CORONAVIRUS

The number of confirmed coronavirus cases in China grew to nearly 7,700, surpassing totals there from 2003's SARS outbreak. Travel restrictions to China are widening, with several airlines, including British Airways, announcing a suspension of flights to the country. Many predict that China's GDP growth could "materially drop" from the 6% pace seen in the last quarter of 2019, while \$1.5 trillion has been wiped off global stock markets. The European luxury goods sector is expected to be among the hardest hit by the slowdown in Chinese retail sales during Chinese New Year, usually the busiest shopping period. Other companies that rely on the manufacturing hub of Wuhan may feel delayed effects because production was already halted for the Lunar New Year. The extension of that holiday, however, means the impact will eventually be felt.

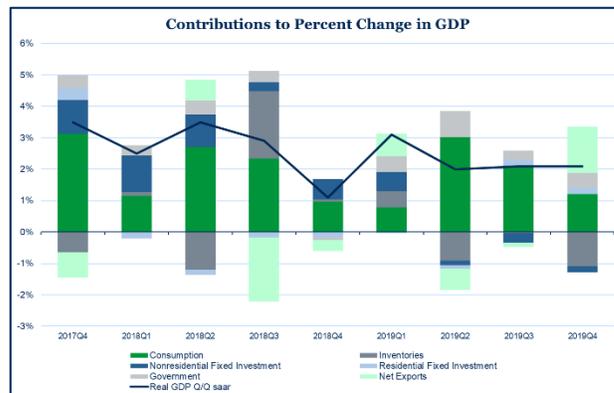
JANUARY FLASH PMIs

January Markit flash manufacturing PMIs showed improvement across Europe and Japan. While the Eurozone composite remained unchanged at 50.9, the manufacturing PMI rose from 46.3 to 47.8—above consensus expectations. Among countries, Germany's manufacturing PMI rose to an 11-month high of 45.3. Meanwhile, the biggest improvement was in the U.K., rising from 47.5 to 49.8, as they experience a post-election boost to their economy. While the manufacturing PMIs are in contractionary territory, the improvement in headline and forward-looking indicators portrays a bottoming in global manufacturing, as global growth is set to stabilize into 2020. In the U.S., the flash manufacturing PMI slid from 52.4 to 51.7 but remains in expansionary territory. U.S. manufacturing is facing counteracting forces—easing trade tensions and rising global demand versus a Boeing production halt. Manufacturing should improve, but it is likely to be a bumpy ride.

DATA DIVE U.S. GDP

U.S. GDP held steady in 2019Q4 at 2.1%, while the composition of growth changed, according to the advanced estimate. Growth was aided by personal consumption, residential fixed investment, and trade, while inventories and nonresidential fixed investment subtracted from growth.

Source: Bloomberg. As of January 30, 2020.



As expected, personal consumption growth slowed from 3.2% in Q3 to 1.8% in Q4—but remained a key driver of growth. Trade contributed the most to growth in Q4, as imports fell 8.7%, while business investment fell for the third-consecutive quarter.

POLICY

The U.S. Embassy in Baghdad was hit by mortars this week, marking the 14th attack on U.S. personnel in Iraq since September. Such attacks by Iran-linked militia groups have increased since the killing of Iranian top commander Qassem Soleimani. As a result, defense stocks have been outperforming by around 5%.

Steel tariffs on foreign steel and aluminum were announced by President Trump. The president accused foreign companies of trying to "circumvent" the 25 percent tariff he placed on foreign steel and the 10 percent tariff on foreign aluminum in 2018. The U.S. will expand tariffs to cover products like nails, tacks, staples, cables, types of wire, bumpers and other parts for cars as of February 8. U.S. Steel announced last month that it was indefinitely idling part of a plant near Detroit, laying off roughly 1,500 employees.

New Jersey will become the first state to account for climate change, including rising sea levels, to win government approval for projects. Condo complexes near flood-prone rivers, public schools close to the ocean, natural-gas pipelines and carbon-emitting power plants will be among the projects affected by the legislation.

U.S. regulators, including the Federal Reserve, are set to propose removing the 3% limit on the stake banks can own in venture funds they offer to clients. The Volcker restrictions, part of the 2010 Dodd-Frank Act, if removed, could allow banks to invest more of their capital in funds they already offer clients, as long as the funds invest in startups and small businesses. It is expected this will be completed later this year.

