

# MARKET UPDATE: GLOBAL SHARES RECOVER AS CHINA RESPONDS TO CORONAVIRUS

10<sup>th</sup> February 2020

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## LAST WEEK – KEY TAKEAWAYS

### China: Central bank response to coronavirus reassures markets

- The coronavirus weighed heavily on Chinese shares at the start of the week after the country’s stock market reopened following the new year holiday;
- However, Chinese shares recovered and other global shares rose as the People’s Bank of China took measures to support the domestic economy.
- **Omnis view: There were signs that the spread of the virus was slowing, although it does not appear to have reached a tipping point yet. While the Chinese central bank is providing short-term support for the markets, the longer-term effect of the outbreak on the global economy remains to be seen.**

### Trade: China cuts tariffs on US goods

- Global shares received another boost when China announced it would cut tariffs- taxes on products imported from abroad- as part of the initial trade deal recently agreed with the US.
- **Omnis view: By reducing tariffs, not only does China reaffirm its commitment to the first phase of the trade deal, but it also helps to offset the economic impact of the coronavirus.**

### UK: Return of Brexit uncertainty weighs on pound

- The pound fell against the US dollar early in the week after the Prime Minister said the UK would leave the EU at the end of the transition period even if the two sides fail to agree a free trade deal.
- **Omnis view: Having won a sizeable majority in December’s general election, Boris Johnson is in a strong position to negotiate what he believes is a favourable free trade deal for the UK. However, keeping ‘no deal’ on the table means Brexit uncertainty has intensified again. The pound’s movements against the US dollar should provide a guide to what the markets think is the most likely outcome.**

### US: Robust economy supports shares

- There was good news for US shares when the Institute for Supply Management reported that industrial activity increased at a faster pace than expected in January;
- Meanwhile, the US economy beat forecasts to create 225,000 new jobs in January, according to the monthly non-farm payrolls report<sup>1</sup>.
- **Omnis view: The strength of the domestic economy reinforces the decision by the Federal Reserve (US central bank) to keep interest rates on hold at its latest meeting. A cut to rates may still be necessary later in the year, especially if the coronavirus slows global economic growth.**

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<sup>1</sup> <https://www.dol.gov/newsroom/releases/osec/osec20200207>

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## LOOKING AHEAD - TALKING POINTS

### **Economic data**

- Tuesday- UK economic growth in the fourth quarter of 2019;
- Thursday- US inflation rate in January.

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