

Weekly Macro & Markets View

Highlights and View

- **Strong home builder sentiment and rise in building permits signal rebound in the US housing market**

While other parts of the economy, particularly the manufacturing sector, are reeling, the housing market provides crucial support to the economy.

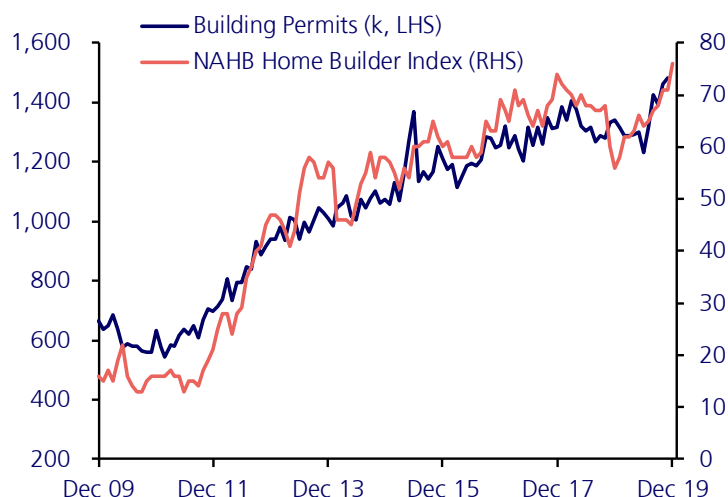
- **The UK House of Commons passes the withdrawal agreement bill with a clear majority**

The UK remains on course to leave the EU at the end of January while the latest business surveys point to further economic headwinds entering the new year.

- **German ifo business survey rises to a six-month high in December**

The improvement in German business confidence, especially in the manufacturing sector, is an encouraging development, but is coming from a low base with economic conditions overall still weak.

US home builder sentiment reaches a two-decade high



Source: Bloomberg

While the US stock market rushes from record to record the economy is sending mixed signals, as discussed in detail in our global [Outlook 2020](#). The housing market is showing a healthy rebound with building permits rising to the highest level since May 2007 in November, and housing starts are ticking up as well. The NAHB home builders' survey reaching a two-decade high in December indicates that the housing market strength is likely to last into the new year. On the other hand, a number of regional manufacturing indicators are pointing to further headwinds for the manufacturing sector. So far, the spillover to the service sector remains limited, however. The latest Markit Composite PMI ticked up slightly to 52.2, indicating stable but below-trend annualised growth of around 1.5% in the fourth quarter. While employment growth in the manufacturing sector slowed, services companies increased hiring to serve greater client demand. As expected, initial jobless claims fell back from their holiday-distorted two-year high, though less than expected. Meanwhile, continuing claims have risen in December but remain at historically low levels. Helped by the healthy employment situation, both personal income and spending rose in November, confirming that consumers remain the backbone of the economy and continue to drive growth while other sectors remain a drag.

Equities: Festive spirits see stocks hit record highs

Equity markets continued their drive higher last week, with many hitting record levels. A number of factors were at work, with the UK election outcome and the tentative Phase 1 trade agreement between the US and China removing uncertainty and fuelling the festive spirit. UK stocks led the charge, up over 3% in local currency, though sterling weakened appreciably as the newly empowered government proposed a hard deadline to the transition agreement with the EU. We maintain that sterling needs to stabilise and start to appreciate before confidence in a

longer-term rally can build. Another previously unloved region was also back in favour, with the MSCI Emerging Markets Index pushing higher, now up over 6% in December, having lagged through most of the year. Certainly the 'Santa Rally' appears to be in full swing, in marked contrast to last year, and we suspect momentum can last into the start of the New Year. However, recent moves seem overly optimistic and we caution that once momentum starts to fade and the reality of a difficult 2020 bites, downside lies ahead.

Eurozone: PMIs disappoint, but ifo and French national business confidence move higher

Although the Flash PMIs released last week for the Eurozone were weaker than expected, other national business confidence surveys, in particular the German ifo survey and French national business confidence rose in December. The overall December Eurozone Composite PMI was unchanged from November at 50.6, with service sector confidence improving, but disappointingly manufacturing confidence falling back after two consecutive months of increase. Overall, the Composite PMI is consistent with positive but weak growth in the Eurozone. However,

the German ifo survey rose to a six-month high in December, with an improvement in both current conditions and the expectations component, including in the manufacturing expectations component. This suggests that overall stabilisation in manufacturing conditions in the Eurozone, albeit at weak levels, is continuing.

UK: The House of Commons passes the withdrawal agreement

As expected, the House of Commons passed the government's withdrawal agreement bill last Friday with a clear majority of 358 to 234, setting the UK on course to leave the EU at the end of January. While this removes near-term uncertainty, PM Johnson's insistence that the transition period not be extended at the end of 2020 reintroduces unpredictability. Sterling more than erased post-election gains. Business activity remains on a downtrend with both Markit's Manufacturing and Services PMIs weakening, pushing the Composite Index to a post-referendum low of 48.5. On a

more positive note, consumer confidence has ticked up in December, helped by a healthy labour market. Although wage growth slowed slightly in October, the unemployment rate remains at a very low 3.8% while employment has ticked up on a three-month rolling basis. Despite the solid environment retail sales fell 0.6% MoM in November, the weakest month so far this year, following an already negative October.

Australia: Despite some green shoots, underlying activity remains lacklustre

Australian employment growth recovered after a steep fall in October, driving the unemployment rate down from 5.3% to 5.2%. The quality of jobs added was somewhat underwhelming as 36k out of 40k new jobs were indeed part-time. Some leading indicators, including the number of job advertisements and job vacancies, remain weak, implying that the ease in unemployment might be short-lived. Meanwhile, the upward trend in home loans extended with owner-occupiers driving the rise. Home loans have accumulatively

increased by 15% in the last five months, parallel with an upswing in house prices on the back of lower interest rates and looser lending standards. While the positive momentum in the housing market might run for a bit longer, we maintain our view that subdued wage growth and high household debt will cap the further upside in home prices. Meanwhile, the Flash Manufacturing PMI fell from 49.9 to 49.4, hinting at a further contraction in manufacturing activity going forward.

Bonds: Global bond yields rise as an escalation in the US-China trade war is avoided

Global bond yields rose further last week, consistent with the risk-on move in broader financial markets and spurred by the US-China trade deal. The 10yr Treasury yield ended the week at 1.92%, after having risen above 1.95% intraday on Thursday. This was almost the highest level since July, when the escalating US-China trade war led to a collapse in global yields. In Japan, the 10yr yield rose above zero for the first time since March, likely helped by the government's stimulus package. As was widely expected, the Swedish Riksbank hiked rates to zero and

is therefore the first central bank to exit negative policy rates. We do not believe that this marks the beginning of a new trend, however, with rates set to remain deeply negative for the foreseeable future in both the Eurozone and Switzerland, which should anchor yields at a low level. Indeed, it appears that a lot of good news is now priced into financial markets and, with a fragile global economy and disruptive politics, the potential for yields to rise materially from here near term appears to be limited.

What to Watch

- It will be business as usual in Japan this week, with the New Year holiday season starting on Tuesday next week and lasting until Sunday January 6. The most important data for November and Tokyo's CPI for December will be reported on Thursday and Friday. In Asia ex Japan industrial production data for November will be reported in Taiwan, South Korea, Thailand and Singapore, in addition to South Korea's export data for the first 20 days in December. The last economic data points reported in Asia for this decade will be China's NBS PMIs for December.
- *We wish all our readers a happy festive season and all the best for 2020!*

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