

MARKET UPDATE: UK AND EU AGREE DRAFT WITHDRAWAL DEAL

19th November 2018

LAST WEEK – KEY TAKEAWAYS

Brexit: Draft withdrawal deal triggers volatility in UK assets

- The UK and EU agreed a draft withdrawal deal on Tuesday, covering the financial settlement, residency rights and the Irish border;
- The UK cabinet approved the deal on Wednesday, but several ministers resigned in protest on Thursday;
- While the initial market reaction to the agreement was muted, the subsequent political turmoil prompted more pronounced market moves: UK government bonds rallied, sterling weakened against the US dollar and shares of domestic-focused UK companies drifted lower.
- **Omnis view: The Prime Minister must now bring the deal to parliament where approval is far from assured (a date for the vote has not been confirmed yet), while the EU has arranged a special summit on 25th November. UK assets could remain volatile in the meantime.**

US: Tech sector weighs on US equities

- US equities began the week on the back foot, dragged down by the tech sector as downgrades to forecasts by two of Apple's key suppliers raised questions about demand for the iPhone;
- The market later rebounded as rising oil prices buoyed the energy sector.
- **Omnis view: Last week's movements in the US equity markets appear to be primarily sector-driven (see 'Commodities' section below). However, investors may also be turning their attention back to the underlying causes of volatility in October, as the turbulence around the midterm elections fades.**

Europe: Italy fails to revise budget ahead of deadline

- The euro weakened against the US dollar, and yields on Italian sovereign debt rose, as the country's coalition government resubmitted effectively the same draft budget to the EU on Tuesday;
- The EU rejected the original budget submission, citing a "particularly serious non-compliance" with EU rules.
- **Omnis view: The EU could launch what is known as an excessive deficit procedure against Italy, which may lead to financial sanctions. With neither side seemingly prepared to back down, Italian assets are likely to remain volatile in the short term.**

Global trade: US and China resume talks

- The US and China resumed trade talks 'at all levels' ahead of a meeting between US President Donald Trump and his Chinese counterpart Xi Jinping at the G20 summit at the end of November.
- **Omnis view: The timing of this latest announcement provided some support for US equities. From a Chinese perspective, concerns about slowing economic growth and the impact of trade tariffs could have forced Beijing back to the negotiating table.**

Commodities: Fluctuating oil prices impact equities

- Oil prices tumbled on downbeat projections for global economic growth at the start of the week, but they recovered slightly following reports that OPEC and its allies were considering cutting production.
- **Oil prices continue to influence equity markets, particularly the energy-heavy UK and US indices.**

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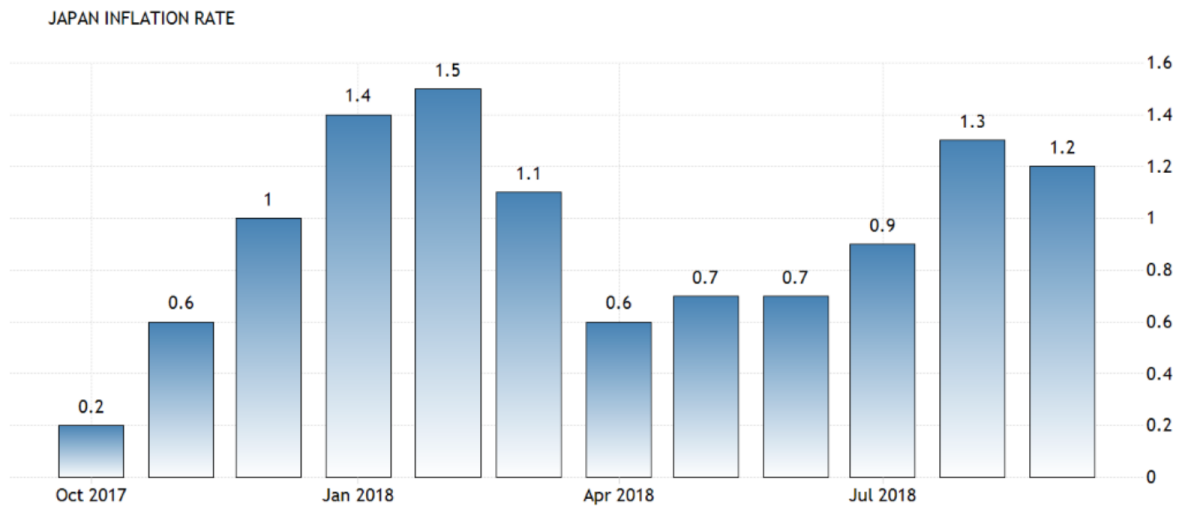
LOOKING AHEAD - TALKING POINTS

EU to announce Italian sanctions

- The EU will announce what action, if any, it will take against Italy for breaching fiscal spending rules in its draft budget on Wednesday.

Economic data

- Japan releases its annualised inflation rate for October on Wednesday.



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