

MARKET UPDATE: MIDDLE EAST TENSIONS WEIGH ON SHARES

6th January 2020

LAST WEEK – KEY TAKEAWAYS

Middle East: US airstrike kills Iranian general

- Global shares fell after the US military assassinated Qasem Soleimani, one of Iran's top generals, who President Trump accused of targeting US interests in the Middle East;
- Government bonds rallied as investors switched their money into what are traditionally considered safe-haven assets (a government is less likely to default), while oil prices also rose due to the threat of disruption to supplies.
- **Omnis view: Once again, President Trump's unpredictability has raised political uncertainty. The reaction from the markets was relatively muted, but the demise of such an influential figure should lead to greater instability in the region, and the longer-term repercussions remain to be seen.**

Trade: Trump sets date to sign initial deal

- Global shares had risen earlier in the week after President Trump announced that he would meet with senior Chinese officials at the White House on 15th January sign the first phase of a trade deal;
- President Trump also said he would travel to China for talks on the second phase of the deal, although he did not commit to a date.
- **Omnis view: While this initial deal represents progress and allows President Trump and his Chinese counterpart Xi Jinping to claim credit at home, some of the most contentious issues still need to be resolved.**

China: Central bank seeks to stimulate economy

- There had been further good news for global equities on Wednesday when the People's Bank of China (PBoC)- the Chinese central bank- reduced the amount of money the country's banks need to keep in reserve in an effort to boost economic growth.
- **Omnis view: The markets welcomed the PBoC's decision because it frees up money which banks can use for commercial lending. These funds should help Chinese firms grow and have a positive knock-on effect on the country's economy.**

US: Manufacturing sector slows

- Activity in the US manufacturing sector fell to its lowest level since 2009 in December, according to the Institute for Supply Management¹.
- **Omnis view: Trade tensions between the US and China have weighed on the US manufacturing sector, but activity may pick up after the conclusion of the initial deal discussed above.**

¹ <https://www.instituteforsupplymanagement.org/about/MediaRoom/newsreleasedetail.cfm?ItemNumber=31162>

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- US imports, exports and balance of trade in November;
- Thursday- Chinese inflation rate in December; EU unemployment rate in November;
- Friday- US non-farm payrolls (job creation) in December.

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