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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	1.78%	-2 bps	-17 bps	-15 bps	-48 bps	-97 bps	-13 bps
3 Month Euribor	-0.40%	-1 bps	-1 bps	1 bps	-3 bps	-9 bps	-2 bps
3 Month U.S. T-Bill	1.55%	1 bps	-1 bps	-7 bps	-54 bps	-86 bps	1 bps
2-Year U.S. Treasury	1.42%	-9 bps	-16 bps	-22 bps	-42 bps	-115 bps	-15 bps
10-Year U.S. Treasury	1.59%	-18 bps	-27 bps	-24 bps	-46 bps	-112 bps	-33 bps
10-Year German Bund	-0.38%	-11 bps	-13 bps	-2 bps	3 bps	-56 bps	-19 bps
10-Year U.K. Gilt	0.55%	-11 bps	-21 bps	-16 bps	-22 bps	-78 bps	-28 bps
10-Year JGB	-0.04%	-3 bps	-2 bps	8 bps	12 bps	-3 bps	-1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.57%	N/A	1.1%	1.8%	2.1%	9.0%	2.0%
Barclays Capital U.S. TIPS	1.71%	N/A	0.9%	1.6%	2.8%	9.9%	1.6%
Barclays Capital U.S. Aggregate	2.08%	42	0.8%	1.5%	2.3%	9.9%	1.7%
Barclays Capital Global Aggregate	1.29%	39	0.6%	0.9%	1.3%	6.7%	0.7%
Barclays Capital U.S. ABS	1.76%	32	0.3%	0.8%	1.2%	5.1%	0.8%
Barclays Capital U.S. MBS	2.31%	46	0.2%	0.7%	1.3%	6.7%	0.6%
Barclays Capital U.S. Corporate Investment Grade	2.62%	99	0.8%	1.9%	3.7%	15.2%	2.2%
BAML Euro Corporate Investment Grade	0.38%	93	0.4%	0.7%	0.8%	6.5%	0.9%
Barclays Capital U.S. Corporate High Yield	5.40%	371	-0.5%	0.2%	2.3%	10.3%	0.2%
BAML European Currency High Yield Non-Financial	3.08%	350	-0.3%	0.3%	2.4%	9.0%	0.2%
CS U.S. Leveraged Loans	5.94%	452	-0.2%	0.6%	2.8%	6.4%	0.6%
CS Western European Leveraged Loans Non-USD	4.38%	398	0.1%	0.6%	1.5%	4.3%	0.6%
JPM CEMBI Broad Diversified	4.73%	320	0.1%	1.4%	3.0%	12.2%	1.4%
JPM EMBI Global Diversified	4.81%	311	0.2%	1.2%	3.2%	12.8%	1.2%
JPM GBI-EM Global Diversified	5.07%	N/A	-0.7%	-0.1%	1.7%	9.0%	-0.6%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	3,273.40	1.74%	-1.4%	1.2%	8.3%	26.5%	1.4%
Euro STOXX 600 (Local)	419.41	3.66%	-0.9%	-0.1%	5.3%	17.4%	0.9%
U.K. FTSE 100 (Local)	7,483.57	4.39%	-1.2%	-2.1%	2.4%	9.5%	-0.8%
Japan Nikkei 225 (Local)	23,379.40	1.91%	-2.7%	-1.9%	1.8%	13.1%	-1.2%
China Shanghai Composite (Local)	2,976.53	2.37%	-2.8%	-0.9%	0.8%	14.7%	-2.4%
MSCI AC World (Local)	567.35	2.35%	-1.5%	0.5%	6.5%	21.7%	1.1%
MSCI Emerging Markets (Local)	1,097.51	2.62%	-2.7%	-1.2%	5.7%	11.3%	-0.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	398.75	-4.7%	-9.4%	-3.7%	-4.7%	-2.1%	-8.6%
WTI Crude (\$/bbl)	53.36	-6.0%	-13.6%	-3.6%	-6.1%	0.5%	-12.7%
Copper (\$/lb)	2.55	-7.7%	-10.0%	-4.8%	-5.8%	-6.5%	-8.6%
Gold (\$/oz)	1,573.45	1.1%	4.1%	5.8%	10.9%	20.3%	3.9%
U.S. Dollar Index	97.99	0.5%	1.1%	0.3%	-0.1%	2.3%	1.7%
Euro (USD/EUR)	1.10	-0.7%	-1.5%	-1.1%	-1.2%	-3.6%	-2.0%
British Pound (USD/GBP)	1.30	-1.1%	-0.7%	0.8%	6.3%	-1.1%	-1.9%
Japanese Yen (Yen/USD)	109.18	-0.7%	-0.4%	0.3%	0.3%	-0.1%	0.5%
Chinese Yuan (CNY/USD)	6.93	0.4%	-1.0%	-1.9%	0.5%	3.0%	-0.5%

Source: FactSet and Bloomberg. As of Jan. 29, 2020.

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