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China's December manufacturing activity contracts even more than expected

The Chinese National Bureau of Statistics said on Monday official manufacturing Purchasing Managers' Index (PMI) was 49.4 — lower than the 49.9 analysts expected in a Reuters poll. The December reading was the weakest since February 2016, according to Reuters' record. That was worse than November's official manufacturing PMI, which was 50.0. A reading above 50 indicates expansion, while a reading below that signals contraction. In particular, new export orders contracted for a seventh straight month, with that measure falling to 46.6 from 47.0 in the previous month. Meanwhile, China's official non-manufacturing PMI came in at 53.8, which was higher than the reading of 53.4 in November.

The services sector accounts for more than half of the Chinese economy and the "bright spot" of the improved on-month expansion in December points to a rebalancing of the Chinese economy toward more consumption.

Economic data from the world's second-largest economy is being closely watched for signs of damage inflicted by the ongoing trade war between Washington and Beijing. Analyst says the Chinese yuan is his 'biggest concern' What's in store for the renminbi?

At the beginning of December, U.S. President Donald Trump and Chinese President Xi Jinping agreed to a 90-day ceasefire that delayed the planned Jan. 1 U.S. increase of tariffs on $200 billion worth of Chinese goods while they negotiate a trade deal. Yet beyond the tariffs battle, China's economy has been facing its own domestic headwinds. Even before the escalation in trade tensions with the U.S. this year, Beijing was already trying to manage a slowdown in its economy after three decades of breakneck growth.

China's worse-than-expected PMI reading on the last day of 2018 suggests a challenging start to 2019, said Frederic Neumann, co-head of Asian Economics Research at HSBC."China is a good gauge in terms of temperature about what's going on in the global industrial cycle," Neumann told CNBC's "Squawk Box."

The "PMI numbers out today suggest the economy is still decelerating. That's going to weigh down not just Chinese GDP growth but really global trade," Neumann said.

In fact, Nomura economists warned that "the worst is yet to come," for China."Looking ahead, we see more headwinds to growth from weakening domestic demand, the ongoing credit downcycle, a cooling property sector and lingering China-U.S. trade tensions," the economists wrote.

Despite the tariff fight with the U.S. over the last year, the Chinese manufacturing and export sectors held up well in 2018. Analysts however, attributed the robustness to exporters pushing forward shipment dates — also called front-loading — a phenomenon that was expected to run out of steam, as freight rates indicated.

In October, China reported economic growth of 6.5 percent year-over-year in the third quarter of 2018 — the weakest pace since the first quarter of 2009 as the country's trade war with the U.S. put pressure on growth. China's official growth target this year is around 6.5 percent.

Oil's slump could get much worse amid oversupply concerns,

The latest wave of energy market selling comes amid reports of swelling inventories and forecasts of record U.S. and Russian output. Heightened worries of a possible economic slowdown in 2019 have also added downward pressure to the value of a barrel of oil.

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The latest wave of energy market selling comes amid reports of swelling inventories and forecasts of record U.S. and Russian output. Heightened worries of a possible economic slowdown in 2019 have also added downward pressure to the value of a barrel of oil."The only way is down," Tamas Varga, senior analyst at PVM Oil Associates, said in a research note ."There are lots of variables regarding next year's oil balance but based on available data, information and sentiment, it is fair to say that any price rally will be met by fierce resistance from the sellers' side," Varga said.

Brent crude fell as much as 4 percent to as low as $57.20 a barrel on Tuesday, on track to register its third consecutive session of declines. The international benchmark has since trimmed some of its losses to trade down 2.7 percent. Meanwhile, U.S. West Texas Intermediate (WTI) dipped further below $50 a barrel on Tuesday, after settling below the psychologically important level for the first time in more than a year in the previous session. U.S. crude stood at $47.94 at around 11:00 a.m. ET, trading 4 percent lower.

Both oil benchmarks have crashed more than 30 percent since reaching a peak in early October, largely because of swelling global inventories

"For a brief period, the energy market in 2018 bore all the hallmarks of having stabilized with some sense of normalcy returning but all that changed in October," analysts at UBS said in a research note ."Uncertainty and volatility reign once again," they added. In November, energy markets witnessed an unprecedented run of 12 trading days of WTI losses, while the value of Brent crashed more than $20 from a high of just over $86 a barrel.

