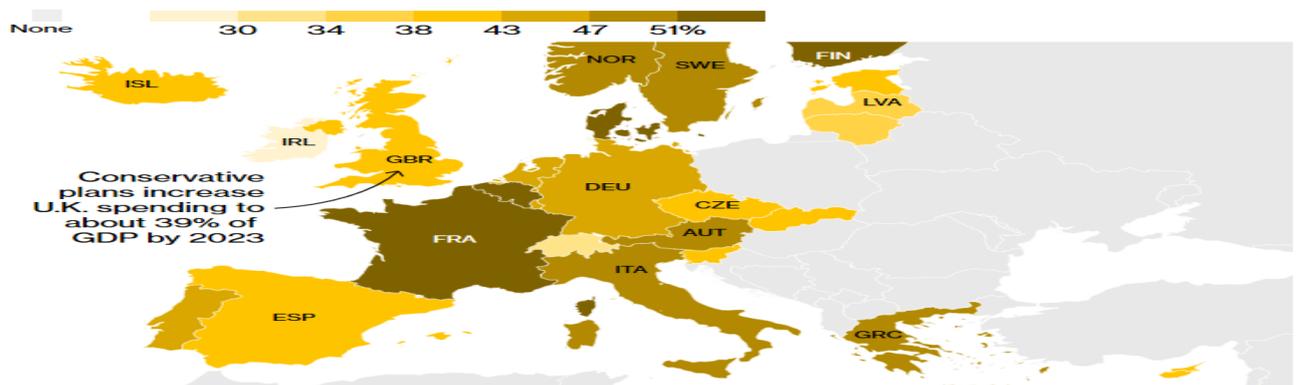


In this week, the MSCI all countries **world** equity index posted historic high (19/12: 561.1), along with the S&P 500 index (19/12: 3,205.5) in the **US** and the Stoxx 600 index (16/12: 418.5) in **Europe**. The MSCI **emerging** index increased at a high (1,109.6) since June 2018. **EUR/USD** dropped around the support area of \$1.1100 (19/12: \$1.1107), after recently briefly testing the key resistance area of \$1.1200 (13/12: \$1.1199).

On the economic data front, **Eurozone** PMI manufacturing index dropped in December at a low (45.9) since September, indicating contraction of the sector, while the services PMI increased at 52.4, indicating expansion of the sector. **UK** PMI manufacturing index was in December at a low (47.4) since August 2019 and the services PMI dropped at a low (49) since March, both indicating contraction of the respective sectors. UK new government has started (19/12) announcing its policies, further details expected from today (20/12). UK gross government spending as percentage of GDP is expected to be modest (slightly below 40%) compared to the EU average (46% of GDP). France has the highest government spending at 56% of GDP, while Ireland the lowest at 26%.

U.K. public spending will remain modest by European standards



Source: Institute for Fiscal Studies
 Note: Graphic shows spending as a share of GDP

The Bank of **England** continues its accommodative policy by keeping the base rate at 0.75%. Andrew Bailey, who has served in the Bank of England for 30 years, will be the next BOE Governor, succeeding M. Carney after January 2020. No major changes are expected in the monetary policy of the BOE in the short term, while the medium-term outlook will depend on the economic figures after the Brexit transition period starts (January 2020). Bank of **Japan** maintained its highly expansionary stance at the meeting of December 19.

In the **US**, the House of Representatives, where Democrats hold the majority, voted (19/12) the impeachment of US President, based on its phone discussion with the President of Ukraine on July 25. The Senate, where Republicans hold the majority, is expected to decide in January that US President will remain in office. Political landscape in the US will probably be highly polarized until the presidential elections of November 2020 and this may have implications for domestic and foreign policy in the months ahead.

The week ahead:

US durable goods orders (23/12) may have risen on monthly basis in November for the fifth month in the last six months. The ECB will publish its economic bulletin on December 27. In **Japan**, industrial production may have posted monthly decrease in November for second consecutive month.

