

# MARKET UPDATE: TRADE WAR PAUSES, FEDERAL RESERVE HINTS AT SLOWER MONETARY TIGHTENING

3 December 2018

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## LAST WEEK – KEY TAKEAWAYS

### Monetary policy: Fed changes tone

- US equities rallied as Federal Reserve chairman Jay Powell said interest rates are approaching the neutral rate- the level that neither boosts or slows economic growth- and insisted 'there is no pre-set policy path';
- The previous month Powell talked about rates probably being a 'long way' from neutral.
- **Omnis view: Powell's comments suggest the Fed may slow the pace of monetary tightening in 2019, although a rate hike remains likely at its December meeting.**

### Global trade: Trump and Xi agree to ease tensions

- At a meeting after the G20 summit, US president Donald Trump agreed to refrain from raising existing tariffs, while his Chinese counterpart Xi Jinping committed to reducing the trade deficit by increasing purchases of American farm, energy and industrial goods.
- **Omnis view: Progress is positive, but there are further hurdles to overcome. The US could escalate tariffs if China fails to address concerns about alleged technology theft within three months, so uncertainty about global trade will continue to hover over the markets.**

### Brexit: Sterling volatile amid downbeat outlook for UK economy

- Separate reports by the government and the Bank of England suggested the draft Brexit deal could reduce UK economic growth by up to 4%;
- However, sterling rallied as the damage to the UK economy would be much greater in case of a 'no deal' Brexit.
- **Omnis view: Sterling should continue to be volatile ahead of the meaningful vote on 11 December, as Prime Minister Theresa May tries to convince MPs to back her deal. As things currently stand, it looks unlikely that enough MP's will vote in favour of the Prime Minister's plan in order to approve it.**

### Europe: Italy and EU edge closer to deal on draft budget

- Italian assets rallied following reports that the coalition government might be prepared to compromise on its draft budget;
- The country's deputy prime minister Luigi Di Maio hinted that fiscal spending plans could be revised to reduce the proposed budget deficit which breaches EU rules.
- **Omnis view: Italian rhetoric appears to be softening after the EU rejected the country's draft budget twice and raised the prospect of imposing financial penalties.**

### Commodities: Oil prices fall ahead of OPEC meeting

- Oil prices weakened in response to rising US stockpiles and doubts over whether Saudi Arabia would cut production, although Russia provided some respite after the country's energy minister said it would cooperate with OPEC.
- **Omnis view: The markets will closely monitor OPEC's meeting on 6 December when members will discuss reducing global supplies.**

## LOOKING AHEAD - TALKING POINTS

### Economic data

- The US publishes November's non-farm payroll report on Friday;
- China releases November's import, export & balance of trade data on Saturday and inflation rate on Sunday.

### OPEC meeting

- The Organisation of Petroleum Exporting Countries (OPEC) starts its final two-day meeting of the year on Thursday.



Brent crude oil price year to date (source: ft.com)

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