But, the deal reached by OPEC and non-OPEC members in a bid to boost the market is yet to have its desired effect. The energy alliance agreed to take 1.2 million barrels per day (bpd) off the market for the first six months of 2019.

The 15-member OPEC cartel said it would reduce its output by 800,000 bpd, while Russia and the allied producers will contribute a 400,000 bpd reduction. However, the cutbacks do not go into effect until January, and Russia has warned that it will only gradually taper off output."Some kind of short-covering can happen any time (from) now until the end of the year but no long-term joy is on the horizon for oil bulls," PVM Oil Associates' Varga said.

How has Brexit vote affected the UK economy

The pound slumped to its lowest levels for almost two years over the last month amid the mounting political paralysis in Westminster. Sterling fell as low as $1.2484 against the dollar on the foreign exchanges after Theresa May delayed the parliamentary vote on her Brexit deal and faced a confidence vote in her leadership. City traders believed that May winning the vote, although as a severely weakened prime minister, reduced the chances that a hard Brexiter would take over control of the talks to leave the EU. Sterling is still about 15% below the value it held against the dollar and the euro before the EU referendum.

Britain's goods exports have “collapsed” to levels not seen for three years in response to growing Brexit uncertainty and slowdowns in the Chinese and the US economies, according to a quarterly trade monitor.

Business consultants BDO found that the UK's goods exports, which have suffered a slowdown in growth since the beginning of 2017, contracted in the last three months of the year to leave them at a level not seen since 2015.

The pan-European report echoes the complaints of UK business leaders who have stressed that delays to a Brexit deal come at a time of increasing worries about the outlook for global trade.

Investment by UK businesses has all but dried up in the last year according to official figures and manufacturing is heading into a recession driven by a sharp fall in car production and sales.

BDO said its findings showed that exporters were being hit by Brexit, “significant” economic turmoil across Europe and the threat of protectionist tariffs that also affected firms on the continent.

Businesses in France, Germany and Italy were hit by falling business confidence and slowing trade, although only France's export sector has declined at a faster pace than the UK's over the last three years.

A report by the European Central Bank forecast lower growth across the eurozone next year and in 2020.Spokesman Peter Hemington said: “Across Europe, economic disorder has led to EU export growth stagnating. Three of the five largest EU economies are battling against political and economic chaos.“The French economy is set to suffer further from the gilets jaunes (yellow vest) protests, Germany's car manufacturers are struggling with new regulation and, in the UK, government infighting is taking its toll as we edge closer to a disorderly Brexit.

“Overseas demand has helped sustain the UK economy over the last few years and British businesses are doing all they can to remain resilient despite these challenges. The EU remains our most important trading bloc but Brexit uncertainty is proving damaging.

“It's crucial that Britain is seen to be open for business with the EU and other key markets as we enter what is going to be a critical year for the UK.”The BDO quarterly index for the UK fell 0.7 points to 94.9, below the point of contraction of 95.0.German export growth fell 2.6 points to stand at 96.8 in the fourth quarter, while France – the worst performing major EU economy this quarter – saw its export growth collapse by 4.8 points to 92.8.

The US government is now in its second-longest shutdown

America's conservatives often say they would like less government, and for the past few weeks have had a foretaste of what that might look like. Visitors to any of the country's national parks grumble about overflowing waste bins and shuttered public toilets. Although some agencies like the Social Security Administration, Postal Service and Veterans Affairs are open for business, about 800,000 workers have been affected. Some have been forced into unpaid leave, others are working without pay (many will receive back-pay when the government reopens, though furloughed workers receive no such guarantee). At the Internal Revenue Service, the department charged with counting—and refunding—Americans' tax dollars, only one-in-ten workers are showing up.

President Donald Trump refuses to yield in his demand for $5.7bn in funding for a wall along the US-Mexico border, pushing the current government shutdown into its 17th day. This makes the budget impasse the second-longest since 1981, when current rules about worker pay during shutdowns were adopted. In theory, shutdowns end when it becomes clear that one side is receiving most of the blame, creating an incentive to back down. In practice, judgement on whose fault this is will likely be determined by partisan affiliation. Republicans will blame Democrats, and vice versa. If both sides conclude they are winning, neither will blink.

