

Weekly Market Update (December 14 – December 18, 2020)

UK - EU agree to post-Brexit trade deal extension as the two sides are "still very far apart" on key issues

UNITED KINGDOM

London stocks were set for a muted open this week after the deadline for Brexit talks was extended. The FTSE 100 opened seven points higher at 6,544.

The latest UK - EU trade talks deadline came and went over the weekend, as politicians on both sides agreed to keep talking however negotiations on a post-Brexit trade deal are in a "serious situation," UK Prime Minister Boris Johnson said after a call with von der Leyen late **Thursday**. He said again that a no-deal scenario was "very likely" unless the EU's position changed "substantially."

The UK and the EU agreed to extend post-Brexit trade deal talks into this week, although British Prime Minister Boris Johnson said the two sides were "still very far apart" on key issues.

European Commission president Von der Leyen said in a statement that both sides welcomed "substantial progress on many issues" but added that it would be "very challenging" to bridge the "big differences, especially on the subject of fisheries." Further, she added that negotiators would "go the extra mile" to breach the deadlock, after what she described as a "useful" phone call with Prime Minister Boris Johnson. The EU Parliament set a Sunday deadline for the talks, allowing time to ratify legislation before December 31, when the transition period ends. The UK Parliament is on standby for an emergency sitting before Christmas to consider the approval of a deal.

The only deadline that matters now is the 31st December, as the procrastination continues between EU and UK negotiators, with rules around the so-called level playing field and governance, still at the heart of the disagreements between the two sides."

UNITED STATES

Major indexes reached record highs as expectations grew for the passage of another federal coronavirus relief package.

Information technology stocks outperformed within the S&P 500 Index, helped by gains in Apple and Microsoft.

Energy stocks lagged despite oil prices touching nine-month highs on strong demand from India and China. Trading volumes were muted through much of the week in advance of the rebalancing of the S&P 500, which electric carmaker Tesla was set to join the following **Monday**.

After weeks of stalled negotiations, signs of progress emerged in congressional attempts to craft a new stimulus bill. A bipartisan group of lawmakers convened to discuss a new USD 908 billion package. The group was unable to come to an agreement but reports later surfaced that the two sides had agreed to temporarily put aside two of the thorniest issues:

- Democratic demands for further aid to states and localities
- Republican demands for a litigation shield for businesses and other institutions.

On **Tuesday**, stocks seemed to get a lift after Senate Majority Leader Mitch McConnell vowed that Congress would remain in session until a deal was reached.

By the end of the week, the outlines of a roughly USD 900 billion package appeared to emerge, including roughly USD 600 direct payments to individuals and supplementary federal unemployment assistance of USD 300 per week.

Stocks pulled back on **Friday**, however, on reports that Republicans were demanding a provision barring the incoming Treasury secretary from providing the Federal Reserve with more emergency lending funds in 2021.

On **Thursday**, a United States Food and Drug Administration advisory panel approved Moderna's similar mRNA vaccine, which would nearly double the expected number of total doses available by the end of the year.

Current coronavirus trends remain concerning with the United States setting records for Covid-19 related daily deaths. The heavily populated southern part of California emerged as the new epicentre of the outbreak crisis, despite strict lockdown measures.

US STOCKS

Index	Friday's Close	Week's Change	% Change YTD
DJIA	30,179.05	132.68	5.75%
S&P 500	3,709.41	45.95	14.81%
Nasdaq Composite	12,755.64	377.77	42.16%
S&P MidCap 400	2,287.26	44.20	10.87%
Russell 2000	1,969.99	58.63	18.07%

EUROPE



News of the Pfizer vaccine rolling out in the US - after being approved over the weekend - along with hopes of a fiscal stimulus bill being signed off, helped Asia markets kickstart the week in a positive mood, and this positivity looks to have carried through into Europe.

The rollout of the Pfizer-BioNTech coronavirus vaccine on **Monday** also seemed to bolster European market sentiment.

Shares in Europe rose on optimism surrounding coronavirus vaccinations, better-than-expected purchasing managers' index readings in key eurozone economies, and signs of progress in U.S. congressional negotiations for another round of fiscal stimulus.

