

MARKET UPDATE: BREXIT NEGOTIATIONS INTENSIFY AS US SENATE APPROVES TAX OVERHAUL

4th December 2017

LAST WEEK – KEY TAKEAWAYS

UK concedes to EU demands on Brexit divorce bill?

Europe's chief Brexit negotiator Michel Barnier has said he expects to announce within days a financial agreement for the UK's cost for exiting the EU. While he denied a binding 'divorce bill' had been agreed, it is believed the final figure will be around €50bn (£44bn). The value of the pound climbed late last week on hopes of solid progress, however the FTSE 100 – home to many multinational companies with revenues measured in dollars – was trading down.

RBS shuts 'bad bank' nine years after financial crash...

Royal Bank of Scotland (RBS) took a further milestone on its long road to recovery as it finally closed its so-called 'bad bank' set up to keep it solvent in the aftermath of the 2008 financial crisis. The government has already revived plans to sell down its 72% stake in the bank, with an aim to offload £15bn of shares by 2023. In a drastic turnaround, the RBS balance sheet has been reduced from £2.2trn in 2008 to £752bn this year.

Talks ongoing to form German government

Rumbling on in Europe is the ongoing discussions over the formation of a German 'grand coalition' government. Chancellor Angela Merkel's Christian Democratic Union (CDU/CSU) is hoping to reach an agreement with the second-largest party, the Social Democrats (SPD), otherwise a second election – more than two months after the first – is on the cards.

Trump wants action after latest North Korean missile test

US president Donald Trump has said he has spoken to Chinese leader Xi Jinping about major additional sanctions on Pyongyang, following North Korea's first ballistic missile test in two months, which its leadership claimed could strike anywhere on the US mainland. It has declared itself a "complete" nuclear state. White House national security adviser HR McMaster said that the US is "in a race" to address the threat from North Korea.

...as the President's former national security adviser pleads guilty of lying to the FBI

President Trump took to Twitter over the weekend to attack the FBI, following news that his former national security adviser Michael Flynn had pleaded guilty to lying to the FBI concerning conversations he had with the then Russian ambassador to the US. Flynn also announced that he was cooperating with the FBI and was ready to testify about Russian contacts.

Massive US tax overhaul nears approval

Considering the above, the President's desire to force through US tax reform is not surprising. On Friday, odds of such reform received a shot in the arm as the US Senate narrowly passed the near 500-page bill in a vote of 51-49. The bill would cut the corporate tax rate from 35% to 20%, whilst adding an estimated \$1.5 trillion in federal debt. The bill is expected to be on Trump's desk for final approval by the end of the year.

LOOKING AHEAD - TALKING POINTS

US Economic Data Due

Data later this week will offer an insight into the latest health of the US economy. Market expectations are for the US economy to have added 195,000 jobs in November. The US unemployment rate is expected to remain at 4.1%. Tuesday will offer a forward-looking insight, via the monthly release of the US ISM Non-Manufacturing PMI. The Purchasing Managers Index is an indicator of economic health, gathered using monthly surveys to provide information about current business conditions.

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Last month the measure jumped to its highest reading since August 2005. This month analysts expect a slight softening of the headline reading from 60.1 to 59.2. A reading above 50 signifies expansion.

US ISM Non-Manufacturing PMI (2012-2017)



Source: US Bureau of Labor Statistics, Tradingeconomics.com

Chinese Imports and Exports

China will look to continue its recent trend of reporting robust economic data of late on Friday, when it releases YoY export and import data. Inflation data is also due, with consensus expectations for the headline rate of 1.9% to remain largely unchanged. However, as the below chart illustrates, future expectations centre around inflation trending higher.

Chinese Inflation Forecasts



Source: National Bureau of Statistics of China, TradingEconomics.com

THE OMNIS VIEW

Through a well-diversified approach to asset allocation, the Omnis investment team aims to defend and grow the value of your portfolio through market cycles. Despite a softer patch of performance for some risk assets over the very short term, underlying economic data has been robust, and the Omnis Investment Team remain constructive on the near-term outlook for equities.

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