

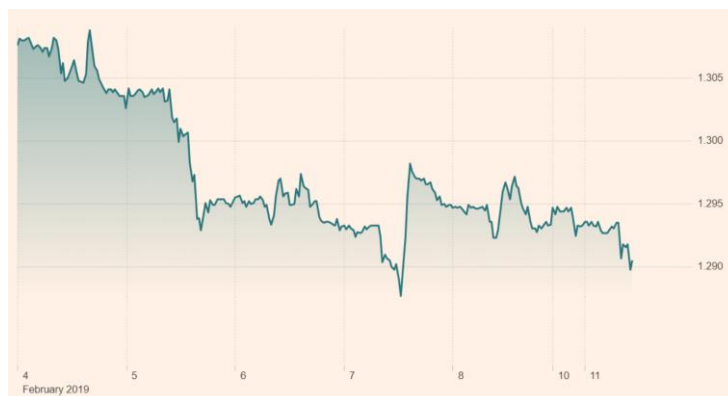
MARKET UPDATE: BANK OF ENGLAND ADOPTS PATIENT TONE

11th February 2019

LAST WEEK – KEY TAKEAWAYS

UK: Bank of England softens tone and downgrades UK outlook

- Sterling weakened against the US dollar after the Bank of England (BoE) retreated from plans for multiple interest rate hikes at its latest meeting;
- The BoE left rates unchanged on this occasion, and it downgraded its outlook for the UK due to uncertainty over Brexit and a global economic slowdown.
- **Omnis view:** In its forward guidance, the BoE forecast that interest rates would rise ‘at a gradual pace and to a limited extent’ over the next three years and remain significantly lower than before the 2008 financial crisis.



Performance of sterling vs US dollar for the week commencing 4th February (source: ft.com)

Global trade: Trump rules out talks with Xi

- US equities fell as President Donald Trump ruled out meeting his Chinese counterpart Xi Jinping ahead of the 1st March deadline for the two sides to come to a trade agreement.
- **Omnis view:** President Trump appears to have contradicted comments he made last week about holding direct talks with Xi ‘in the near future’. If the US and China do not reach a deal before the deadline, he could raise tariffs on Chinese imports.

Europe: ECB lowers growth forecast

- European bond yields rallied, and the euro weakened against the US dollar after the European Commission (EC) cut its economic growth forecast for the region to 1.3% from the 1.9% projected in November¹.
- **Omnis view:** Among the factors cited by the EC for the downgrade were Brexit and the slowdown in China, while disappointing data from Germany and concerns about the Italian economy also weighed on sentiment. The ECB will continue to be patient, especially under Mario Draghi’s tenure.

¹ https://ec.europa.eu/commission/news/commission-publishes-winter-2019-economic-forecast-2019-feb-07_en

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Corporate earnings: Capital expenditure weighs on Alphabet

- Despite beating earnings and revenue expectations, the share price in Google's parent company Alphabet fell due to its swelling capital expenditure;
- Two-thirds of companies in the S&P 500 have reported results for the quarter, with 71% of them announcing a positive earnings per share surprise².
- **Omnis view: The FAANG group of tech stocks faced a mixed set of results in the latest reporting period which saw shares in Facebook and Apple rally but Amazon, Netflix and Alphabet drop.**

LOOKING AHEAD - TALKING POINTS

Economic data releases

- Monday- UK balance of trade data and GDP for December;
- Wednesday- UK inflation rate for January; US inflation rate for January;
- Thursday- Chinese import, export and balance of trade data for January;
- Friday- Chinese inflation rate for January; EU balance of trade data for December.

Brexit

- UK Brexit minister Stephen Barclay will seek to secure concessions on the Irish backstop when he meets with the EU's chief negotiator Michel Barnier today.

Trade talks

- US trade representative Robert Lighthizer and Treasury secretary Steven Mnuchin travel to Beijing today for the latest round of negotiations with China.

US budget deadline

- The Republicans and Democrats must agree on a budget by Friday to avoid another government shutdown.

Corporate earnings

- Royal Bank of Scotland is the first of the major UK banks to report annual results on Friday.

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² https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_020819.pdf