

## Weekly Update 2020 (di)vision

### TO \$70 AND BEYOND?

How much higher can oil go?

### UNEXPECTED DRONE

The first test of the special relationship?

### 5,4,3,2,PHASE 1

New year, new trade agreements?

### WHICH WAY LEFT?

Who will be the Labour Party's next leader?

### A GOOD WEEK FOR

- Oil, rising 2.5% on increasing US-Iranian tensions
- Gold prices, which also responded to the news, rising 2%

### A BAD WEEK FOR

- UK equities, which weakened -0.3%
- European equities in GBP terms, weakening -0.04% on modest GBP appreciation

### US-IRAN RELATIONS

On Friday the Pentagon announced that Iran's top military leader had been killed in Iraq in a targeted US drone strike. President Trump said he approved the extraterritorial killing of General Qasem Soleimani because he was planning "imminent and sinister attacks" on US personnel. The legitimacy of this claim has been questioned, with Democratic Senators calling for the legal justification to be declassified. Iraqi militia commander Abu Mahdi al-Muhandis, who was an adviser to Soleimani, was also killed in the attack. Soleimani was a politically powerful figure with influence across the region at a time when Iran's reformist government had weakened.

Whilst the US is reportedly reviewing its military presence in Iraq, Iran's supreme leader, Ayatollah Ali Khameni, has promised retaliation. These events represent a significant escalation of political risk across the Middle East region.

### OIL PRICES

The escalation of US-Iran tensions is the latest news to heighten risk in the region, and oil prices immediately surged c. 4% on fears that, if relations deteriorate further, there will be supply disruptions. Attacks on Saudi oil facilities in May and September resulted in limited disruption and offered short-lived support to oil prices. However, in recent months more demand and better adherence to OPEC quotas (from member states) have tightened supply and demand dynamics somewhat. Price moves from here will depend largely on how the Middle East situation evolves and the magnitude of any supply disruption.

### UK-US RELATIONS

Recent days' events will dominate debate in Westminster this week, and present an early test of the new administration's relationship with the US. The Executive is arguably in an awkward position – UK officials were not given prior notice of the strike and, with troops in the region, are endorsing a message of de-escalation. Prime Minister Johnson said that while "we will not lament" the death of Qasem Soleimani, "it is clear however that all calls for retaliation or reprisals will simply lead to more violence in the region and they are in no one's interest". However, the US is a close ally of the UK and potentially a key trade partner after the UK leaves the EU. Comments from EU leaders suggest limited enthusiasm for Trump's hawkish approach.

### US-CHINA TRADE

On the 31<sup>st</sup> December Trump announced via Twitter that he would sign a "very large and comprehensive Phase One Trade Deal" on 15<sup>th</sup> January. This week, Chinese press reports also confirmed that senior Chinese officials would travel to the US to sign the agreement. The deal suspends new tariffs expected on 15<sup>th</sup> December, and lifts some existing tariffs, conditional on China increasing agricultural imports, tightening intellectual property regulations and opening up its financial services sector. Progress towards a deal is doubtless positive though China's critical stance on the US "abusing force" in the Middle East poses another potential source of risk to the deal.

### UK POLITICS

After a crushing defeat in the December General Election, the Labour party is selecting a new leader. The contest began this week, with the National Executive Council setting the rules and time frame for the process. The leadership race is arguably a turf war over the direction of the Labour party, with "continuity candidate" Rebecca Long-Bailey contending against different shades of centrist candidate, including Sir Keir Starmer, Jess Phillips and Emily Thornberry. As things stand, centrists may split the vote, suggesting Long-Bailey has a better shot.

# Performance

## EQUITIES

|               | 1 WEEK |       |       | MTD  |      |      | YTD  |      |      | 1 YEAR |       |       |
|---------------|--------|-------|-------|------|------|------|------|------|------|--------|-------|-------|
|               | GBP    | Loc.  | Rel.  | GBP  | Loc. | Rel. | GBP  | Loc. | Rel. | GBP    | Loc.  | Rel.  |
| UK            | -0.3%  |       |       | 1.1% |      |      | 1.1% |      |      | 18.1%  |       |       |
| US            | 0.0%   | -0.1% | 0.0%  | 1.5% | 0.2% | 1.3% | 1.5% | 0.2% | 1.3% | 29.7%  | 34.2% | -4.6% |
| Europe        | -0.3%  | -0.2% | -0.1% | 1.6% | 0.8% | 0.8% | 1.6% | 0.8% | 0.8% | 22.5%  | 29.4% | -6.9% |
| Japan         | 0.8%   | -0.7% | 1.5%  | 1.9% | 0.0% | 1.9% | 1.9% | 0.0% | 1.9% | 14.0%  | 18.5% | -4.5% |
| Asia ex Japan | 0.3%   | 0.3%  | 0.0%  | 2.0% | 1.0% | 1.0% | 2.0% | 1.0% | 1.0% | 18.9%  | 22.9% | -4.0% |
| EM            | 0.5%   | 0.6%  | 0.0%  | 2.2% | 1.1% | 1.0% | 2.2% | 1.1% | 1.0% | 17.3%  | 21.4% | -4.1% |

## FIXED INTEREST AND CURRENCIES

|  | 1 WEEK |  |  | MTD   |  |  | YTD   |  |  | 1 YEAR |  |  |
|--|--------|--|--|-------|--|--|-------|--|--|--------|--|--|
|  | Local  |  |  | Local |  |  | Local |  |  | Local  |  |  |

### Corporate and Government Bonds

|                 |      |      |      |       |
|-----------------|------|------|------|-------|
| UK Gov          | 0.4% | 1.2% | 1.2% | 7.6%  |
| US Gov          | 0.5% | 0.8% | 0.8% | 6.9%  |
| Europe Gov      | 0.2% | 0.0% | 0.0% | 6.4%  |
| UK Index-Linked | 1.4% | 2.5% | 2.5% | 7.1%  |
| UK Corporate    | 0.4% | 1.0% | 1.0% | 11.7% |
| UK High Yield   | 0.2% | 0.2% | 0.2% | 13.8% |

### Currencies – Spot

|           |       |      |      |       |
|-----------|-------|------|------|-------|
| USD – GBP | 0.0%  | 1.3% | 1.3% | -3.5% |
| EUR – GBP | -0.1% | 0.9% | 0.9% | -5.4% |
| JPY – GBP | 1.2%  | 1.8% | 1.8% | -3.9% |

|  | YIELD  |
|--|--------|
|  | Local  |
| <b>Sovereign and Supranational Bonds</b> |        |
| 10 Year Gilts                            | 0.74%  |
| 10 Year Treasuries                       | 1.79%  |
| 10 Year Bunds                            | -0.30% |

## COMMODITIES

|                        | 1 WEEK |      |      | MTD   |  |  | YTD |  |  | 1 YEAR |  |  |
|------------------------|--------|------|------|-------|--|--|-----|--|--|--------|--|--|
|                        | USD    |      |      | USD   |  |  | USD |  |  | USD    |  |  |
| <b>Energy</b>          |        |      |      |       |  |  |     |  |  |        |  |  |
| Brent                  | 0.6%   | 3.9% | 3.9% | 22.6% |  |  |     |  |  |        |  |  |
| <b>Precious Metals</b> |        |      |      |       |  |  |     |  |  |        |  |  |
| Gold                   | 2.8%   | 2.3% | 2.3% | 19.9% |  |  |     |  |  |        |  |  |

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