

# MARKET UPDATE: CHALLENGING WEEK FOR EQUITIES AS TRADE TENSIONS SIMMER

10- December 2018

## LAST WEEK – KEY TAKEAWAYS

### Markets: Trade tensions and economic outlook weigh on equities

- Global equities retreated as Canada arrested a senior executive at Chinese technology company Huawei;
- Investors were also concerned as the difference between the yield on US short and long-dated government bonds narrowed- known as a flattening of the yield curve- which raised doubts about future economic growth;
- Labour market data released at the end of the week indicated the US economy is robust, but the pace of job creation may not be sufficient to justify a series of interest rate increases.
- **Omnis view: The initial burst of optimism following the G20 meeting wore off relatively quickly. An interest rate hike later this month still appears likely, but the Federal Reserve may slow the pace of monetary tightening next year.**

### Global trade: Beijing reaffirms commitment to trade talks

- The Chinese government responded to President Trump’s scepticism about trade talks by announcing it was confident the two sides could come to an agreement within the three-month timeframe set by the US.
- **Omnis view: Despite Beijing’s reassurances, the US and China seem to have different interpretations about what they discussed at the G20 meeting. The arrest of the Huawei official by Canadian authorities quashed any optimism that an agreement is forthcoming.**

### UK politics: Sterling falls ahead of meaningful vote

- Sterling fell to a 17-month low against the US dollar as Parliament voted to force Theresa May’s government to publish the attorney general’s legal advice on the Brexit withdrawal deal.
- **Omnis view: The Prime Minister postponed the vote on the withdrawal deal this morning and pledged to seek reassurances on the Irish backstop before bringing it back to Parliament. In the meantime, UK assets could remain volatile.**



GBPUSD exchange rate, year to date (source ft.com)

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## Europe: Rome reaches out to Brussels again

- Italian Prime Minister Giuseppe Conte claimed the coalition government may be willing to modify its contentious draft budget, as long as it could retain expensive welfare payments.
- **Omnis view: As it stands, the Italian budget breaches EU fiscal spending rules, and Italy may be subject to financial sanctions. However, Rome's rhetoric has been softening, suggesting the two sides might be edging closer to an agreement.**

## Commodities: Oil prices rally as OPEC commits to lower production

- It was a volatile week for oil prices which fell in the leadup to this year's final meeting of the Organisation of the Petroleum Exporting Countries (OPEC), but they recovered after the cartel and its allies announced cuts to production.
- **Omnis view: Stronger oil prices should have provided some support for UK equities due to the high exposure to the energy sector, but this effect was offset by the weakness in global equities mentioned above.**

## LOOKING AHEAD - TALKING POINTS

### Economic data and monetary policy

- The US publishes November's annualised inflation data on Wednesday;
- The European Central Bank announces its latest interest rate decision on Thursday.

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