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## Equity – Equity market dropped while EM outperformed

- The Fed raised the funds rate target range by 25bp to 2.25% -2.5%. Although the rate hike projection in 2019 was reduced from 3 to 2 times, market worried on the deterioration of economic growth. Global equities dropped significantly in December. S&P 500 and Nasdaq were down 9.18% and 9.48% MoM, respectively. EM equities continued to outperform DM equities. MSCI EM was only down 2.92% MoM, while HSI and HSCEI fell 2.49% and 4.68% MoM, respectively.
- December China NBS manufacturing PMI declined further to 49.4% from 50.0% in November, the lowest since March 2016, and lower than the market consensus of 49.9%. PMI data suggested that both domestic and external demand continued deteriorating, and deflationary pressure was building. PMI for employment declined 0.3ppt to 48.0%, suggesting more downward pressure on consumer spending and confidence. The biggest risks for growth & financial stability lie in further delay in policy adjustments, especially the property-related policies.

Index	Settle	Net Change (+/-%)		Valuation (2018)	
		MoM	YTD	PE	PB
DJIA	23,327.46	-8.66%	-5.63%	14.67	3.58
S&P 500	2,506.85	-9.18%	-6.24%	15.43	2.89
Nasdaq	6,635.28	-9.48%	-3.88%	19.76	3.92
Nikkei	20,014.77	-10.45%	-12.08%	14.52	1.50
FTSE100	6,728.13	-3.61%	-12.48%	11.93	1.58
CAC40	4,730.69	-5.46%	-10.95%	12.62	1.39
DAX	10,558.96	-6.20%	-18.26%	12.15	1.40
SHCOMP	2,493.90	-3.64%	-24.59%	10.28	1.14
CSI300	3,010.65	-5.11%	-25.31%	10.28	1.14
ChiNext	1,516.89	-5.14%	-31.12%	22.49	3.17
HSI	25,845.70	-2.49%	-13.61%	22.49	3.17
HSCEI	10,124.75	-4.68%	-13.53%	8.19	0.99
TWSE	9,727.41	-1.62%	-8.60%	12.66	1.58
KOSPI	2,041.04	-2.66%	-17.28%	12.66	1.58
JCI	6,194.50	2.28%	-2.54%	8.68	2.42

Source: Bloomberg

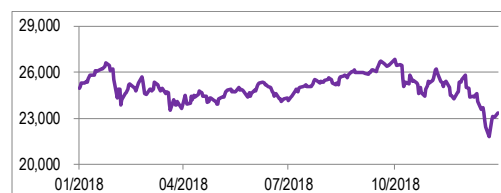


Fig. 1 One year performance of Dow Jones Index



Fig. 2 One year performance of Shanghai Composite

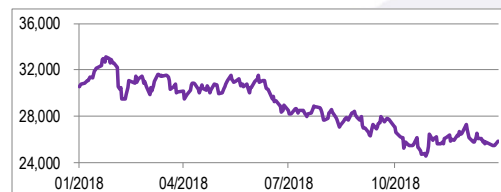


Fig. 3 One year performance of Hang Seng Index

## Fixed Income – The Fed hiked rates by 25bp but reduced rate hike projection.

- The FOMC raised the funds rate target range to 2.25% -2.5%, as widely expected. The overall meeting was a bit more dovish. The median projection for rate hikes over 2019-2020 fell to a 2-1 baseline from 3-1 in September. Government bond yields came down in December. During the month, the spread of US 2 year and 5 year bond has once to turn negative, while last time was 2006-2007. This shows a warning signal of both the concerns about a deteriorating growth outlook in US economy and almost the end of rate hike cycle.
- ECB maintained its benchmark refinancing rate at 0% on 13 December meeting. Meanwhile, ECB confirmed the end of its expanding quantitative easing (QE), €2.6 trillion bond purchase scheme, by the end of December, but it will keep reinvesting cash from maturing bonds for an extended period of time.

Bonds	High	Low	Settle	Net Change (bp)	
				MoM	YTD
US 10-yr Treasury Yield	2.97%	2.68%	2.68%	-30	28
US 30-yr Treasury Yield	3.25%	2.98%	3.01%	-28	27
Euro 10-yr Govt Yield	0.31%	0.23%	0.24%	-7	-19
Japan 10-yr Govt Yield	0.09%	0.00%	0.00%	-9	-5
China 10-yr Govt Yield	3.38%	3.27%	3.31%	-7	-59

Source: Bloomberg

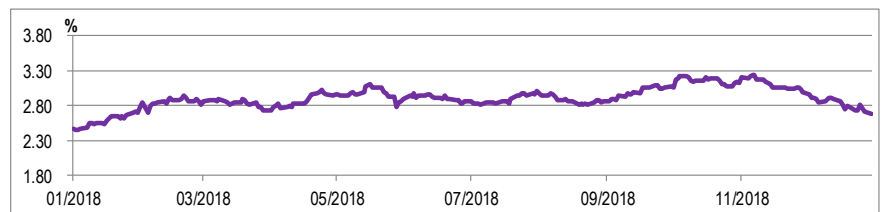


Fig. 4 One year performance of US 10-yr Treasury Yield

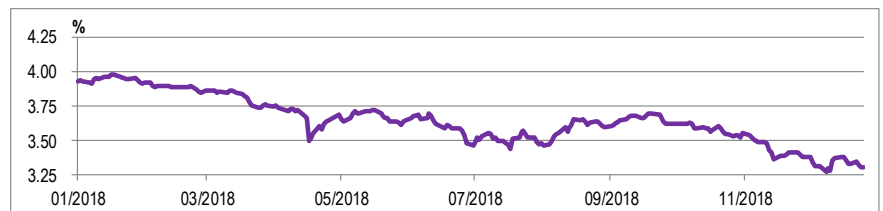


Fig. 5 One year performance of China 10-yr Treasury Yield

## Commodities – Oil dropped but gold gained support

Commodities	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
WTI Oil (bbl)	53.25	42.53	45.41	-10.84%	-24.84%
Brent Oil (bbl)	62.08	50.47	53.80	-8.36%	-19.55%
Gold Spot (oz)	1,282.45	1,230.65	1,282.45	4.90%	-1.58%
CMX Silver (oz)	15.54	14.50	15.54	9.31%	-11.57%
CMX Copper (lb)	280.95	263.10	263.10	-5.61%	-21.68%
LME Zinc (mt)	2,743.00	2,493.00	2,518.50	-5.14%	-24.54%
LME Aluminum (mt)	1,972.50	1,856.50	1,862.75	-4.83%	-17.43%