In local currency terms, the pan-European STOXX Europe 600 Index ended the week 1.48% higher, while Germany's DAX Index was up by 3.94%, France's CAC 40 increased 0.37%, and Italy's FTSE MIB grew 1.26%.

In London, the FTSE 100 Index ended the week slightly down, as the GBP strengthened on earlier optimism over a trade deal with the European Union.

UK stocks tend to fall when the pound rises as many companies listed in the index are multinationals that generate significant overseas revenues.

These encouraging developments seem to have reduced investor demand for assets perceived as safe havens, which in turn sent core eurozone bond yields higher. It also offset concerns about tougher coronavirus restrictions and Germany's plan for hefty debt issuance next year.

Peripheral eurozone bond yields ended the week flat.

UK sovereign yields generally increased on growing optimism that the UK and EU could reach a trade agreement however, dovish messaging from the Bank of England as a result of an uncertain economic outlook coupled with growing uncertainties over tighter coronavirus restrictions, curbed the rise in gilt yields.

French President Emmanuel Macron self-isolated after displaying symptoms of Covid-19.

Macron attended a series of high-level events, including a summit of EU leaders.

After his announcement, the prime ministers of Spain and Portugal, who met with him at a dinner, quarantined themselves as a precaution.

- Germany tightened lockdown restrictions to tame a strong resurgence in coronavirus infections and offered more support to affected businesses.
- The UK imposed its toughest tier-3 regime on London and southern England.
- Dutch Prime Minister Mark Rutte announced a second, strict lockdown that included the closure of schools and shops for at least five weeks.
- Prime Minister Giuseppe Conte said severe restrictions might be imposed over Christmas to prevent a third wave of infections in Italy, where there is no nationwide lockdown.
- European Commission President Ursula von der Leyen said the EU would begin vaccinating against Covid-19 on December 27, although some member states have announced different start dates.

JAPAN

Japanese stocks posted gains for the week. The Nikkei 225 Stock Average advanced 0.4% and closed at 26,763.39. For the year-to-date period, the benchmark is ahead 13.1%.

The large-cap TOPIX Index and the TOPIX Small Index, also recorded weekly gains. The yen strengthened versus the U.S. dollar and traded near JPY 103 on **Friday**.

The Japanese government lowered its Gross Domestic Product (**GDP**) growth forecast for the 2020 fiscal year ending March 2021 to a 5% contraction from its July forecast for a 4.5% contraction.

The changes in forecast reflect the winter resurgence of coronavirus infections and the reimplementation of restrictions on travel and other business closures. On the opposite hand, the government upwardly revised its fiscal 2021 GDP growth forecast to around 4%, from its earlier 3.4% growth forecast, due to the benefits from its stimulus efforts.

According to a Reuters poll of economists, 6 out of 40 respondents expect Japan's economic growth to return to pre-pandemic levels in fiscal 2021, 15 expect this to happen in fiscal 2022, and 19 said this would take place in fiscal 2023 or later.

The Japanese government is planning a record JPY 107 trillion budget for fiscal year 2021.

The proposed budget addresses coronavirus response initiatives, social welfare, and additional military spending.

The spending plan is in addition to three extra budgets to combat the economic drag from the global coronavirus pandemic.

The third extra budget and the fiscal 2021 budgets will be presented to the Cabinet together as a 15-month budget.

Tokyo reported more than 800 new coronavirus infections on **Thursday**, and a nationwide daily total climbed to 3,200, a record high.

Tokyo's government raised its medical alert level to its highest level 4 for the first time since the inception of the four-stage scale in July.

Coronavirus patients are occupying more than 60% of Tokyo's 3,000-bed capacity.

Severe cases, requiring ICU care, have already filled one-third of its 200 ICU beds, and hospitals are struggling to find qualified staff.

In response to the nationwide increase in new cases, Prime Minister Yoshihide Suga suspended the government's domestic tourism program subsidies through the New Year holidays. The Japanese government has contracted with Pfizer for 120 million vaccine doses, enough for approximately 60 million people, half of its population.

