

MARKET UPDATE: INFLATION, EMPLOYMENT AND RETAIL SALES DATA TO PAVE WAY FOR UK RATE HIKE?

16th July 2018

LAST WEEK – KEY TAKEAWAYS

Trump flies into the UK as May warns MPs not to put Brexit at risk

- US president met with Theresa May to talk about Brexit, while also calling the EU a “foe” on trade.
- A white paper published on Thursday outlined the UK government’s plans, advocating close links with the EU on trade in goods, but not in services.
- Writing in the *Mail on Sunday*, May urged MPs to “keep their eye on the prize” ahead of a crucial Commons vote on trade and customs policy.
- **The Omnis view: Trump causes furore whether he goes, suggesting that European countries were taking advantage of the US and not paying their Nato bills. The prime minister, meanwhile, has a busy time ahead warding off any possible leadership challenge.**

UK GDP growth rises to 0.3% in May

- The UK economy strengthened in May, with growth of 0.3% from 0.2% in April, following a winter slowdown.
- Growth was led by a strong services sector, including retail, computer programming and legal services.
- The Office for National Statistics also calculated that gross domestic product (GDP) only rose by 0.2% in the March-to-May quarter, matching the growth of the first three months of the year.
- **The Omnis view: this was the ONS’ first monthly estimate of GDP, which presents a mixed picture of the UK economy. We expect continued slow, but steady, growth in the months ahead.**

Mixed results for banks as US earnings season kicks off

- JPMorgan and Citigroup both beat expectations for second-quarter profits on Friday, a big day for US bank results.
- Wells Fargo saw second-quarter profits fall by 11%, in part caused by previous regulatory issues.
- Global banks have recently been subject to Federal Reserve stress tests, designed to assess how well they could withstand another financial crisis – Deutsche Bank’s US division notably failed.
- **The Omnis view: the health of the banking sector is important as this sector makes up a big part of stockmarkets in the US and in the UK.**

US inflation up 2.9% over 12 months

- The Consumer Price Index (CPI) came in at 0.1% for the month of June, with the annual figure coming in at 2.9%, which is the highest since December 2011.
- Excluding the volatile food and energy sectors, core CPI rose 0.2% for the month. Annually, this core figure is 2.3%.
- The Federal Reserve is forecasting that its favourite measure of inflation, the Personal Consumption Expenditure Price Index, will remain at 2.1% this year.
- **The Omnis view: the Federal Reserve said on Friday that it expects rising inflation and low unemployment will keep it on track to raise interest rates at a gradual pace over the next two years. Two more hikes are projected in 2018.**

Chinese economy growing at slowest pace since 2016

- The second-quarter growth rate for China was 6.7% year-on-year, slowing from 6.8% for Q1.
- The current pace of growth still remains above the government’s annual growth target of 6.5%.
- Asian stocks were mostly trading lower on Monday in reaction to the data.
- **The Omnis view: it is clear China is slowing, though 6.7% growth is still the envy of other nations. The impact of trade disputes with the US will likely be felt in the second-half of this year.**

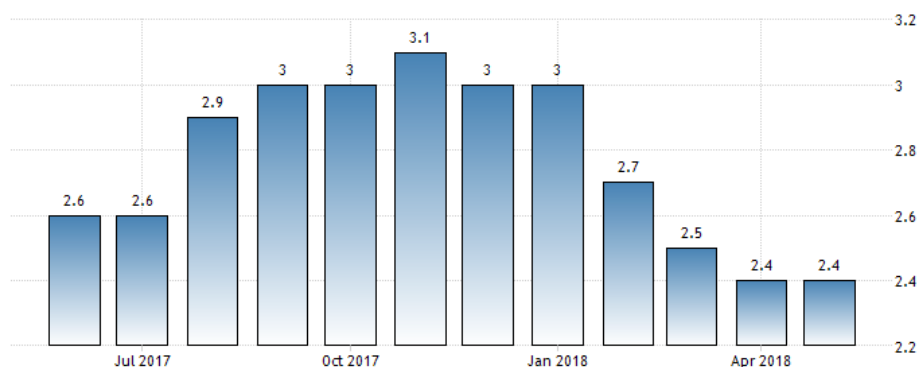
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LOOKING AHEAD - TALKING POINTS

Inflation, employment and retail sales to shed light on UK economy

- Inflation remained steady at 2.4% in May, despite a rise in oil prices. Forecasters expect the Consumer Price Index to rise to 2.6% for June.
- Wages will be in the spotlight ahead of the Bank of England's Monetary Policy Committee meeting on 2 August.
- Following two consecutive months of strong retail sales growth, there could be further good news for the UK's embattled high street.
- **The Omnis view: the Bank of England's Monetary Policy Committee is expected to raise the base interest rate from 0.5% to 0.75% in August, though poor data this week could put that move in doubt.**

UK inflation rate (%) – June 2017 to May 2018

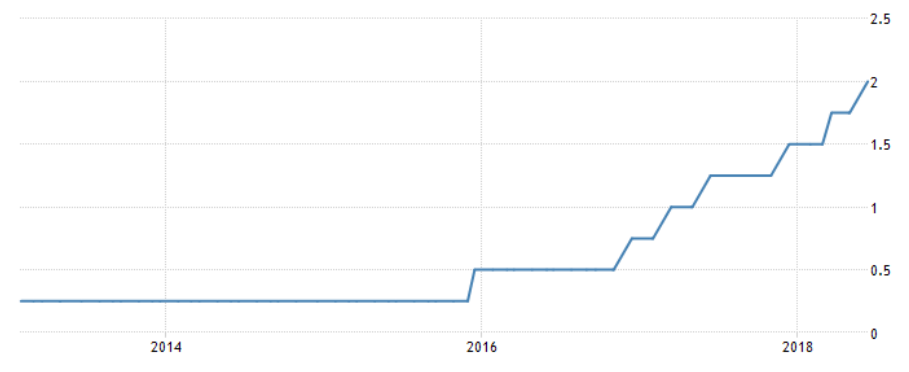


Source: Office for National Statistics, tradingeconomics.com

Powell testimony will give clues to future US monetary policy

- Federal Reserve chair Jay Powell is set to deliver his semi-annual testimony on the US economy and monetary policy to a Senate committee on Tuesday morning.
- This should support expectations of a 25bp rate hike at the Federal Open Market Committee's September meeting.
- The median estimate of projections put rates at 3.1% at the end of 2019, and 3.4% at the end of 2020.
- **The Omnis view: The market still expects Powell to raise rates much slower than he has indicated. Any hints at this in his testimony will be taken positively.**

US Fed Funds Rate - 2013 to 2018



Source: Federal Reserve, tradingeconomics.com

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