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Global Economic News – 13th November 2018

In the UK, this morning we received employment and wage growth data which showed that unemployment rose by 21,000 to 1.38 million in three months to September, according to the Office of National Statistics (ONS). The UK employment rate rose to 4.1% from 4%. On the wage growth side, UK earnings excluding bonuses grew by 3.2% in the three months to September, compared with a year earlier. Including bonuses, earnings grew by 3%.

The labour market is little changed on the previous three months, though still stronger than it was at this time last year. With faster wage growth and more subdued inflation, real earnings have picked up noticeably in the last few months. However, real wage growth is below the level seen in 2015, and real wages have not yet returned to their 2008 levels. The recent uptick in British nationals in work and the decline in workers from the so-called 'A8' eastern European countries both seem to be accelerating.

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In Europe, the row over Italy's budget plans is rumbling on. Italy has until today to design a new budget to meet Brussels' demands for less spending. We will be closely watching this as people underestimate the size of the economy.

The Bank of France has forecast that the French economy will grow by 0.4% in the fourth quarter of the year, which is the same rate seen in the third quarter. It also means the eurozone's second-largest economy is unlikely to meet the 1.7% growth rate for the full year that the French government has forecast. Economists say the economy would have to grow by 0.8% in the final quarter to hit that target.

Eurozone industrial production figures for September showed that disruptions in the auto industry are still causing a lot of volatility in national output numbers. As such, economists expect this week's eurozone industrial production data to be quite weak, but leading indicators suggest an improvement in Q4. Of more concern is the persistent weakness in retail trade and the slowdown in services activity.

European Central Bank (ECB) president Mario Draghi acknowledged that risks stemming from trade tensions and financial markets are rising. While the ECB still formally considers risks to be "balanced", a further deterioration in economic conditions may force a shift in tone at its next meeting in December. Even though the ECB still looks set to end QE purchases by the end of the year, it could explore alternative measures to support the economy next year, such as a new round of loans to financial institutions.

In the US, the economy is still going strong. Real GDP growth is trending around 3% year-on-year, supported by fundamentals and strong overall resilience in the economy. Despite fears of a policy induced economic slowdown in the coming quarters, the slowdown doesn't represent conditions for a recession. Factoring policy risks, economists' models show that the recession odds are around 20% for 2019 and 35% for 2020.

Last week we got PPI data for the month of October and the headline producer prices jumped 0.6% in October as healthier wholesaler and retailer margins drove about half of the headline gain. This is further evidence that firms are exercising pricing power, where possible, adding some upside risk to inflation. Core PPI inflation eased to a still-elevated 2.8% year over year this month. Moving forward, consumer price inflation is likely to remain well-anchored around the Fed's 2% target, supporting a fourth-rate hike in December and three more in 2019.

Barometers

The Barometers below look at some of the data we review on a day by day basis and by having these detailed, it gives you some insight into what is happening.

US Earnings are important because if the US starts to slow down, then so does the rest of the world.

For Q3 2018 (with 90% of the companies in the S&P 500 reporting actual results for the quarter), 8% of S&P 500 companies have reported a positive EPS surprise and 61% have reported a positive sales surprise. For Q3 2018, the blended earnings growth rate for the S&P 500 is 25.2%. If 25.2% is the actual growth rate for the quarter, it will mark the highest earnings growth since Q3 2010. For Q4 2018, 58 S&P 500 companies have issued negative EPS guidance and 25 S&P 500 companies have issued positive EPS guidance. The forward 12-month P/E ratio for the S&P 500 is 16.0. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.5).

Money Flows;

By calculating money flows, we can analyse investors' perceptions on the markets and quantify whether they were positive or negative. A positive money flow is when a stock is purchased at a higher price, or an uptick and vice versa. This indication will give us a sign as to where we are on the economic cycle and the current sensitivity as we edge closer to the top. To be able to quantify this, we have looked at the Money Flow Index (MFI) which is a momentum indicator that measures the strength of money entering or leaving a market. The MFI adds volume to the Relative Strength Index (RSI) and is also commonly referred to as the volume-weighted RSI. An MFI of over 80 suggests that the security in question is overbought and under 20 indicates that it is oversold (over the past week).

