

## First trading day of 2019...

First trading day of 2019 shows the USD firming sharply, but equities mixed and bond yields dropping - at least the yield curve is steepening



### If a day were a year...

We probably can't read anything into the market action of the first trading day of the year, but it is probably no sillier than some of the other "analysis" performed on what may be mainly random walk processes. But if there were any messages in it, the first would be that the growing consensus that peak USD might be nearing could run into problems. Day 1 of 2019 saw a mixed pattern in Asia, with some winners and some losers, and no clear message emerging as to why some were up and some down.

But amongst the majors, the message was one of abject dollar strength, only the yen outperformed on the day, which won't please the BoJ, who have been doing their best to talk the currency weaker in recent weeks (unsuccessfully). The USD did particularly well against the EUR, where the ECB had to place an Italian bank under administration.

We have even seen the AUD lurch through 0.70, and we wouldn't be surprised to see it pushing lower still this year. In contrast to the BoJ, the Reserve Bank of Australia will be very relaxed about this. The NZD also weakened on the day, but not as much and AUDNZD continues to move towards parity, and we can expect more of this too in 2019.

## At least the yield curve is steepening...

Fed funds futures implied interest rates over the course of the year are actually now signaling a chance of cuts in 2019. This seems far-fetched to us, and probably a reaction to the US government shutdown. Though one spillover of this, even with a dip in longer-term bond yields yesterday, is that the US Treasury yield curve has steepened back up a bit. This could temper thoughts of a 2019 US recession, though only a little less than 50% of US CEO's now anticipate this, according to a recent survey, and more than 80% expect recession by 2019, so perhaps this won't last, even if the Fed does pause / slow / stop in 2019.

Equities were mixed across the board, with Asia largely down, and the US markets eeking out some modest gains after early falls on weak guidance from the tech sector. This could also be a theme for the year ahead - broadly directionless, though with big swings.

49.7

China: Dec Caixin Manufacturing PMI

Down from 50.2

Lower than expected

## On today's calendar...

After yesterday's mixed activity PMI data - notable standouts in Asia, fall in Vietnam - alleged to be the biggest regional winner of China-US trade dispute...doesn't seem to be playing out, and also sharp dip in China's Caixin index - as well as soft Singaporean GDP numbers for 4Q18, today is virtually a non-event. Hong Kong Retail sales and Singapore PMI are the only Asian releases of note (barely), though, in the G-10, the build-up to the first payrolls release of 2019 starts with the ADP release and manufacturing ISM.

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