

## US stocks and Treasuries gained as Fed hiked rates

**US Treasury yields fell sharply on soft core-inflation and Fed rate hike; stocks edged up**

**European equities dipped; Italian bond yields rose on concerns over early election**

**Japan stocks fell amid a strong yen; Shanghai composite closed up despite policy concerns**

### Markets

- ▶ **US equities** edged up after the Fed announced the third rate hike for 2017 while upgrading its GDP growth forecasts. House and Senate Republicans reached an agreement on the planned tax reform, paving the way for final votes next week. The S&P 500 was little changed as gains in consumer staples and industrials were offset by declines in energy and financial stocks. The Dow Jones Industrial Average closed up 0.3%, hitting fresh all-time high.
- ▶ **US Treasuries** rallied sharply (yields fell) after core-CPI inflation for November came in weaker than expected, at 1.7% (consensus at 1.8%) and extended their gains after the Fed announced its last rate hike for the year and upgraded its economic forecasts. 10-year yields dropped 6bp to 2.34%.
- ▶ **European equities** ended down on Wednesday amid subdued risk appetite as investors awaited the Fed's interest rate decision. Lower oil prices also weighed on investor sentiment. The pan-European Euro Stoxx 50 slipped 0.5%. At the country level, Germany's DAX fell 0.4% whilst Italy's FTSE MIB slid 1.4%. The UK's FTSE 100 closed flat, as gains in financial shares helped offset losses.
- ▶ Meanwhile, core **European government bond yields** were little changed yesterday. Benchmark German 10-year bund yields settled at 0.31%, whilst UK 10-year gilt yields fell only 1bp to 1.21%. The performance in the peripheral market was more mixed. Whilst Greek 10-year bond yields ended down, Italian equivalents rose (prices fell) on speculation that next year's general election could take place sooner than expected.
- ▶ **Asian equities** were mixed on Wednesday ahead of the Fed monetary policy meeting. Japanese shares dropped as the yen appreciated slightly. The Nikkei 225 closed 0.5% lower. Meanwhile, Chinese equities saw some late session

gains with the largest boost coming from industrials and financials despite lingering concerns about tighter credit policy to rein in strong credit growth. The Shanghai Composite Index finished the day up 0.7%.

- ▶ **Crude oil** prices dropped on Wednesday as the US Energy Information Administration weekly report showed a much stronger than expected increase in gasoline inventories last week, implying a weaker demand from refineries for crude in the near term. OPEC also raised its non-OPEC oil production forecasts for 2018. WTI for January ended the day down 0.9% at USD56.6 per barrel.

## Key Data Releases and Events

### Yesterday

- ▶ The **UK unemployment rate** in the three months to October was unchanged at 4.3%, missing expectations of a decline to 4.2%. Over the same period, employment dipped by 56,000, the largest drop since mid-2015. More positively, total wage growth increased by 2.5% yoy, above the recent trend rate, whilst wages excluding bonuses rose by a better than expected 2.3%. Further sustained gains in wage growth could help justify additional policy tightening by the Bank of England.
- ▶ Matching expectations, headline **US CPI** inflation rose by 0.2ppts to 2.2% yoy. This was mostly due to an acceleration in energy prices, however, with the core CPI measure falling to 1.7%, missing expectations of a hold at the previous month's 1.8% yoy.
- ▶ As widely anticipated, the Fed raised the fed funds target range by 25 bps to 1.25-1.50% at its **FOMC meeting**. The Fed also left the parameters of the balance sheet normalization program unchanged. Chicago Fed President Charles Evans and Minneapolis Fed President Neel Kashkari were dissenters. The accompanying statement, Janet Yellen's final press conference as Fed Chair, and the latest Summary of Economic Projections continued to convey an upbeat assessment of US economic activity. The GDP growth forecast for 2018-2020 were upgraded to 2.5%, 2.1% and 2.0% (2.1%, 2.0%, and 1.8% previously). This was due to the potential impact of tax reforms and other fiscal plans currently being considered. Meanwhile, core PCE inflation forecasts for 2017 and 2018 were left unchanged at 1.5% and 1.9%, respectively. Their median

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projection of interest rates (or “dot plot”) still signals three more rate hikes in 2018, two in 2019 and at least one final hike in 2020. The terminal policy rate is left unchanged at 2.75%, following a reduction of 25bps in September.

inflation is expected to decelerate in the coming year towards the central bank’s target range of 3% yoy ( $\pm 1\%$ ), the latest CPI reading (+6.63% yoy) came in just shy of the 16-year high reached in August (+6.66%).