The economic consequences of the shutdown will not be significant enough to force a deal. But they are not negligible, either. An Office of Management and Budget report concluded that the 16-day 2013 shutdown lowered real GDP growth somewhere between 0.2% and 0.6%—amounting to $2-$6bn in lost economic output. In the end, it may cost more to keep the government closed than it would have cost to build Mr Trump's wall in the first place.

Prospects for world economic growth

World growth strengthened in 2017 to 3.8 percent, with a notable rebound in global trade. It was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe, and signs of recovery in several commodity exporters. Global growth is expected to tick up to 3.9 percent this year and next, supported by strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve. Over the medium term, global growth is projected to decline to about 3.7 percent. Once the cyclical upswing and US fiscal stimulus have run their course, prospects for advanced economies remain subdued, given their slow potential growth. In emerging market and developing economies, in contrast, growth will remain close to its 2018–19 level as the gradual recovery in commodity exporters and a projected increase in India's growth provide some offset to China's gradual slowdown and emerging Europe's return to its lower-trend growth rate. Nevertheless, 40 emerging market and developing economies are projected to grow more slowly in per capita terms than advanced economies, failing to narrow income gaps vis-à-vis the group of more prosperous countries. Despite strong aggregate figures in the baseline forecast and buoyant market sentiment, the current momentum is not assured. Upside and downside risks are broadly balanced over the next several quarters, but risks farther down the road are skewed to the downside. With still-easy financial conditions and persistently low inflation that has required protracted monetary policy accommodation, a potential further buildup of financial vulnerabilities could give way to rapid tightening of global financial conditions, denting confidence and growth. The support to growth that comes from procyclical policies, including in the United States, will eventually need to be reversed. Other risks include a shift toward inward-looking policies that harm international trade and a worsening of geopolitical tensions and strife.

The current favorable juncture offers a window to enact policies and reforms that protect the upswing and raise medium-term growth to the benefit of all—strengthening the potential for higher and more inclusive growth, building buffers that will help deal more effectively with the next downturn, improving financial resilience to contain financial market risks, and fostering international cooperation.

A Rift Between Germany and Brazil Stalls Work on Carbon Market

A dispute pitting two groups of nations led respectively by Germany and Brazil is holding up work on creating a global market for trading carbon pollution, one of the pillars of the Paris Agreement on climate change.

After bruising talks at a United Nations climate conference last month, the two groups remain at odds on how to structure the system. New carbon markets could allow developing countries to sell emissions credits generated from programs that cut greenhouse gases. The theory is that richer nations could buy those securities, gaining a cheaper option for reaching their own targets.

Germany along with the European Union and industrial countries say that developing nations may "create too many loopholes" with Brazil's proposal for the market's rules. An envoy from the South American nation said its position has been misrepresented. The comments, made in response to questions from Bloomberg, follow a decision at the UN talks involving 200 countries to shelve for at least a year efforts to write the part of the a rulebook that might have expanded carbon trading.

At issue is who would be able to sell carbon credits in the new system, which envoys are hoping will spur emissions cuts before the Paris Agreement comes into force next year. The question is contentious because Europe has been working to clear up a glut in its own carbon market, which is the biggest in of its kind in the world. Adding a new source of credits could undo that effort and depress prices, eroding the value of carbon trading as a tool to aid the environment.

"The biggest question is always who's going to buy the offsets," said Trevor Sikorski, head of natural gas, coal and carbon at Energy Aspects Ltd., an industry consultant in London. While countries hold back on tighter emission targets that would generate demand, the current debate about increasing supply doesn't demonstrate a "great understanding of the use of markets."

Markets under the Paris deal are one of the policy tools that countries can use to reduce fossil fuel pollution. While the world as a whole will need to reduce those emissions, lawmakers in the U.S. and Europe have sought to guarantee ways to use financial markets to make those cuts in the most efficient way.

The UN's first effort at a global carbon trading system had mixed results. Under the 1997 Kyoto Protocol, the UN built up a Clean Development Mechanism that spurred emissions-reducing projects in exchange for credits that could be sold to places with cap-and-trade systems. Those CDM credits have tracked near zero for six years because countries mostly aren't using them to meet emission targets any longer -- and the EU has declined to extend rules that allowed those participating in the continent's cap-and-trade system to use CDM credits for compliance through 2020.