

MARKET UPDATE: UK ASSETS RALLY AS TORIES WIN 'STONKING MANDATE'

16th December 2019

LAST WEEK – KEY TAKEAWAYS

UK: Tory election success paves way for Brexit progress

- UK assets rallied as the Conservative party won a comprehensive victory in the general election, ending up with a parliamentary majority of 80 seats;
- The pound strengthened against the US dollar and the euro, while the FTSE 250 index of domestically focused companies outperformed the FTSE 100 which is mostly made up of international earners.
- **Omnis view: Focus now turns to how the Prime Minister will use his majority. The priority should be securing his Brexit withdrawal deal so the UK can leave the EU by the latest Article 50 deadline of 31st January. Uncertainty should ease in the short term if Mr Johnson succeeds, but the UK and the EU will then have to start negotiating a free trade deal which he has pledged to conclude by the end of 2020.**

Trade: US and China seal initial deal

- Global markets rallied after the US and China agreed the first phase of a trade deal just ahead of the deadline for the next round of US tariffs- taxes on products imported from abroad- on Chinese goods;
- The US cancelled tariffs due to take effect on Sunday and cut tariffs imposed in September, while China committed to buying at least \$40 billion of US agricultural products each year, strengthening protection of US intellectual property (patents, trademarks and copyrights) and to stop forcing US companies to share technology with local rivals.
- **Omnis view: The initial trade deal is a welcome breakthrough and may reduce uncertainty for the time being. However, whether it leads to a conclusive agreement remains to be seen, as US officials have already expressed scepticism about the likelihood of China sticking to its pledges.**

US: Fed leaves rates unchanged

- US stocks rose as the Federal Reserve- the US central bank- decided against adjusting interest rates at its latest meeting and suggested that it does not foresee any changes in 2020.
- **Omnis view: Fears of a recession have eased since the summer, while inflation- the rate at which prices rise- remains benign. This environment should allow the Federal Reserve to keep rates low for the foreseeable future, a favourable outlook for shares and, potentially, for those hoping for a weaker US dollar.**

Europe: New president sticks with record low rates

- The European Central Bank (ECB) kept interest rates unchanged following its first meeting under new president Christine Lagarde.
- **Omnis view: Ms Lagarde indicated rates would remain the same for most of 2020 and said risks to the EU economy seemed to be easing, although the ECB lowered its growth forecast for the next three years.**

Japan: Economic growth revised up

- The Japanese economy grew at a faster rate in the third quarter than initially reported as stronger business investment boosted the figure from 0.2% to 1.8%¹.
- **Omnis view: The Japanese economy remains sluggish nonetheless, and the improvement in the third quarter could have been a result of buyers bringing forward purchases ahead of a rise in the country's sales tax on 1st October.**

¹ https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2019/qe193_2/pdf/gaiyou1932_e.pdf

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LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- UK unemployment rate in October;
- Wednesday- UK inflation rate in November; EU inflation rate in November;
- Friday- Japanese inflation rate in November.

Monetary policy

- Thursday- Bank of Japan interest rate decision; Bank of England interest rate decision.

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