### Releases due today (14 December 2017)

Country	Indicator	Period	Survey	Prior
China	Industrial production (yoy)	Nov	6.1%	6.2%
China	Retail sales (yoy)	Nov	10.3%	10.0%
Eurozone	Markit composite PMI	Dec P	57.2	57.5
Turkey	CBRT interest rate decision (overnight lending rate)	Dec	9.25%	9.25%
UK	Bank of England interest rate decision	Dec	0.50%	0.50%
Eurozone	ECB interest rate decision	Dec	-0.40%	-0.40%
US	Retail sales advance (mom)	Nov	0.3%	0.2%
Mexico	Banco de Mexico interest rate decision	Dec	7.25%	7.00%

P- Preliminary

- ▶ In **China**, **industrial production** growth is expected to stabilise at 6.1% yoy in November, little changed from October, as the official and Markit manufacturing PMI surveys showed contradicting trends. Moreover, stringent environmental standards have continued to be enforced, limiting production in certain heavy industries, which may have offset the strong exports observed in November. Meanwhile, **retail sales** are expected to pick up in November, from 10.0% in October to 10.3%, as October sales were dampened by the Golden Week holiday. Moreover, online sales during Singles’ Day were particularly strong. However, as the cooling property market dampens sentiment, the rebound should be muted.
- ▶ The **ECB** is expected to keep monetary policy on hold at its final policy meeting of the year. The bulk of decisions around the bank’s quantitative easing programme were communicated in October, with a commitment to extend asset purchases until at least September 2018. However, minutes from the October meeting expressed concerns that keeping the programme open-ended might generate expectations of further extensions that “did not appear justified” from the current perspective. Therefore, ECB President Mario Draghi is likely to face questions on the eventual exit from quantitative easing. Fresh ECB staff forecasts are also released at this meeting, including its first projections for inflation in 2020.
- ▶ The November **eurozone PMIs** unexpectedly surged higher, with the composite index rising to a six-and-a-half-year high of 57.5 from 56.0 in October. December’s preliminary print is likely to see a slight moderation from these elevated levels, but nevertheless should leave the average for Q4 higher than that in Q3.
- ▶ The **Bank of England** is expected to keep monetary policy on hold at its December policy meeting, having raised the Bank Rate by 25 bps last month. Although inflation remains above target, the bank’s Monetary Policy Committee is likely to maintain a cautious stance amid a recent recovery in sterling (which could help keep a lid on inflation) as well as continuing soft data releases. Brexit uncertainty also lingers, despite a breakthrough in talks on 8 December.
- ▶ The **Bank of Mexico** is forecast to raise its overnight rate by 25 bps to 7.25% – the highest rate in eight years – amid a recent peso depreciation and a pickup in inflation. While

