

MARKET UPDATE: UK UNEMPLOYMENT FALLS TO RECORD LOW AS TENSIONS BETWEEN THE US AND TURKEY RUMBLE ON

20th August 2018

LAST WEEK – KEY TAKEAWAYS

UK unemployment falls to record low

- The UK unemployment rate dropped to 4% in the second quarter, the lowest rate in over 40 years, according to figures released by the Office for National Statistics¹;
- However, record-low unemployment failed to boost wages, as wage growth softened to 2.4% in the same period²;
- Meanwhile, monthly inflation rose for the first time in eight months, ticking up by one basis point to 2.5% in July³;
- **Omnis view: Record-low unemployment is good news for the UK economy, following the rebound in growth in the second quarter. However, we remain underweight in UK equities until we have greater clarity about the outcome of Brexit negotiations (see below).**

Tensions between the US and Turkey rumble on

- In response to growing pressure to release pastor Andrew Brunson from house arrest, the Turkish government doubled trade tariffs on a range of US goods including alcohol, tobacco and cars;
- The Turkish lira strengthened against the US dollar following intervention in the currency markets and a pledge by Qatar to invest \$15 billion in the country, but those gains were reversed on Friday as US Treasury Secretary Steven Mnuchin announced ‘we have more that we are planning to do if they do not release him [Andrew Brunson] quickly’;
- In other emerging market (EM) news, official campaigning started ahead of the Brazilian presidential election in October, with populist candidate Jair Bolsonaro considered a frontrunner;
- **Omnis view: It was a turbulent week for EMs, as Turkey dealt with the fallout from US President Donald Trump’s confrontational foreign policy, and concerns over an escalation in US-Chinese trade relations simmered. However, we believe valuations remain attractive.**

China to send trade delegation to the US

- China announced that it will send a vice-ministerial delegation to the US for the first round of trade talks since the US imposed tariffs on \$50 billion of Chinese goods;
- According to the Chinese Commerce Ministry, the US initiated the talks by inviting the trade delegation to Washington DC;
- Meanwhile, Chinese state-owned conglomerate Sinograin paid tariffs on a shipment of soybeans from the US due to a lack of alternative suppliers;
- **Omnis view: The upcoming talks will take place just before the US decides on the next round of tariffs on an additional \$200 billion worth of Chinese goods. These are mid-level talks though and lack the attendance of high-ranking negotiators. The US list of demands do look more reasonable however, and markets would welcome a breakthrough.**

Latest round of Brexit talks start in Brussels

- The latest round of Brexit talks opened in Brussels, as the EU rejected the idea of allowing Prime Minister Theresa May to negotiate directly with her European counterparts at the leaders’ summit in September;

¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/timeseries/mgsx/lms>

² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kac3/lms>

³ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2018>

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- Foreign Secretary Jeremy Hunt started his second tour of European capitals, as he attempted to secure support from Finland, Latvia, Denmark and the Netherlands for the Prime Minister's Chequers proposal which keeps the UK close to the single market;
- Trade Secretary Liam Fox's efforts to negotiate a trans-Pacific trade deal could be thwarted by the Chequers proposal, as the UK would still be subject to EU trade rules;
- **Omnis view: With both sides hoping to reach an agreement by the autumn, the pressure is on to deliver results from the upcoming talks. We believe some sort of deal is likely, in which case valuations could rise from their current attractive levels.**

German economic growth boosts eurozone

- German gross domestic product (GDP) grew by 0.5% in the second quarter⁴, leading the eurozone to upgrade its growth for the same period from 0.3% to 0.4%⁵;
- Economic growth and low unemployment appeared to boost US consumer confidence in July, as retail sales beat forecasts;
- Japanese exports missed expectations in July, resulting in a greater deficit than forecast;
- **Omnis view: As the trading bloc's biggest economy, growth in German GDP tends to be good news for the overall health of the EU. Elsewhere, more positive US economic data increases the likelihood of further interest rate hikes this year.**

LOOKING AHEAD - TALKING POINTS

Key releases from the Fed and Bank of Japan

- The Federal Reserve publishes the minutes from its latest Federal Open Markets Committee meeting on Wednesday;
- Japan announces its annualised inflation reading for July on Friday, with a Reuters poll predicting a slight increase driven by energy costs;
- **Omnis view: The markets will closely monitor both releases, and any accompanying commentary from the Bank of Japan, for hints at changes to monetary policy. Generating sustainable inflation remains challenging for the Japanese, indicating ultraloose policy from the central bank is set to continue.**

Japanese Inflation Rate (August 2008 – July 2018)



Source *TRADINGECONOMICS.COM* and *Ministry of Internal Affairs & Communications*

⁴https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/NationalAccounts/DomesticProduct/Tables/Q_GDP.html;jsessionid=4BDB422C717C48F8355744487CD2FA31.InternetLive2

⁵<http://ec.europa.eu/eurostat/documents/2995521/9105264/2-14082018-BP-EN.pdf/e28c60ea-1ad0-47fd-b7e1-668cdb9ba016>

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Central bankers head to Jackson Hole for annual meeting

- Central bankers from around the world head to Jackson Hole in Wyoming this week for their annual meeting;
- One of the principal topics up for discussion is the market power of big corporations, while Fed Chair Jay Powell will address the meeting for the first time when he opens the conference on Friday;
- **Omnis view: Central banks are at a critical juncture, as many of the world's largest economies start to reverse quantitative easing. However, we do not expect any major announcements or policy decisions to come out of this meeting.**

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