MARKET UPDATE: MORE BREXIT UNCERTAINTY AS PARLIAMENT REJECTS WITHDRAWAL DEAL

21st January 2019

LAST WEEK – KEY TAKEAWAYS

Brexit: Parliament rejects withdrawal deal

- The House of Commons inflicted a heavy defeat on Theresa May's government on Tuesday as it comprehensively rejected the prime minister's deal for the UK's withdrawal from the EU;
- Labour leader Jeremy Corbyn immediately called for a vote of no confidence in the government, which Mrs May won by a slender majority on Wednesday evening;
- Sterling's reaction was relatively muted, weakening against the US dollar after confirmation of the parliamentary vote result but rallying once Mr Corbyn called for the vote of no confidence.
- **Omnis view: The prime minister must return to parliament today to outline her next steps. She spent the last few days consulting with members of opposition parties but seems determined to stick to her 'red lines' which would mean leaving the single market and customs union. Sterling could remain sensitive to developments as the exit date approaches.**

Global trade: Tensions between US and China ease

- US equities rallied following reports that China offered to reopen its market to US chicken exports to help reduce the trade imbalance between the two countries;
- Meanwhile, US officials denied they were considering cutting trade tariffs as a concession to China and to calm markets.
- **Omnis view: Global markets should welcome further signs of the easing of trade tensions. However, more contentious issues, such as the theft of intellectual property, have not featured in negotiations yet, so there is still significant progress to be made.**

S&P 500 weekly performance for week commencing 14th January 2019 (source ft.com)

Asia: Chinese government steps up economic stimulus

- China reported a sharp drop in imports and exports in December, despite reporting its biggest trade surplus with the US in more than ten years;
- The Chinese government responded by cutting taxes and injecting liquidity into the banking system to stimulate the country's economy.

- Today, China released economic growth figures that showed the economy grew in 2018 at the slowest pace since 1990. Growth slowed to an annual rate of 6.4% in the fourth quarter to record 6.6% growth in 2018. This was down from 6.8% growth in 2017.
- **Omnis view: Weak trade data is further evidence that tariffs are hurting the Chinese economy and increases the pressure on Beijing to secure a breakthrough in negotiations with the US.**

Europe: Global factors weigh on EU economy

- Eurostat released data showing industrial production in the EU decreased between October and November;
- Slowing German economic growth, which hit its lowest level in five years in 2018, pushed the economy close to recession.
- **Omnis view: Trade tensions between the US and China and a slowdown in the Chinese economy appear to be taking their toll on the EU.**

Corporate earnings: Mixed results for US financials

- Bank of America and Goldman Sachs beat forecasts in the fourth quarter of 2018, but Wells Fargo, BlackRock, JP Morgan, Morgan Stanley and Citi failed to meet expectations;
- Shares in Netflix, the first of the FAANG group of tech stocks to report fourth-quarter earnings, fell after it missed subscription and revenue expectations.
- **Omnis view: US financials set the tone for earnings season, so last week's results support the consensus view that earnings may have peaked earlier in 2018.**

LOOKING AHEAD - TALKING POINTS

Economic data and monetary policy

- Tuesday- UK unemployment rate for November; Japan imports, exports and balance of trade for December;
- Wednesday- Bank of Japan interest rate decision;
- Thursday- ECB interest rate decision.

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