# Market Snapshot

	Close	1-day Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
<b>Equity Indices</b>									
<b>World</b>									
MSCI AC World Index (USD)	507	0.1	2.1	4.5	18.6	20.1	507	421	17.6
<b>North America</b>									
US Dow Jones Industrial Average	24,585	0.3	4.9	11.0	23.5	24.4	24,666	19,678	19.6
US S&P 500 Index	2,663	0.0	3.0	6.6	17.2	18.9	2,672	2,234	19.9
US NASDAQ Composite Index	6,876	0.2	1.7	6.4	25.8	27.7	6,914	5,372	24.3
Canada S&P/TSX Composite Index	16,137	0.1	0.7	6.7	4.9	5.6	16,188	14,916	17.2
<b>Europe</b>									
MSCI AC Europe (USD)	479	0.0	1.9	1.1	20.0	19.8	484	390	15.7
Euro STOXX 50 Index	3,582	-0.5	0.2	1.7	10.7	8.9	3,709	3,210	15.5
UK FTSE 100 Index	7,497	-0.1	1.1	1.6	7.6	5.0	7,599	6,926	15.2
Germany DAX Index*	13,126	-0.4	0.4	4.6	16.3	14.3	13,526	11,235	14.8
France CAC-40 Index	5,399	-0.5	1.1	3.5	12.4	11.0	5,536	4,734	15.8
Spain IBEX 35 Index	10,261	-0.3	2.1	-1.1	10.0	9.7	11,184	9,207	14.4
<b>Asia Pacific</b>									
MSCI AC Asia Pacific ex Japan (USD)	555	0.7	-0.6	3.1	27.1	30.1	570	419	14.9
Japan Nikkei-225 Stock Average	22,758	-0.5	1.7	14.6	18.2	19.1	23,382	18,225	19.2
Australian Stock Exchange 200	6,022	0.1	0.0	4.8	8.6	6.3	6,052	5,510	16.5
Hong Kong Hang Seng Index	29,222	1.5	0.1	4.8	30.2	32.8	30,200	21,489	13.1
Shanghai Composite Index	3,303	0.7	-4.2	-2.4	4.7	6.4	3,450	3,017	14.6
Hang Seng China Enterprises Index	11,520	1.8	-1.4	3.0	18.5	22.6	12,101	9,117	8.6
Taiwan TAIEX Index	10,471	0.3	-2.0	-0.6	11.6	13.2	10,883	9,079	14.8
Korea KOSPI Index	2,481	0.8	-2.0	5.1	21.8	22.4	2,562	2,016	10.7
India SENSEX 30 Index	33,053	-0.5	0.1	2.7	23.8	24.1	33,866	25,754	21.6
Indonesia Jakarta Stock Price Index	6,055	0.4	0.6	3.6	14.4	14.3	6,099	5,023	17.5
Malaysia Kuala Lumpur Composite Index	1,738	0.5	0.0	-2.7	5.6	5.8	1,797	1,617	16.0
Philippines Stock Exchange PSE Index	8,360	0.3	0.4	3.8	21.5	22.2	8,605	6,499	20.4
Singapore FTSE Straits Times Index	3,469	0.1	1.5	7.4	17.4	20.4	3,469	2,858	15.9
Thailand SET Index	1,707	0.3	1.2	3.9	11.5	10.6	1,730	1,502	17.0
<b>Latam</b>									
Argentina Merval Index	27,035	-1.1	1.2	13.4	57.2	59.8	28,545	15,933	17.1
Brazil Bovespa Index*	72,914	-1.2	0.6	-2.5	23.0	21.1	78,024	56,829	13.9
Chile IPSA Index	5,135	1.9	-3.8	-0.5	20.2	23.7	5,614	4,029	19.8
Colombia COLCAP Index	1,473	0.2	2.7	-1.3	10.3	9.0	1,509	1,316	17.0
Mexico Index	48,277	1.2	0.6	-3.8	3.0	5.8	51,772	44,568	18.0
<b>EEMEA</b>									
Russia MICEX Index	2,161	-1.3	-1.6	3.8	-5.1	-4.5	2,294	1,775	7.1
South Africa JSE Index	57,524	-0.3	-4.1	2.1	12.8	13.2	61,299	49,340	15.7
Turkey ISE 100 Index*	109,050	-0.8	-0.6	0.0	40.5	38.4	115,093	75,657	8.7

\*Indices expressed as total returns. All others are price returns.

	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
<b>Equity Indices - Total Return</b>					
Global equities	4.9	22.4	20.9	31.6	66.4
US equities	6.8	20.6	18.9	38.6	101.2
Europe equities	1.4	23.1	23.4	20.2	38.3
Asia Pacific ex Japan equities	3.4	33.3	30.5	31.1	37.6
Japan equities	8.9	23.2	19.9	37.3	76.2
Latam equities	-7.3	19.1	19.8	12.6	-16.3
Emerging Markets equities	1.9	32.3	30.4	27.8	20.8

All total return data quoted in USD terms. Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

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Source: Bloomberg, HSBC Global Asset Management.  
Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index, BarCap Global High Yield and LME copper which are as of previous two trading days' market close.  
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## Market Snapshot 2

