S4W MAY 2019

OUR REVIEW OF KEY EVENTS DURING MAY
30/05/2019

DOMESTIC NEWS

The eminent historian, Anthony Seldon, has dubbed Theresa May's tenure as Prime Minister as the "unhappiest reign in 100 years". It feels like it. Her resignation, now confirmed for 7th June, will not solve the twin problems of poor Parliamentary arithmetic and intractable divisions in both main parties. So we continue in the same vein with a different leader. Away from politics, this month has seen some high-profile corporate collapses. Thomas Cook and British Steel buckled under the weight of Brexit related demand and cost issues and Jamie's Italian was not able to survive the trend affecting casual dining. On a more positive note, the unemployment rate continued to fall, now down to levels not seen for 44 years. Stockpiling for the first BREXIT deadline is thought to have helped the UK economy to post 1.8% growth over a year ago, beating the European growth rate of 1.2%.

GLOBAL FINANCIAL NEWS

The dominant story this month has been the escalation of trade tensions between the US and China. This has taken the form of an increase in US tariffs on $200bn of Chinese goods to 25% and the formal blacklisting of Huawei, the Chinese telecoms giant. Trump persists in selling the notion that the US economy will be billions of dollars better off. The truth is that the consumer will pay. 10% tariffs might be shared or even absorbed by the producer but 25% higher prices will hit the end consumer. The upcoming meeting with President Xi at the G20 summit in Japan gives Trump a platform from which to claim the negotiation of a "great" deal but the timing may depend on his need for a success story ahead of the US Presidential election in 2020. Economic data from around the world can be best described as underwhelming although European unemployment figures (7.7%) were seen as encouraging. In the context of UK and US unemployment there remains much to be done to resolve imbalances in the European labour markets.

EUROPEAN ELECTIONS

The triumph of the Brexit party has dominated UK headlines but the pro EU Liberal Democrat and Green parties also did well. Across the rest of Europe there was a similar trend. The big centre left and right blocks have lost their combined majority with increased support for liberals, Greens and nationalists. The turnout reversed years of decline and was the highest for 20 years. The balance in power in the EU has now shifted although not as far in the direction of nationalist parties as had been feared. Nevertheless, the new order is likely to slow down or frustrate laws proposed by the European Commission (the bureaucratic arm of the EU). It might also complicate the election of the Presidents of both the EU and the Commission along with budget approval. The machinery of power moves very slowly in Europe in the best of times and politics is an ever-present factor but this may give markets something else to worry about in the short term.

MARKET NEWS

Markets have been on the back foot this month in response to increased uncertainty regarding the US/China trade talks. Unsurprisingly, stock markets in South East Asia were hard hit. But the impact of the move by many giants of the US technology industry to remove Huawei from their supply chains resulted in technology company share price declines. Shares in UBER had a disappointing stock market debut, falling sharply from their discounted offer price.

In the UK, Sterling has been punished for the prevarications around Brexit, losing all of the gains of the first quarter and touching the lows of December 2018. Theresa May's resignation has hardly cleared the muddy waters - no relief rally in either sterling or the FTSE here.

AND FINALLY

Let us introduce you to SONIA, an acronym which will become more prevalent over the next few years. Firstly, however, a recap back to 2012. LIBOR, the London Interbank Offered Rate, was the subject of a market fixing scandal exposed in that year which resulted in £7bn of fines and several convictions. The rate is a widely used benchmark at which major banks lend to one another and is used in a wide array of financial products. At the time, it was calculated from ***estimates*** of what rate the leading banks in the City were prepared to lend to each other. The response to the scandal by regulators was to change the calculation to ***actual*** interbank lending rates. As part of the reforms they resolved to phase out LIBOR and use the Sterling Overnight Index Average (or SONIA). Currently the two are being run in parallel. By 2021 LIBOR will be phased out entirely and replaced by SONIA.

FTSE 100 >7,185.30| DOW >25,126.41 | HANG SENG >27,134.76| GOLD > $1,279.9 | £1= 1.26 | £1 = €1.13

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