

MARKET UPDATE: BUMPER WEEK FOR US DATA AS MARKETS CLOSE FOR INDEPENDENCE DAY

2nd July 2018

LAST WEEK – KEY TAKEAWAYS

‘Last call’ for Brexit as May set to outline third customs model

- European Council president Donald Tusk has issued a “last call” to the UK to “lay the cards on the table” if a Brexit deal is to be achieved before October’s deadline.
- Downing Street is believed to have produced a third plan for handling customs after the UK leaves the EU.
- Two previous options, a customs partnership, under which the UK would collect EU import tariffs, and the ‘maximum facilitation’ idea, involving a waiver for entry and exit declarations across the UK border, are both considered unworkable.
- **The Omnis view: firm decisions must be made on Brexit with doubts now that a deal will be signed in time for October’s European Council summit. As it stands, markets remain relatively resilient.**

UK first-quarter GDP revised upwards

- Office for National Statistics (ONS) said growth in the three months to March 2018 was 0.2%, up from its previous estimate of 0.1%.
- The ONS said the construction sector had shrunk less than it first thought.
- ONS figures also showed the UK’s services sector rose by 0.3% in April, its fastest pace of growth since November 2017.
- **The Omnis view: this is good news for the UK economy, and also raises the possibility that the Bank of England will raise interest rates in August.**

Fragile times for German coalition as interior minister offers to resign

- German interior minister Horst Seehofer offers to step down after disagreements over immigration.
- Seehofer has been pushing chancellor Angela Merkel to agree to a tougher immigration policy.
- The coalition between Merkel’s Christian Democrats (CDU) and the conservative CSU remains fragile following its formation in March.
- **The Omnis view: while most expect Merkel to survive this spat with the CSU, the nature of a coalition is that compromises must be made, as the UK and Italy have also discovered.**

Commerce minister says China will widen market access

- Zhong Shan said China will significantly widen market access and oppose any kind of protectionism.
- An updated list brings the number of areas closed to foreign investment down from 63 to 48.
- Financial markets have been opened up, while China is also lifting investment restrictions on commercial vehicles in 2020 and on passenger cars in 2022.
- **The Omnis view: this is a positive stance from China, embroiled in a brewing trade war with the US. However, Chinese officials have historically talked a good game regarding opening up market access, which hasn’t materialised – there is still more to do.**

Landslide victory for left-wing candidate in Mexican election

- Andrés Manuel López is projected to win around 53% following Sunday’s presidential election.
- This sets the stage for the most left-wing government in the country’s democratic history.
- Further tensions with the US are likely (especially considering a revised NAFTA agreement is yet to be agreed) with López highly critical of Donald Trump.
- **The Omnis view: at a time of strained relations between the US and Mexico, some are worried that leftist policies could damage the already sluggish Mexican economy.**

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LOOKING AHEAD - TALKING POINTS

Bumper week for US data as markets close for Independence Day

- Analysts are hoping the Institute for Supply Management's Non-Manufacturing purchasing managers index (PMI) shows increased business confidence.
- US non-farm payrolls and the unemployment rate are due to be released on Friday – jobs growth bounced back at last count in May after two months of lacklustre gains.
- Also on Friday, the US is scheduled to impose tariffs on \$34bn of Chinese goods.
- **The Omnis view: on Wednesday, stock and bond markets will close for Independence Day, bringing down trading volumes. However, this should not have much impact other global markets.**

US ISM Non-Farm Payrolls – June 2017 to May 2018



Source: US Bureau of Labor Statistics, tradingeconomics.com

All eyes on Carney for clues on outlook for UK economy and interest rates

- Bank of England governor Mark Carney is due to speak in Newcastle on Thursday, where markets will listen closely for clues on his latest take on the UK economy.
- Analysts will also be looking for any commentary on interest rates, with many anticipating a rate rise in August.
- According to Bloomberg, the chances of a rate hike next month are at 66.5% (as of 2 July).
- **The Omnis view: while Mark Carney still has plenty of work to do before he steps down in June 2019, thoughts have already turned to his replacement. Carney has been criticised on inconsistencies in communicating policy.**

UK GDP Growth Rate (%) – March 2015 to March 2018



Source: Office for National Statistics, tradingeconomics.com

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