

# MARKET UPDATE: STERLING VOLATILE AMID MIXED BREXIT RHETORIC

5 November 2018

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## LAST WEEK – KEY TAKEAWAYS

### UK: Sterling remains sensitive to Brexit rhetoric

- Sterling was up over the course of the week as the chances improved of a soft Brexit;
- In the event of an orderly Brexit, the Bank of England said it would need to gradually raise interest rates to 1.5% over the next three years to keep inflation under control;
- Standard and Poor's warned a 'no deal' Brexit might lead to a recession and a lowering of the UK's credit rating, although it expects the two sides to reach an agreement during the transition period;
- **Omnis view: Once again, sterling showed its sensitivity to Brexit rhetoric. Volatility should continue in the coming weeks as the deadline approaches to agree a withdrawal deal.**

### US: Conflicting messages from White House about trade progress

- US equities rallied after US President Donald Trump tweeted that he held 'a long and very good conversation' with Chinese Premier Xi Jinping 'with a heavy emphasis on trade', but they retreated as White House advisor Larry Kudlow denied a draft trade plan was in the works;
- The US dollar strengthened as the non-farm payroll report showed 250,000 new jobs were created in October, the unemployment rate stayed at 3.7%, and annualised hourly wage growth grew by 3.1%, its fastest pace since 2009;
- **Omnis view: President Trump's comments about trade could be timed to boost the Republican party ahead of the midterm elections, so whether the two sides make any progress remains to be seen. Meanwhile, another round of strong economic data increases the likelihood of rising interest rates.**

### Corporate earnings: Mixed results suggest earnings might have peaked

- Facebook and Apple both beat earnings forecasts in the third quarter, but Apple shares fell as a result of a downbeat outlook for the fourth quarter and plans to reduce transparency in future reports;
- Shares in General Motors (GM) rallied as it exceeded earnings and revenue expectations and issued a positive outlook for the fourth quarter;
- **Omnis view: Earnings season has not been a disaster, but companies may struggle to continue expanding at the current pace with economic growth peaking and trade tensions lingering.**

### China: Beijing hints at further stimulus to bolster economy

- Chinese equities rallied as the government hinted further stimulus was likely to support the country's slowing economy, as factory output sank to its lowest level in two years;
- **Omnis view: Signs that trade tariffs appear to be taking their toll might encourage Beijing back to the negotiating table, while the prospect of government intervention may improve sentiment towards emerging markets.**

### Europe: Economic growth slows in third quarter

- The euro softened against the US dollar as GDP data showed eurozone economic growth slowing in the third quarter and on an annualised basis;
- **Omnis view: Headwinds for the eurozone economy include Italy's confrontation with the EU over its draft budget and sluggish car production in Germany due to new emissions tests.**

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<sup>1</sup> <https://www.bls.gov/news.release/empsit.nr0.htm>

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## Emerging markets: Bolsonaro victory boosts Brazilian assets

- Brazilian assets rallied as Jair Bolsonaro, the populist right-wing candidate, won the second round of the country's presidential election;
- **Omnis view:** Now the election is over, attention will turn to Bolsonaro's policies, with particular focus on his pledge to address the budget deficit and who he appoints to head Brazil's central bank.

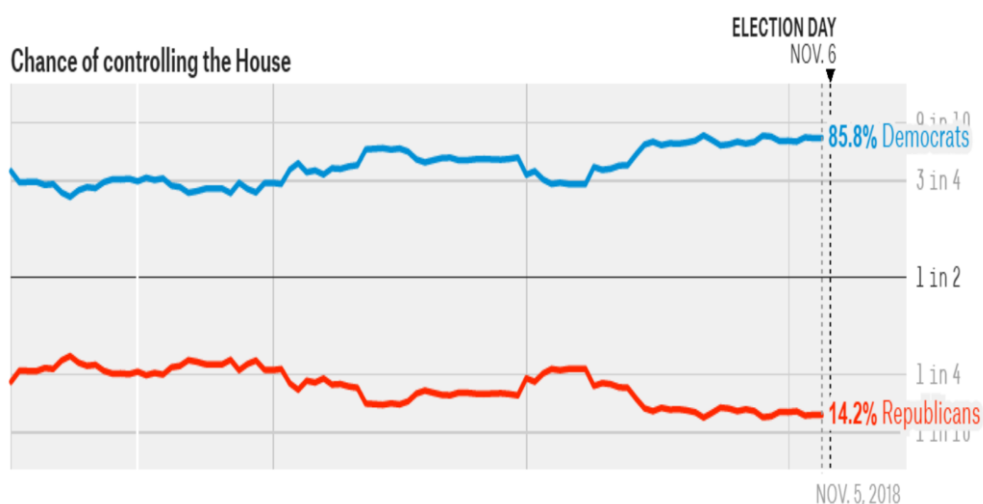
## LOOKING AHEAD - TALKING POINTS

### Economic data and monetary policy

- The markets will watch closely for any impact of tariffs when China publishes October's balance of trade, export and import data on Thursday;
- The Federal Reserve is expected to leave the interest rate unchanged following its meeting on Thursday;
- China releases October's annualised inflation rate on Friday.

### US midterm elections

- The midterm elections take place on Tuesday, with the outcome likely to have a major impact on US politics for the remaining two years of President Trump's term.



Source: <https://fivethirtyeight.com>

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