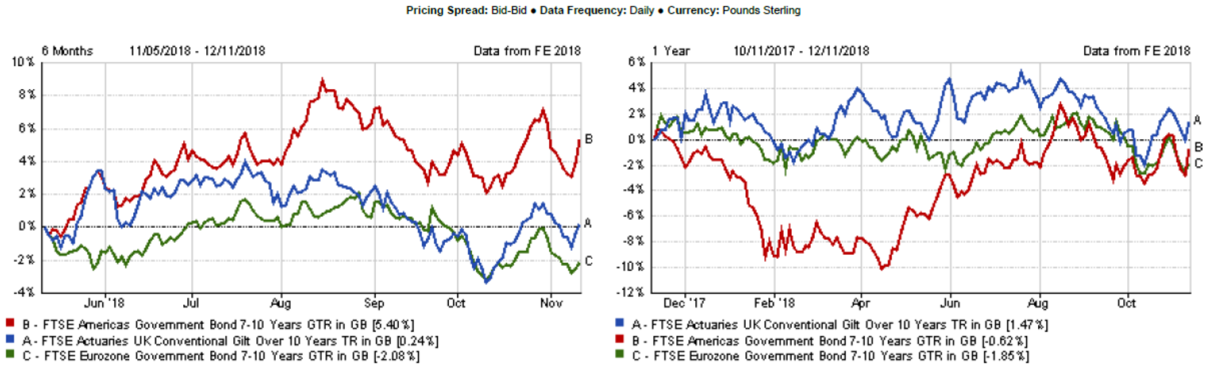
Last week we had a strong flow in money flows into the markets, however this week we have noticed a slowdown in money flows and its most likely that next week we will see a slowdown across the board. The rate of change tends to slowdown at this time of the economic cycle, however we will continue to watch the current phase and highlight any imminent issues in relation to market changes and risks.

MFI.FTSE	FTSE 100	=	56.797	Previously 63.943 (Slowdown)
MFI.INX	S&P 500	=	55.778	Previously 43.107 (Increase)
MFI.STOXX	Euro STOXX 600	=	47.645	Previously 32.769 (Increase)

UK & Non-UK Gilt Yields;

UK and Non-UK Government Debt are a good measure, as they indicate whether we expect the economy to improve or worsen, with rising yields reflecting positive environment and reflecting positive interest rate movements as we look out. The opposite with lowering yields as the expectation is worsening economic conditions.

Over the last week, bond yields have been slightly dropping with corresponding valuations increasing in the UK, US and Europe. Despite the drop-in yields, we are in an environment where yields are rising which is adding a direct pressure on equities, which at this juncture are being tested. Volatility remains high in these assets which should not be functioning like this. This is a further example of why we are still not directionally investing into these assets.



GBP to USD/Euro/JPY;

We monitor the GBP rate to see how much of the returns are coming from underlying equity valuation increases and movements in the currency, to see if we should be locking in the gains and hedging the risks. The 12-month expected range we have set below for sterling across the US Dollar, Euro and Japanese Yen is given the current economic climate and it is to reflect a more positive stance on Sterling in the near short term. Despite Brexit, the UK economy is quite resilient in showing optimism. It is inevitable that over the long term, as Brexit matures, Sterling will be more volatile and unpredictable, therefore it could potentially weaken further as the negotiations mature.

Sterling has not really been moved by the latest wage and jobs data which was released this morning. Sterling was already trading higher before the ONS figures were released. The Pound has been under pressure for a while now, especially over this month and it has staged a small recovery against the Dollar, but it was down yesterday (Monday) after investors took fright about uncertainty over a Brexit Deal. Late night talks in Brussels ended with what reports show an “optimism on both sides”, even though no final Brexit deal has been agreed.

GBP / USD	–	Range 1.40 – 1.22	–	Today at 1.2881
GBP / EUR	–	Range 1.20 – 1.06	–	Today at 1.1466
GBP / JPY	–	Range 155 – 130	–	Today at 146.947
DXY (Spot USD)			–	Today at 97.073

Oil Price;

We monitor the oil price as it is a strong indicator of global consumption when balancing the output and inventory data. Strong supply and usage denotes a strong global economy. Opposite reflects underlying weaknesses.

The price of oil over the past week has been dropping sharply and has been since the start of October. Brent Crude is currently trading at $68.53 and $58.48 for WTI Crude, down approx. -6%% for Brent and -6.5% for WTI. Why has the oil price been dropping so much recently? Well it's the global geo-political landscape, as well as also comments from world leaders. The recent fall has been deepened after the US President Trump's tweet that he hoped there would be no oil output reduction, after Saudi Arabia said on Sunday that OPEC was considering cutting Supply next year due to softening demand.

Gold Price;

Gold is a safe haven and a spike in price can be an indicator of increasing underlying economic concerns and as always, the opposite.

Over the past week, we have seen the price of gold drop approximately by $36 a troy ounce to $1,198.08 a troy ounce. The price of gold has been a very interesting story and with the recent market correction, all asset classes have been dropping as investors have been taking risk off the table. We will continue to watch this space and highlight when investors look back at safe haven assets.

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