Global Economic News – 07th November 2018

Being the start of the month, we have received Purchaser Manager Index (PMI) numbers which indicate the overall health of the economy. Any number above 50 indicates growth and conversely any number below 50 indicates a contraction.

In the UK, last week Thursday the Bank of England's Monetary Policy Committee (MPC) voted to keep interest rates where they are. It is anticipated that the MPC may have left rates on hold based on how Brexit will unfold and how they plan to increase rates after we leave the European Union. Based on the fiscal loosening announced in the Autumn Budget, it is now expected that interest rates will rise three times in 2019 (rather than twice) assuming a 'no deal' Brexit is avoided.

With the PMI data, we have had growth in the construction sector as the PMI data increased from 52.1 to 53.2. However, Manufacturing and Services have painted a more negative picture. The Services PMI has now slumped to a seven-month low in October, with firms reporting that the orders pipeline had weakened and that they were enduring a severe squeeze on their margins.

Coming after a similar sharp drop in manufacturing PMI, this meant that the composite PMI also slipped to its lowest level since March. This adds to the evidence that the stronger run of data in the early part of Q3 is likely to prove to be noise, with Q4 to see quarterly GDP growth expected to cool to 0.3-0.4%. despite all this, all components are still over 50 and growing which would indicate the positive sentiment, despite the slowdown in growth. this just further adds to our point that the UK is a very resilient economy, despite the pressures on Sterling and the whole economy.

In Europe, the Eurozone GDP figures released this week were a disappointment, with growth falling to its slowest pace in five years in Q3. Whilst some of the weakness looks to have been transitory, owing to industry disruptions in Germany, initial leading indicators for Q4 do not bode well for a strong rebound in the final part of the year.

The standoff between Italy and the EU over the 2019 Italian budget continues. Although the EU officially requested Italy to submit a revised budget, it has limited power to enforce actual changes. But a rapidly slowing Italian economy and higher government bond yields could ultimately force Rome to temper its spending plans. For now, Economists don't see any signs of Italy-related tensions slowing down.

With the Sentix index, which rates the relative six months economic outlook for the eurozone, has now dropped to a two year low this month. Although the survey is more volatile than other sentiment measures, and more closely linked to developments in financial markets, the Sentix tends to set the tone of other surveys as it is the most liked sentiment indicator amongst economists. November could therefore be another gloomy month for the bloc.

In the US, keeping away from the midterms in this section and focusing more on the economic data, the PMI numbers continue to remain very strong. The economy also continues to create new and more jobs, which is again what the Trump administration prides itself over.

The ISM Non-Manufacturing PMI index for the United States fell to 60.3 in October of 2018 from 61.6 in September, beating market expectations of 59.3. Production, new orders and employment slowed although general growth in the services sector remained strong. There are continued concerns about capacity, logistics and tariffs although the respondents are positive about current business conditions.

The IHS Markit Composite PMI for the US was revised slightly higher to 54.9 in October of 2018 from a preliminary reading of 54.8 and higher than 53.9 in September.

The IHS Markit US Services PMI came in at 54.8 in October 2018, almost unchanged from a preliminary reading of 54.7 and above the previous month's eight-month low of 53.5. Output growth regained momentum after September's weather-related weakness driven by a sharp expansion in new business amid more favourable demand conditions and new product launches.

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 74% of the companies in the S&P 500 reporting actual results for the quarter), 78% 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 24.9%. If 24.9% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010. For Q4 2018, 46 S&P 500 companies have issued negative EPS guidance and 24 S&P 500 companies have issued positive EPS guidance. The forward 12-month P/E ratio for the S&P 500 is 15.6. 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).

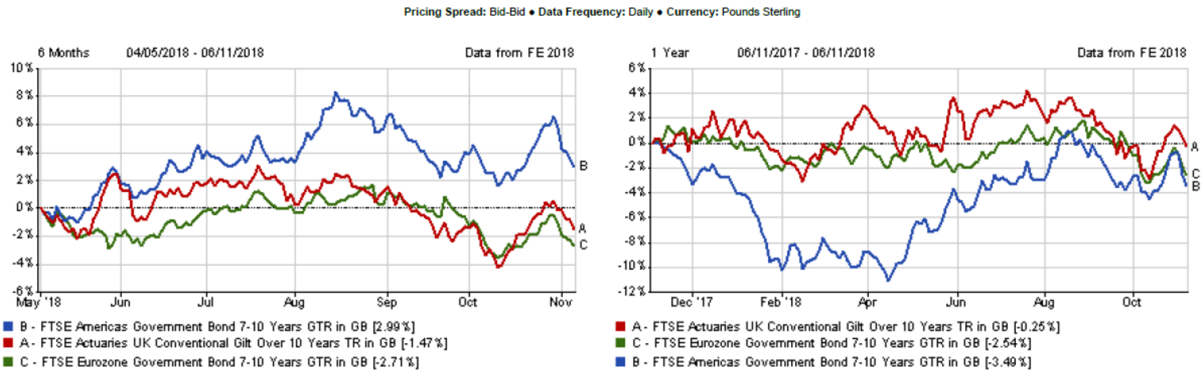
Based on the current economic cycle and the positive sentiment in the markets, the money flows into the markets have been positive over the past week as traders and market makers are buying back into the markets following negative sentiment driven by the October correction which depressed high valuations.

MFI.FTSE	FTSE 100	=	63.943	Previously 53.209 (Increase)
MFI.INX	S&P 500	=	43.107	Previously 40.686 (Increase)
MFI.STOXX	Euro STOXX 600	=	32.769	Previously 22.457 (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 increasing with corresponding valuations decreasing for the UK, US and Europe. We are in an environment now where yields are rising which is adding pressure on equities. 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 over the past week has appeared to be strengthening over the USD, however this is purely due to a weakening USD. Sterling has been fairly stable if we look at it on a spot basis (against all other major currencies). The slight increases this month in Sterling, has been purely over the growing optimism of a Brexit agreement, but sterling traders are forgetting the big risk of getting the deal through parliament. Based on how sensitive the matter is, we could continue to see a fall in the pound and remain within our ranges below. Sterling is currently very correlated to Brexit and any positive news keeps sterling higher, however it appears that traders are forgetting the issue over passing the deal through parliament.

GBP / USD	–	Range 1.40 – 1.22	–	Today at 1.3156
GBP / EUR	–	Range 1.20 – 1.06	–	Today at 1.1451
GBP / JPY	–	Range 155 – 130	–	Today at 148.771
DXY (Spot USD)			–	Today at 95.242

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. Brent Crude is currently trading at $72.88 and $62.58 for WTI Crude, down approx. -4.8% for Brent and -6% for WTI. Oil has been a very interesting picture over the past week, and despite the drop cooling off most of this week, the losses were mostly generated last week as Donald Trump was talking about imposing sanctions on Iran and said he doesn't want to drive the price up of oil.

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 increase approximately by $20 a troy ounce to $1,234 a troy ounce. We could continue to see the price of gold increase as the risks and volatility increase in the financial markets.

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