CHINA

Chinese stocks posted an overall weekly gain despite recording mild losses on **Friday**, after the United States announced that it was blacklisting China's top chipmaker – SMIC - and more than 60 other companies for national security reasons.

For the week, the large-cap CSI 300 Index was up 2.3%, while the Shanghai Stock Exchange Composite Index grew 1.4%.

The United States' move against chipmaker SMIC - which is central to Beijing's drive to build a self-sufficient chip industry - marked the latest in a string of Trump administration-directed actions targeting Chinese technology companies.

Deteriorating Chinese – American relations have dampened investor sentiment this year, as both sides clashed on multiple issues which includes:

- Trade
- Hong Kong protests
- Managing the coronavirus outbreak

Even with the above issues, demand for Chinese assets has remained strong due to ample evidence that the Chinese economy is firmly recovering after being among the first countries to contain the pandemic.

On **Tuesday**, official data revealed that November industrial output, fixed asset investment, and retail sales grew strongly from last year levels.

The November data raised expectations that China's fourth-quarter economic growth would accelerate from the third quarter, when gross domestic product grew 4.9% from a year earlier.

Despite signs of growing economic momentum, the yield on China's sovereign 10-year bond ended nearly unchanged for the week until **Friday** morning.

Corporate news

- Pharmaceutical company AstraZeneca said it was buying US drug developer Alexion in a cash and shares deal worth \$39bn. Both companies have approved the deal, which still needs regulatory and shareholder approval. The deal is expected to close in the third quarter of 2021.
- Polypipe Group said annual profit would beat expectations after revenue rose 8% in November. Underlying operating profit for the year to the end of December will be about £40m, exceeding the consensus forecast range of £35m to £37m, the company said.

Economic News

- The toll the virus is taking on economic activity also became clearer during the week. On **Wednesday**, the Commerce Department reported that retail sales contracted 1.1% in November, roughly triple the expected decline and the worst showing since April.
- Weekly jobless claims, reported **Thursday**, reached 885,000, well above expectations and the highest level since early September. Continuing claims fell back to a new pandemic low.
- A pickup in auto and parts manufacturing helped industrial production grow 0.4% in November, a bit more than expected, but October's strong gain was revised lower from 1.1% to 0.9%.
- Housing data generally remained solid.

Economic Calendar

Time (GMT+2)	Event	Impact
17:00 21.12	EUR Consumer Confidence (Dec) PREL	Medium
19:00 21.12	GBP UK Prime Minister Boris Johnson speech	High
02:30 22.12	AUD Retail Sales s.a. (MoM)(Nov) PREL	High
09:00 22.12	GBP Gross Domestic Product (YoY)(Q3)	Medium
09:00 22.12	GBP Gross Domestic Product (QoQ)(Q3)	High
15:30 22.12	USD Gross Domestic Product Price Index(Q3)	Medium
15:30 22.12	USD Gross Domestic Product Annualized(Q3)	High
01:50 23.12	JPY BoJ Monetary Policy Meeting Minutes	High
02:30 23.12	AUD Trade Balance (MoM)(Nov) PREL	High
15:30 23.12	USD Core Personal Consumption Expenditure - Price Index (MoM)(Nov)	Medium
15:30 23.12	USD Personal Income (MoM)(Nov)	Medium
15:30 23.12	USD Continuing Jobless Claims (Dec 11)	Medium
15:30 23.12	USD Durable Goods Orders (Nov)	High
15:30 23.12	USD Nondefense Capital Goods Orders excl. Aircraft (Nov)	High
15:30 23.12	USD Core Personal Consumption Expenditure - Price Index (YoY)(Nov)	Medium
15:30 23.12	CAD Gross Domestic Product (MoM)(Oct)	Medium
17:00 23.12	USD New Home Sales (MoM)(Nov)	Medium
02:00 24.12	JPY BoJ's Governor Kuroda speech	High
01:30 25.12	JPY Unemployment Rate (Nov)	Medium
01:30 25.12	JPY Retail Trade s.a (MoM)(Nov)	Medium
01:30 25.12	JPY Retail Trade (YoY)(Nov)	Medium
01:30 25.12	JPY Large Retailer Sales (Nov)	Medium