

# MARKET UPDATE: STERLING RALLIES AS BREXIT TALKS INTENSIFY

28<sup>th</sup> January 2019

## LAST WEEK – KEY TAKEAWAYS

### Brexit: Labour may back extension to Article 50

- Sterling rallied against the US dollar after the Labour party hinted it might be prepared to support legislation that would delay the UK's departure from the EU beyond 29<sup>th</sup> March;
- There was better news for Prime Minister Theresa May (and a further boost for sterling) following reports the Democratic Unionist Party (DUP) would support her withdrawal deal if she could address concerns about the Northern Irish backstop.
- **Omnis view: Mrs May brings the latest version of her withdrawal deal to parliament tomorrow. A conclusive vote is unlikely, although backbench MPs are expected to table a number of amendments which would help prevent a 'no deal' Brexit.**

**GBP/USD Exchange Rate, 21<sup>st</sup> January 2019 – 28<sup>th</sup> January 2019**



Source: Financial Times

### Global trade: Tensions simmer ahead of talks

- Wilbur Ross, US commerce secretary, warned a trade deal with China was 'miles and miles away', but he also claimed there is a 'fair chance' the two sides will come to an agreement;
- Meanwhile, the US is reportedly preparing to ask Canada to extradite Meng Wanzhou, Huawei's finance chief, for violating sanctions banning the sale of goods to Iran.
- **Omnis view: Chinese vice premier Liu He arrives in Washington DC on Thursday for the next round of trade talks, with technology transfers expected to be high on the agenda. There are incentives for both countries to strike some form of compromise.**

### US: Fed may slow quantitative tightening

- US equities rallied after the Wall Street Journal reported that the Federal Reserve may take a more cautious approach to unwinding its balance sheet following years of quantitative easing;
- In other news, President Donald Trump signed a funding package that reopens the US government for three weeks while talks continue about spending on border security.

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- **Omnis view: Whether the Fed pursues an increasingly dovish stance to monetary policy should become clearer after its next meeting on Wednesday. According to Bloomberg, current implied probabilities point to a mere 1% chance of a further interest hike on Wednesday.**

#### **Europe: EU faces mounting risks says Draghi**

- The euro fell against the US dollar after Mario Draghi, President of the European Central Bank (ECB), said that risks to the EU had increased and the temporary slowdown it is experiencing may last longer than originally expected.
- **Omnis view: Among the risks highlighted by Mr Draghi were trade tensions and Brexit, while the impact on ECB monetary policy remains to be seen.**

#### **Asia: Bank of Japan decides not to raise interest rates**

- The yen weakened against the US dollar after the Bank of Japan (BoJ) decided to leave interest rates unchanged and lowered its inflation expectations for 2019.
- **Omnis view: The BoJ is the only major central bank that is still pursuing ultraloose monetary policy as it continues with its efforts to stimulate the Japanese economy.**

## **LOOKING AHEAD - TALKING POINTS**

### **Economic data and monetary policy**

- Wednesday- Latest Federal Reserve interest rate decision; EU business confidence
- Thursday- EU unemployment rate for December; Japanese unemployment rate for December;
- Friday- US non-farm payroll report for January; Chinese manufacturing PMI

### **Corporate earnings**

- Apple, Amazon and Facebook are the next of the FAANG group of tech stocks to report earnings this week, while industry bellwether Caterpillar announces its results today.

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