

MARKET UPDATE: BREXIT UNCERTAINTY PICKS UP AGAIN

17 December 2018

LAST WEEK – KEY TAKEAWAYS

UK: Tough week for Mrs May drives sterling volatility

- Sterling fell to a 20-month low against the US dollar after Prime Minister Theresa May cancelled the parliamentary vote on the Brexit withdrawal deal and Conservative MPs called for a vote of no-confidence;
- Mrs May comfortably won the vote, having pledged to step down before the next general election, and sterling regained some ground;
- Mrs May then headed to Brussels to seek legal assurances that the backstop preventing a hard Irish border would only be a temporary measure.
- **Omnis view: The backstop appears to be the most contentious issue for opponents of the withdrawal deal, so Mrs May needs to secure concessions from the EU ahead of the rearranged vote which must take place by 21st January. If she fails, the next steps are unclear. UK assets should remain volatile in the meantime.**

Global trade: Tensions appear to ease

- China agreed to cut tariffs on imports of American cars from 40% to 15%;
- Reports also suggested that Beijing was considering revising its 'Made in China 2025' industrial plan which would give US companies greater access to the Chinese economy;
- Meanwhile, US President Donald Trump claimed he would be willing to intervene in the case of the Huawei executive arrested by Canada if he felt it would help progress 'the largest trade deal ever made'.
- **Omnis view: Trade tensions seem to be easing, although President Trump's confrontational style of negotiation and his unpredictability means a conclusive deal could still be some way off.**

Markets: Softer inflation supports US equities

- US equities fell after President Trump threatened to shut down the US government if the Democrats refused to support the construction of his controversial wall along the Mexican border;
- However, stocks received support from softening inflation due to lower energy prices in November.
- **Omnis view: Softening inflation is unlikely to stop the Federal Reserve from raising interest rates at its meeting on Wednesday, but it may give pause for thought in 2019.**

Asia: Chinese economy shows further signs of slowing

- Chinese equities fell at the start of the week in response to economic data showing a slowdown in consumer price growth and a drop in export growth.
- **Omnis view: A slowdown in China's economy, particularly in any measures related to international trade, puts pressure on Beijing to make progress in talks with the US.**

Europe: Rome concedes over draft budget

- Italian sovereign bonds rallied as the country's coalition government agreed to cut its 2019 budget deficit in order to avoid sanctions for breaching EU fiscal spending rules.
- **Omnis view: A resolution with Italy about its draft budget would remove one of the risks hovering over the EU, although Brexit-related uncertainty is a more pressing concern.**

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LOOKING AHEAD - TALKING POINTS

Economic data

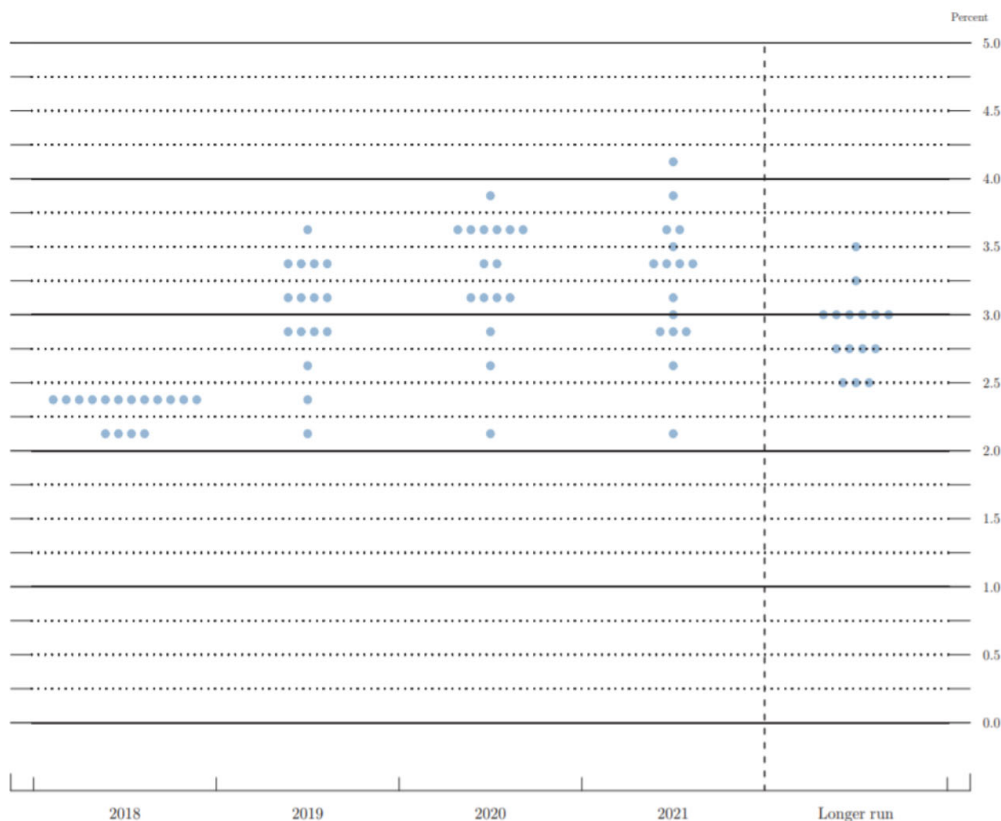
Several of the world's biggest economies release inflation data for November this week:

- The EU on Monday
- The UK on Wednesday
- Japan on Thursday

Monetary policy

Several of the world's major central banks announce interest rate decisions:

- The Federal Reserve on Wednesday
- The Bank of England on Thursday
- The Bank of Japan on Thursday



The Federal Reserve's forecast of US interest rates as of 26 September 2018 (source: www.federalreserve.gov)

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