

MARKET UPDATE: UK GDP GROWTH RATE DUE, WHILE CARNEY COOL ON MAY RATE RISE

24th April 2018

LAST WEEK – KEY TAKEAWAYS

China registers 6.8% first-quarter year-on-year growth

- Figure topped consensus estimate of 6.7%, while also exceeding the government's growth target of about 6.5%.
- Investment in property, a crucial driver of the economy, accelerated to 10.4% in the first quarter, representing the fastest pace in three years.
- According to JPMorgan analysts, any economic impact of trade tensions with the US would only be felt later this year.
- **The Omnis view: the news had little impact on Asian markets. Recent Chinese data has been mixed – while March retail sales came in better than expected, industrial output growth for the month and quarterly fixed asset investment figures missed estimates.**

Bank of England governor Mark Carney cools talk of May interest rate rise

- Governor suggests that some economic data has been softer than anticipated; says doesn't want to be "too focused on precise timing" of when interest rates may next rise.
- Implied probability of a rate hike in May subsequently drops from 87% on 18 April, to 51% on 23 April.
- The health of the UK consumer is something which the Bank closely monitors, and retail sales fell 1.2% in March, in part due to poor weather.
- **The Omnis view: in the near term, considerable uncertainty around Brexit merits caution, and we would expect the path of any rate hikes to be gradual.**

Japanese inflation muted, but trend intact...

- Consumer prices, excluding fresh food, rose 0.9% in March from a year earlier.
- This was in line with expectations, but below February's 1% rise.
- The Bank of Japan maintains an elusive 2% inflation target, a goal set five years ago, which policy makers had hoped to achieve by 2015.
- **The Omnis view: beginning his second term as Bank of Japan governor, Haruhiko Kuroda said last week he expects to reach the Bank's 2% inflation in fiscal year 2019. However, for this to happen we believe the Bank must continue to adopt very accommodative monetary policy for some time to come.**

...as prime minister Shinzo Abe's approval rating plummets

- Public support for Abe has fallen to 30% in the well-respected Mianichi poll, and 39% in the Yomiuri poll.
- This is, in part, due to the prime minister being caught up in the document-tampering Moritomo scandal.
- Abe met with US president Donald Trump last week, though they reportedly failed to reach a deal which would exempt Japan from US steel and aluminium tariffs.

The Omnis view: Abe is a major proponent of the Bank of Japan's current extraordinary monetary stimulus programme, and if he were ousted it could possibly lead to a more hawkish replacement. For now, we do not expect any major political upheaval in Japan.

Positive signs from US earnings season, boosted by tax reform

- Around 17% of companies have now reported first-quarter earnings results, with around 80% of S&P 500 companies having reported a positive earnings surprise.
- As at 20 April, the blended earnings growth rate for the S&P 500 was 18.3%. If this is maintained, it will mark the highest earnings growth since the first quarter of 2011 according to FactSet.
- US tax reforms, particularly the reduction in the corporate tax rate, has been a significant tailwind for companies.
- **The Omnis view: many US listed companies continue to impress from an earnings perspective, however, valuations are richer than elsewhere in developed markets.**

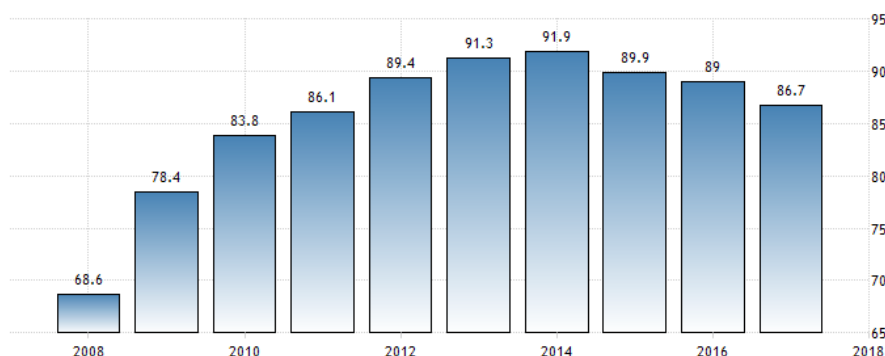
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LOOKING AHEAD - TALKING POINTS

ECB set to update markets on bond purchases, while interest rates set to stay at near zero

- The European Central Bank's short-term interest rate benchmark will almost certainly stay at near zero for the near future
- However, markets will be keen to watch for any change in stance over the Bank's bond buying programme (QE), currently at \$30bn per month.
- Several analysts think the bank will decide in June or July to extend the purchases further.
- **The Omnis view: the eurozone government deficit-to-gross domestic product ratio fell from 1.5% in 2016 to 0.9% in 2017, according to new data published by Eurostat. This is a positive sign of economic resilience, though the ECB is unlikely to risk upsetting the economy by raising rates anytime soon, as this would choke off hard-won growth**

EU government debt to GDP (%) – 2008 to 2017



Source: Eurostat, tradingeconomics.com

UK growth figure to show first-quarter slowdown?

- 'Beast from the East' expected to have taken its toll with forecasts from EY Item Club economists expect first quarter gross domestic product growth of just 0.2% to 0.3%, down from 0.4% in the final three months of 2017.
- Full-year growth estimated to come in at around 1.6%.
- However, a separate Deloitte study points to consumer confidence returning to its highest level since the end of 2016.
- **The Omnis view: UK workers have experienced some much-needed relief of late, with headline inflation ticking lower, and wage growth rising.**

UK GDP growth (%) – January 2015 to January 2018



Source: Office for National Statistics, tradingeconomics.com

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