Bond indices - Total Return	Close	1-day Change (Index Pts.)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	515	0.0	0.5	0.6	3.8	3.1
JPM EMBI Global	805	1.0	1.1	-0.2	9.7	8.9
BarCap US Corporate Index (USD)	2,899	11.2	1.2	1.3	7.2	6.3
BarCap Euro Corporate Index (Eur)	248	0.0	0.4	1.2	3.7	3.0
BarCap Global High Yield (USD)	468	0.0	0.7	0.8	8.7	8.2
Markit iBoxx Asia ex-Japan Bond Index (USD)	196	0.3	0.4	0.3	5.5	5.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	251	0.0	0.4	0.7	7.0	7.0

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Bonds	Close	1-day Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2016
<b>US Treasury yields (%)</b>						
3-month	1.30	1.33	1.21	1.03	0.53	0.50
2-Year	1.77	1.83	1.68	1.35	1.16	1.19
5-Year	2.10	2.17	2.07	1.77	1.91	1.93
10-Year	2.34	2.40	2.41	2.19	2.47	2.44
30-Year	2.73	2.78	2.87	2.79	3.13	3.07
<b>Developed market 10-year bond yields (%)</b>						
Japan	0.05	0.04	0.05	0.02	0.08	0.04
UK	1.21	1.22	1.33	1.14	1.44	1.24
Germany	0.31	0.31	0.42	0.40	0.36	0.20
France	0.66	0.64	0.78	0.68	0.79	0.68
Italy	1.79	1.70	1.83	2.04	1.87	1.81
Spain	1.49	1.46	1.53	1.57	1.43	1.38

Currencies (vs USD)	Latest	1-day Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2016	52-week High	52-week Low
<b>Developed markets</b>								
EUR/USD	1.18	1.17	1.17	1.19	1.06	1.05	1.21	1.03
GBP/USD	1.34	1.33	1.31	1.32	1.27	1.23	1.37	1.20
CHF/USD	1.01	1.01	1.00	1.04	0.99	0.98	1.06	0.97
CAD	1.28	1.29	1.27	1.22	1.31	1.34	1.38	1.21
JPY	112.54	113.55	113.62	110.49	115.19	116.96	118.66	107.32
AUD	1.31	1.32	1.31	1.25	1.33	1.39	1.40	1.23
NZD	1.42	1.44	1.45	1.38	1.39	1.44	1.47	1.32
<b>Asia</b>								
HKD	7.80	7.81	7.80	7.81	7.76	7.76	7.83	7.75
CNY	6.62	6.62	6.64	6.54	6.90	6.95	6.96	6.44
INR	64.44	64.40	65.43	64.00	67.54	67.92	68.39	63.57
MYR	4.09	4.08	4.19	4.19	4.44	4.49	4.50	4.05
KRW	1,090.64	1,092.16	1,120.65	1,128.35	1,166.93	1,205.83	1,211.78	1,076.32
TWD	30.04	30.02	30.18	30.06	31.79	32.33	32.45	29.88
<b>Latam</b>								
BRL	3.32	3.32	3.28	3.14	3.33	3.26	3.41	3.04
COP	3,013.21	3,029.30	3,007.93	2,911.52	2,971.50	3,002.00	3,102.62	2,831.07
MXN	19.01	19.19	19.13	17.75	20.28	20.73	22.04	17.45
<b>EEMEA</b>								
RUB	58.59	59.22	59.40	57.94	60.66	61.54	62.51	55.70
ZAR	13.45	13.68	14.47	13.13	13.61	13.74	14.57	12.31
TRY	3.81	3.85	3.87	3.46	3.49	3.52	3.98	3.39

Commodities	Latest	1-day ago	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,256	1,245	-1.8	-5.1	8.4	9.0	1,358	1,121
Brent Oil	62.4	63.3	-1.1	13.2	12.1	9.9	66	44
WTI Crude Oil	56.6	57.1	-0.3	14.8	6.8	5.4	59	42
R/J CRB Futures Index	183	183	-4.2	0.3	-5.2	-4.8	196	166
LME Copper	6,663	6,663	-3.4	1.7	17.1	20.4	7,177	5,420

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 Source: Bloomberg, HSBC Global Asset Management.  
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