

Not-so-super-Saturday

Weekly Update

21 OCTOBER 2019

A STERLING EFFORT

A GOOD WEEK FOR

- Sterling as hopes of a Brexit deal pushed the currency c. 3% higher versus USD (see chart).
- UK corporate bonds, which were boosted by better risk sentiment.

A BAD WEEK FOR

- Overseas equities in Sterling terms, as currency effects mostly erased modestly positive returns.
- UK equities, which suffered as GBP strengthened.

BREXIT

Boris Johnson reached an agreement with EU negotiators on Thursday on the Withdrawal Agreement, sending Sterling close to 1.30 against USD. However, the deal did not receive the approval of Northern Ireland's Democratic Unionist Party, which cast the likelihood of the deal receiving parliamentary approval in doubt. The Government tabled the approval vote for Saturday but pulled the motion after MPs passed an amendment that would require the Executive to request a delay unless all legal stages of the bill had passed. A key reaction to watch will be the EU's response to Johnson's reluctant request for an extension to Article 50. If chances of passing the deal begin to fade, a General Election looks likely, though precisely what might trigger it remains unclear.

RATES

Did Brexit optimism rub off on central bankers last week? On Friday Bank of England Deputy Governor David Ramsden reiterated his view that a smooth Brexit could result in a rise in interest rates. Ramsden cited low supply side growth, limiting the speed at which the economy can grow. However, investors are still looking for cuts – market indicators give a 50% probability of a cut by next August.

RAMSDEN ON RATES

CHINA KNOCKED FOR SIX

CHINA

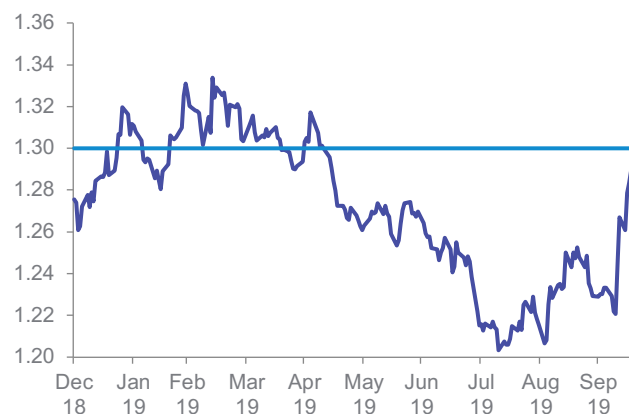
Chinese GDP grew at 6% in the third quarter, the slowest rate in around 30 years, and below analysts' expectations. Given its size as a share of the global economy and trade, a slowdown in Chinese growth weighs on Japan, emerging markets and Europe. There are signs of hope - forward looking surveys may be bottoming out, suggesting that data may be stabilising, and monetary data continues to improve. However, tariffs and trade concerns still weigh on corporates and consumers; and reform measures also appear to have weakened the impact of stimulus.

US ECONOMY

China may not be the only country suffering from tariffs. September U.S. retail sales data fell for the first time in seven months, raising questions as to the strength of hitherto teflon-coated consumers. Areas most afflicted were motor vehicles, building materials, hobbies and online purchases. A weaker consumer may call into question the Fed's view that the domestic economy is resilient enough to withstand the lacklustre external environment, making further rate cuts more likely.

RETAIL NEEDS THERAPY

GBP SURGED ON HOPES OF A DEAL



Source: Bloomberg Finance L.P. GBP vs USD.

IMPORTANT INFORMATION

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