The “search for yield” environment continues, market sentiment has been risk-on and balanced portfolios continue to benefit. Investors not currently exposed to risky assets may consider adding exposure in 2020, but this needs to be implemented in gradual way.

Quote of the Week:

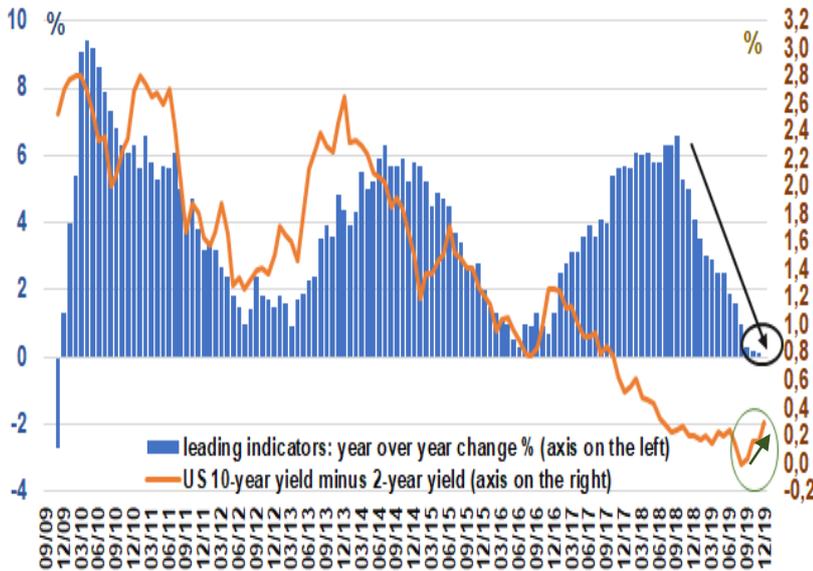
US finance minister (S. Mnuchin) said (19/12): “The phase one of US-China trade deal is currently under technical and legal review. It will be released and signed in early January.”

Global Markets in Charts

US leading indicators point to slower growth into 2020.

In contrast, market measures, such as the yield curve spread, have become more positive.

US leading indicators yearly change, US 10-2-year yield differential (monthly: 2009-2019)

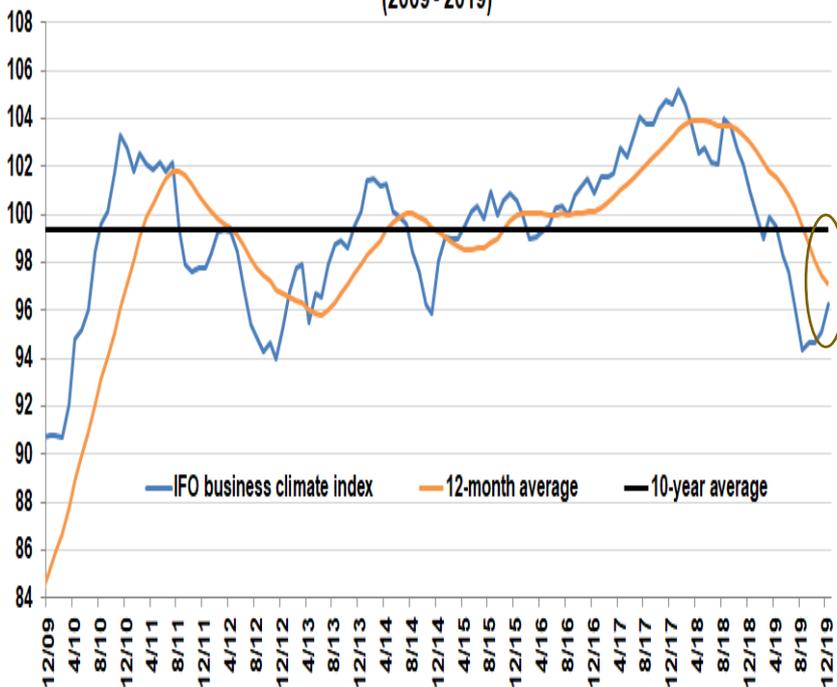


In the US, Atlanta Fed estimates (17/12) annualized quarterly GDP growth of 2.3% in the fourth quarter of 2019. Leading indicators remained unchanged on monthly basis in November, while the yearly rise of 0.1% (historic average: 2.4%) was the lowest of the last decade. The path of leading indicators suggests lower growth going into 2020.

