

Major upcoming global economic releases and events

DATE	DATA/EVENT	PREVIOUS	CONSENSUS
07-Jan-19	European retail sales m/m (Nov)	0.3%	0.1%
08-Jan-19	Australia trade balance (Nov)	A\$2.3b	A\$2.2b
09-Jan-19	Australia building permits m/m (Nov)	-1.5%	-2.0%
09-Jan-19	European unemployment rate (Nov)	8.1%	8.1%
10-Jan-19	Australia business confidence (Dec)	3	NA
10-Jan-19	China inflation rate y/y (Dec)	2.2%	0.3%
11-Jan-19	Australia retail sales m/m (Nov)	0.0%	0.4%
12-Jan-19	US core inflation rate m/m (Dec)	0.2%	0.2%

Source: Bloomberg, UBS Global Research, Tradingeconomics.com

What to watch this week



Australia

The domestic equity market ended 2018 in negative territory, with the S&P/ASX 200 total return index returning -2.8% over the year. This contrasts the small gain posted by unhedged international equities, with the MSCI World ex Australia net return index delivering 1.5% in AUD terms. We have witnessed a volatile start to 2019, with 2 sharp sell-offs split by a solid gain in the three trading days so far – suggesting that the late 2018 market gyrations will be an ongoing theme.

Weaker data in China proved to be a negative backdrop for Australian equities last week. Manufacturing PMIs slipped below 50 in December, indicating contractionary conditions and reinforcing the impression that Chinese growth slowed in to year end. The Australian dollar came under downward pressure as a result.

This week sees trade data, building permits, business and consumer confidence and retail sales numbers released in Australia.



US

US equity markets moved lower in 2018, with the S&P 500 net return index down 4.4% in USD terms. The moderating impact of a weaker Australian dollar however meant the Index delivered positive returns of around 6% on an unhedged AUD basis. The new year got off to a negative start, with weaker data in both the US and China dampening sentiment, although once again, Australian dollar weakness moderated the moves for Australian investors.

Last week we learned manufacturing PMI data moved sharply lower in December, spurring fears of an economic slowdown in the US. Later in the week, employment numbers were strong and average hourly earnings jumped 0.4% in December.

Looking ahead, trade tensions will likely be a key theme once again this year with further discussions scheduled in Beijing this week and the 90-day truce due to expire on 1 March. Inflation numbers are the data highlight this week.



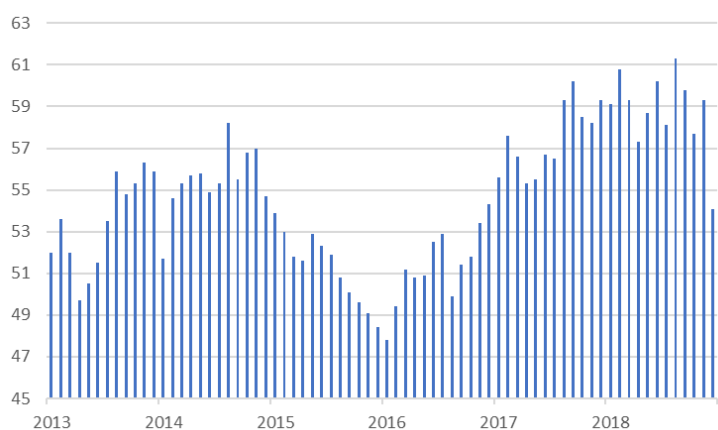
Europe

European equity markets were a relative underperformer in 2019 as a number of separate events contributed to lacklustre performance. The Eurostoxx 600 net return index finished down 12.7% in local currency terms although as with other international markets, currency moves improved returns for unhedged Australian investors.

As we enter the new year it is now less than three months until Britain is due to leave the EU. With a vote on the proposed agreement in the UK parliament delayed in December, the next crucial event is next week, when the rescheduled vote will take place. Should Theresa May fail to gain the required support for the deal there is limited time remaining for further negotiation and uncertainty will increase as the Brexit date approaches.

Retail sales data, business confidence and labour market data are the highlights in Europe this week. In the UK, industrial production and monthly GDP data are released.

Chart of the week—US ISM Manufacturing Index



In the US the ISM Manufacturing Index was released last week, recording its lowest reading since 2016 in December. At 54.1 it is well below the November level of 59.3 and also significantly lower than consensus expectations of 56.5.

The slowdown in factory activity should not come as a surprise given the potential for tariffs to disrupt supply chains but the magnitude of the drop and the fact that this index had previously been holding up extremely well are concerning. Falling oil prices, which dampen investment in the energy sector would also likely be having a negative impact.

The index is still in positive territory (above 50), indicating growth, but such a sharp decline after a period of strength is concerning and warrants scrutiny in the months ahead.

Source: Bloomberg

Financial market movements

INDICATOR	AS AT 04-JAN-19	1 WEEK CHANGE	1 YEAR CHANGE	3 YEAR CHANGE (ANNUALISED)	5 YEAR CHANGE (ANNUALISED)
EQUITIES		%	%	%	%
S&P/ASX 200 Index	58,428.90	0.62	-4.21	8.50	5.67
US S&P 500 Index	5,035.45	1.79	-5.87	11.47	8.84
Europe STOXX 600 Index	652.92	3.72	-14.09	3.17	3.52
UK FTSE 100 Index	6,047.71	3.85	-7.69	9.03	4.19
Japan TOPIX Index	2,077.85	-1.01	-20.30	2.15	4.60
MSCI World ex-Australia Index	4,176.97	1.92	-8.93	8.32	6.35
FIXED INCOME	%	BP	BP	BP	BP
Australian 90-day bank bill yield	1.93	-0.05	0.18	-0.02	-0.10
Australian 10-year bond yield	2.30	-0.02	-0.34	-0.14	-0.41
US 90-day bank bill yield	2.37	0.00	1.04	0.72	0.46
US 10-year bond yield	2.67	-0.05	0.22	0.14	-0.07
UK 10-year bond yield	1.28	0.01	0.04	-0.20	-0.35
German 10-year bond yield	0.21	-0.03	-0.23	-0.12	-0.35
COMMODITIES		%	%	%	%
Gold	1,286.05	0.42	-2.79	6.17	0.78
Oil—West Texas Crude	47.96	7.51	-22.66	9.27	-12.58
Iron Ore Spot Price Index	71.66	1.72	-2.42	18.20	-11.86
CURRENCIES		%	%	%	%
AUD:USD	0.71	0.96	-9.25	0.50	-4.43
EUR:USD	1.14	-0.60	-4.75	1.40	-3.49
GBP:USD	1.27	-0.22	-6.21	-4.52	-4.95
USD:JPY	108.51	-1.08	-4.05	-2.67	0.74
NZD:USD	0.67	0.37	-6.02	0.59	-4.03
CHF:USD	1.01	-0.53	-0.98	0.21	-1.63
AUD:EUR	0.62	1.58	-4.70	-0.89	-0.97
AUD:GBP	0.56	1.18	-3.24	5.25	0.54
AUD:JPY	77.22	-0.11	-12.93	-2.18	-3.73

*BP = Basis Point, Source: Bloomberg

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