Source: Bloomberg

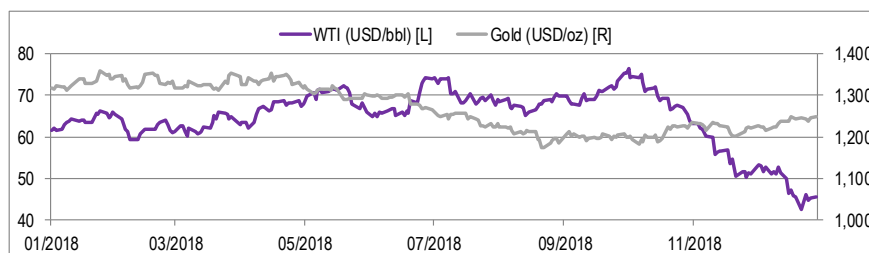


Fig. 6 One year performance of Oil and Gold Price

- OPEC+ announced a new cut in production to help rebalance the oil market on 7 December. The group agreed to a six-month supply reduction of 1.2 mb/d from October levels, with a review scheduled at OPEC's next meeting in April. This agreement provided relief to oil markets and the accompanying decline in fundamental uncertainty should further help reduce price and implied volatility levels from their recent highs. However, growth concerns and fears of a potential pushback from President Trump eventually dragged down the oil price.
- Gold's reaction function to risk sentiment has finally re-emerged in December, and a further sell-off in risk assets or the manifestation of any geopolitical risks should boost bullion prices. The rising threat of a US government shutdown and prolonged drawdowns in global equity markets have sent prices to a 6-month high at ~\$1,280/oz.

## FX – USD weakened due to lower rate hike projection

- The USD weakened in December as equity markets declined and the FX market questioned whether the Fed would continue to tighten policy. The Fed hiked rates by 25bp and reduced rate hike projection. A continued equity market sell-off made the market sceptical about future rate hikes which weighed on the USD.
- GBP continued to be driven by Brexit news and ended the month broadly unchanged against the USD. The EUR rallied 1.3% against the USD in December as the European Commission and Italy agreed on a budget plan.

FX	High	Low	Settle	Net Change (+/-%)	
				MoM	YTD
DXY	97.44	96.17	96.17	-1.13%	4.40%
EUR / USD	1.147	1.131	1.147	1.33%	-4.48%
USD / CNH	6.924	6.851	6.871	-1.14%	5.47%
USD / JPY	113.7	109.7	109.7	-3.42%	-2.66%
GBP / USD	1.278	1.249	1.275	0.04%	-5.62%
USD / CAD	1.364	1.320	1.364	2.60%	8.48%
AUD / USD	0.736	0.703	0.705	-3.52%	-9.73%
USD / CHF	0.998	0.983	0.983	-1.47%	0.91%

Source: Bloomberg

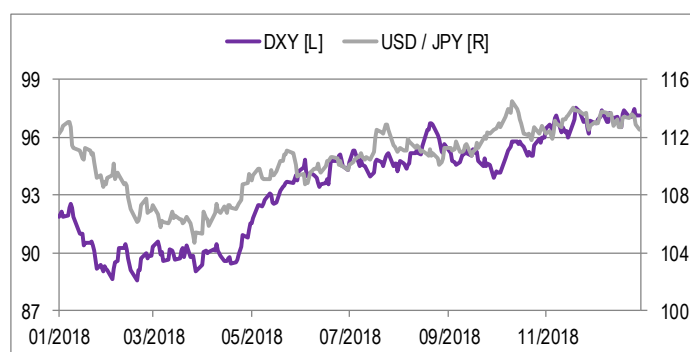


Fig. 7 One year performance of DXY and JPY

## Economic Calendar (January 2019)

Monday	Tuesday	Wednesday	Thursday	Friday
	1	2 Markit US Manufacturing PMI	3 MBA Mortgage Applications ADP Employment Change Initial Jobless Claims Construction Spending MoM ISM Manufacturing	4 Change in Nonfarm Payrolls Unemployment Rate
7 Factory Orders Durable Goods Orders	8 Trade Balance	9 MBA Mortgage Applications	10 Initial Jobless Claims Wholesale Inventories MoM	11 CPI MoM
14	15 Empire Manufacturing PPI Final Demand MoM	16 MBA Mortgage Applications Retail Sales Advance MoM	17 Housing Starts Initial Jobless Claims	18 Industrial Production MoM U. of Mich. Sentiment
21	22 Existing Home Sales	23 MBA Mortgage Applications	24 Initial Jobless Claims Markit US Manufacturing PMI Leading Index	25 Durable Goods Orders New Home Sales
28	29 Wholesale Inventories MoM Conf. Board Consumer Confidence	30 MBA Mortgage Applications ADP Employment Change GDP Annualized QoQ	31 FOMC Rate Decision Initial Jobless Claims Personal Income Personal Spending Chicago Purchasing Manager	

Source: Bloomberg