The decision (17/12) of Boeing to halt the production of 737 Max aircraft starting from January, may subtract -0.5% from annualized US GDP change in the first quarter of 2020. Markets seem to assume that low yields will continue to “shield” risk-on sentiment against the overall lower growth path.

In Germany, the IFO business climate index increased in December by more (96.3, November: 95.1) than expected (95.5).

Germany: IFO Business climate index (2009 - 2019)



German IFO business climate index increased in December at a high (96.3) since June. This is an indication that the German economy can retain mild economic growth. It has been reflected into the widening of the difference of German 10-year (-0.23%) minus the 2-year bond yield (-0.63%) at a high since (0.40%) July.

However, it should be noted that the level of the IFO business climate index in December, remains below the 12-month average (97.1) and the 10-year average (99.4). Mild growth in Germany and Eurozone, along with low Eurozone inflation (11/19: 1%, historic average: 1.7%), justify the continuation of the bond buying programme by the ECB, at least for the full 2020.

Source: Bloomberg

Global Markets Minesweeper
Event Risk Calendar, 23 - 27 December, 2019

Monday 23/12						
Date Time	Country	Event	Period	Survey	Prior	
23/12 06:30	JN	All Industry Activity Index (MoM)	Oct	-4.30%	1.50%	
23/12 07:00	JN	Leading Index CI	Oct F		91.8	
23/12 07:00	JN	Coincident Index	Oct F		94.8	
23/12 15:30	US	Durable Goods Orders (MoM)	Nov P	1.50%	0.50%	
23/12 15:30	US	Durables Ex Transportation (MoM)	Nov P	0.20%	0.50%	
23/12 15:30	US	Chicago Fed Nat Activity Index	Nov		-0.71	
23/12 17:00	US	New Home Sales (MoM)	Nov	-0.40%	-0.70%	
Tuesday 24/12						
Date Time	Country	Event	Period	Survey	Prior	
24/12 17:00	US	Richmond Fed Manufact. Index	Dec	1	-1	
U.S. and European stock markets early close (Christmas Eve)						
Wednesday 25/12						
Date Time	Country	Event	Period	Survey	Prior	
25/12 01:50	JN	PPI Services (YoY)	Nov	2.10%	2.10%	
U.S. and European markets are closed (Christmas Day)						
Thursday 26/12						
Date Time	Country	Event	Period	Survey	Prior	
26/12 07:00	JN	Housing Starts (YoY)	Nov	-8.10%	-7.40%	
26/12 15:30	US	Initial Jobless Claims	21-Dec		234k	
European markets are closed (Christmas Holiday)						
Friday 27/12						
Date Time	Country	Event	Period	Survey	Prior	
27/12 00:00	CH	BoP Current Account Balance	3Q F		\$54.9b	
27/12 01:30	JN	Jobless Rate	Nov	2.40%	2.40%	
27/12 01:50	JN	Retail Sales (MoM)	Nov	5.00%	-14.20%	
27/12 01:50	JN	Retail Sales (YoY)	Nov	-1.40%	-7.00%	
27/12 01:50	JN	Industrial Production (MoM)	Nov P	-1.10%	-4.50%	
27/12 03:30	CH	Industrial Profits (YoY)	Nov		-9.90%	
27/12 11:00	EC	ECB Publishes Economic Bulletin				

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