

# MARKET UPDATE: UNEMPLOYMENT DATA TO GIVE CLUES ON MACRON'S PROGRESS ONE YEAR ON

21st May 2018

## LAST WEEK – KEY TAKEAWAYS

### Key questions for Italian economy as new coalition government imminent

- Five Star Movement and anti-immigration League close to clinching a deal to lead the country after 10 weeks of political stalemate.
- Uncertainty around the future of the Italian economy leads to volatility in the country's equities and bonds.
- Leak of coalition's draft plan shows proposals to ask the European Central Bank to write off €250bn of debt as well as to set up procedures allowing EU member states to exit the euro.
- **The Omnis view: it is hard to see what impact a partnership between two very different political forces will have on the Italian economy, though we are encouraged that volatility has so far been contained to domestic assets.**

### Commodities boost helps FTSE 100 hit new record high

- Strong oil prices help FTSE 100 push to record high closing of 7,787 points on Thursday 17 May.
- BP and Shell among the winners, while a weaker sterling has also been a boon to companies with big overseas business.
- The price of oil has hit its highest level since November 2014, in part because of Donald Trump's decision to exit a nuclear deal with Iran, a major exporter.
- **The Omnis view: UK equities have bounced back strongly from a downturn earlier in the year. However, we remain cautious on the asset class based on Brexit uncertainty.**

### UK employment at record high while wages climbing faster than inflation for first time in a year

- Office for National Statistics reports that employment has climbed to a new high of 75.6% with the jobless rate at 4.2%.
- UK wages climbed at an annual rate of 2.9% in the first three months of the year, with the latest inflation figure at 2.5%.
- Average total pay was £515 a week in nominal terms, before tax and other deductions, for UK employees in March.
- **The Omnis view: this is encouraging news for UK workers, though real term wage growth of 0.4% is still very low and its remains a challenging time for consumer spending.**

### Mixed news for Japan as economy shrinks, but wage growth on the rise

- World's third-largest economy contracted at an annualised rate of 0.6% in first quarter of 2018 as consumption and capital expenditure slowed.
- On a quarter-on-quarter basis, the economy shrank 0.2% compared with growth of 0.1% at the end of 2017.
- However, wages increased by 2.1% year-on-year on the back of tight labour conditions.
- **The Omnis view: this is the first time in two years that the economy has shrunk, though many of its listed companies remain in good health and have contributed to strong performance from the Omnis Asia Pacific Equity Fund in particular.**

### Doubts over Trump and Kim Jong-un summit as Pyongyang gets edgy

- North Korea has threatened to abandon historic leaders' summit as it accuses the US of putting it "into a corner" on nuclear disarmament.
- But Washington officials say preparations still underway for meeting in Singapore on 12 June.
- North Korea has also cancelled high-level talks with its southern neighbour, angered by continuing US-South Korea joint military exercises which it sees as a rehearsal for invasion.
- **The Omnis view: June promises to be a vital month for US diplomatic relations with Asian countries, given the meeting in Singapore as well as ongoing trade negotiations with China.**

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## LOOKING AHEAD - TALKING POINTS

### Unemployment data a sign of Macron's progress one year on

- Analysts are looking for any changes to the 8.9% unemployment rate in France, registered at the end of 2017.
- A year into the job as president, the jury is still out on Emmanuel Macron's efforts on economic reform.
- Labour laws passed in September 2017 allow companies to reach deals with workers rather than comply with industry wide rulings on working hours, pay and overtime.
- **The Omnis view: unemployment levels remain high in France, particularly among the young, with many workers on limited-time contracts. Macron must work to address the problem if the economy is to thrive.**

**France unemployment rate (%) – February 2015 to January 2018**

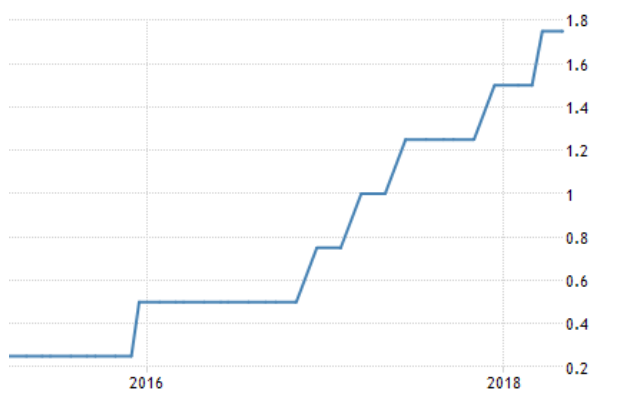


Source: Insee, France, tradingeconomics.com

### Fed minutes to reveal pace of future rate hikes?

- The minutes from the Federal Open Market Committee (FOMC) meeting will give investors insight into its recent decision to hold the federal funds rate at 1.5-1.75%.
- By the end of 2018, would we have seen three rate rises or four? It depends on the view on inflation and the overall health of the economy.
- Markets are pricing in a 96.7% probability that the central bank will hike rates again at its June meeting.
- **The Omnis view: given the size of its economy, the pace of interest rate rises in the US is of huge significance globally, particularly if there were to be a policy mistake.**

**US Fed funds rate (%) – January 2015 to May 2018**



Source: Federal Reserve, tradingeconomics.com

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