

WEEKLY MARKET UPDATE / OVERVIEW FOR THE WEEK STARTING 14 JANUARY 2019

Major upcoming global economic releases and events

DATE	DATA/EVENT	PREVIOUS	CONSENSUS
14-Jan-19	China balance of trade (Dec)	\$44.7b	\$51.5b
14-Jan-19	Europe industrial production y/y (Nov)	1.2%	-2.1%
16-Jan-19	UK core inflation rate y/y (Dec)	1.8%	1.8%
16-Jan-19	US retail sales m/m (Dec)	0.2%	0.2%
17-Jan-19	Australia home loans m/m (Nov)	2.2%	-1.5%
17-Jan-19	Australia consumer confidence (Jan)	0.1%	NA
18-Jan-19	UK retail sales y/y (Dec)	3.6%	3.5%
18-Jan-19	US industrial production m/m (Dec)	0.6%	0.2%

Source: Bloomberg, UBS Global Research, Tradingeconomics.com

What to watch this week



Australia

Domestic equity markets performed well last week, positing a strong rebound after a shaky start to the year. Data for November was mixed. A weaker than expected trade balance was followed by an extremely weak building approvals number before retail sales surprised to the upside, likely driven by one off sales events in November. With concerns that house price falls may spill over to impact consumer activity, the December retail sales numbers will be extremely important.

Given significant house price declines in 2018 the spotlight will be on housing market metrics in the early part of this year. While the regulator and the RBA appear comfortable with the orderly decline to date, it is very hard to predict the likely duration and magnitude of the eventual move, as well as the possible spill over effects to the broader economy. Home loan data as well as consumer confidence data will therefore be important in the week ahead to help gauge both the housing market and outlook for consumption.



US

US markets set the tone globally last week, with equity markets rising sharply on the back of strong labour market data (prior week) and a more dovish tone from the Fed. Positive early signs from the US-China trade negotiations also buoyed investor sentiment. Data itself was sparse in the US last week, with core inflation matching expectations at 2.2% over the year.

The minutes from the December Fed meeting were released last week, with the dovish tone underplayed at the time of the meeting more evident in the minutes. It is clear that the Fed are prepared to be patient when considering further rate hikes, with additional moves now likely to be data dependent. Comments by Fed Chair Powell show that confidence in the underlying health of the US economy remains strong.

This week, the data schedule in the US is impacted by the government shut down, with the publication of several series impacted by postponements.



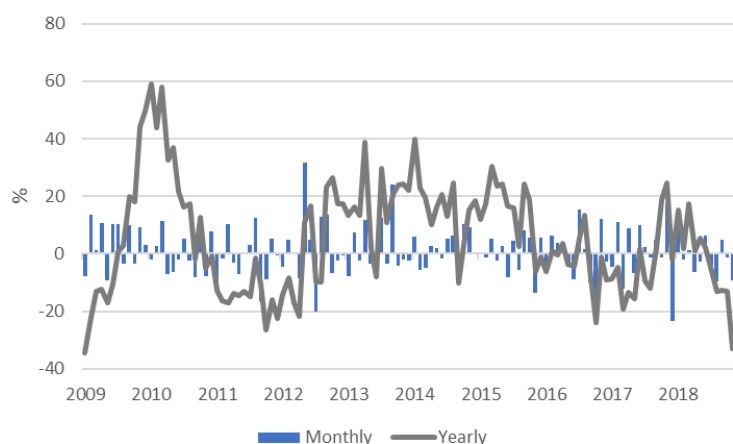
Europe

Data was mixed in Europe last week. Retail sales was stronger than expected in November, as was labour market data, where the unemployment rate dipped from 8% to 7.9%. Sentiment data was weak however, likely as a result of trade concerns and ongoing Brexit uncertainty. In the UK, industrial production was weaker than expected while the monthly GDP series outperformed.

We expect further Brexit developments this week as Theresa May seeks Parliamentary approval for the proposed separation agreement. Should Tuesday's vote fail, which is seen as the most likely outcome, then May has been given a short three-day time frame to present her preferred "plan B" option. The prospect of Brexit being delayed beyond the 29 March deadline is becoming increasingly likely.

In the week ahead, industrial production is the highlight in a quiet week for Europe while inflation and retail sales data are both set for release in the UK.

Chart of the week—Australian building approvals



Residential building approvals fell sharply in November, the 9.1% drop exceeding expectations of a modest 0.5% decline. Over the year, approvals now sit almost 33% lower, although this number is skewed somewhat by the removal of the extremely strong November 2017 data point from the dataset.

This is a volatile data series, with multi-dwelling approvals driving significant volatility in the overall numbers. That being said, the overall trend is very clearly downward, which is no great surprise given we have experienced a strong construction boom in recent years.

Looking ahead the RBA will be keen to see this series stabilise and will be keeping an eye out for signs that tighter credit conditions are limiting construction activity.

Source: Bloomberg

Financial market movements

INDICATOR	AS AT 11-JAN-19	1 WEEK CHANGE	1 YEAR CHANGE	3 YEAR CHANGE (ANNUALISED)	5 YEAR CHANGE (ANNUALISED)
EQUITIES		%	%	%	%
S&P/ASX 200 Index	60,042.94	2.76	-0.71	10.24	6.67
US S&P 500 Index	5,165.15	2.58	-4.98	12.83	9.37
Europe STOXX 600 Index	662.87	1.52	-13.13	4.36	3.69
UK FTSE 100 Index	6,119.15	1.18	-7.25	9.68	4.40
Japan TOPIX Index	2,160.57	3.98	-16.94	4.74	5.65
MSCI World ex-Australia Index	4,286.80	2.63	-7.52	9.82	6.88
FIXED INCOME	%	BP	BP	BP	BP
Australian 90-day bank bill yield	1.93	-	0.15	-0.03	-0.10
Australian 10-year bond yield	2.30	0.03	-0.46	-0.13	-0.38
US 90-day bank bill yield	2.38	0.02	1.01	0.71	0.47
US 10-year bond yield	2.70	0.03	0.16	0.17	-0.03
UK 10-year bond yield	1.29	0.01	-0.02	-0.16	-0.32
German 10-year bond yield	0.24	0.03	-0.34	-0.10	-0.32
COMMODITIES		%	%	%	%
Gold	1,290.25	0.33	-2.43	5.65	0.66
Oil—West Texas Crude	51.59	7.57	-19.14	17.99	-11.06
Iron Ore Spot Price Index	72.65	2.93	-2.68	19.47	-11.52
CURRENCIES		%	%	%	%
AUD:USD	0.72	0.88	-9.47	1.07	-4.27
EUR:USD	1.15	-0.10	-6.54	1.80	-3.47
GBP:USD	1.29	0.59	-6.81	-3.75	-4.80
USD:JPY	108.52	-0.18	-1.83	-2.77	0.81
NZD:USD	0.68	1.02	-6.52	1.77	-4.03
CHF:USD	1.02	-0.48	-2.17	0.70	-1.72
AUD:EUR	0.63	1.00	-3.14	-0.72	-0.82
AUD:GBP	0.56	0.29	-2.86	5.00	0.57
AUD:JPY	78.25	0.70	-11.13	-1.73	-3.49

*BP = Basis Point, Source: Bloomberg

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