Weekly Investment Update

The week in review

- Brexit outcome ever more opaque
- Federal Reserve increases its funding rate
- Italy challenges EU budget rules
- Oil price reaches a four year high

Brexit news focused on the Labour Party's annual conference, where Jeremy Corbyn stated he would prefer a general election, rather than support Prime Minister May's Chequers plan.

Elsewhere, Theresa May declared that negotiations with the EU were "at an impasse" and reiterated that "no deal is better than a bad deal." This followed last week's acrimonious EU summit and comes ahead of the Conservative party conference on 30 September.

Worryingly, EU President, Donald Tusk stated that the Chequers plan 'will not work, not least because it will risk undermining the integrity of the single market.' Tusk also said that a proposed Brexit conference on 17th November was only possible with concrete progress on the Northern Ireland border issue. There appears to be minimal clarity on the outcome of Brexit into 2019.

Over in the US, the Federal Reserve raised its funding rate by 0.25%, while simultaneously dropping any reference to monetary policy being "accommodative". In terms of data, US jobless claims fell to a fresh 48 year low

Turning to US/China trade developments,10% tariffs were finally imposed on US$200bn of Chinese goods, with China set to retaliate with tariffs on $60bn of US goods.

European data revealed Germany's manufacturing PMI had fallen to 53.7 from 55.9, with the trade disputes leading to Germany's new export orders index retreating to 48.2, its lowest level since June 2013. However, overall Euro Area composite PMI remained steady at 54.2.

Turning to Italy, the populist political parties appeared to succeed in their budget negotiations, agreeing a 2.4% GDP budget deficit for 2019, which was notably above consensus expectations. This outcome will likely lead to a confrontation with the European Commission, as budget will need to be submitted to by October 15, at which point the EU can request a new budget in the event of non-compliance. This is unchartered territory.

Asia in markets moved higher, as investor sentiment improved on the back of S&P 500 gains. A weaker yen has helped Japan's Nikkei,225, while China's Shanghai Composite index rallied from year lows. In Japan, August CPI was reported at 1.3% year on year.

Sovereign bonds sold off over the week, with the 10 year US Treasury yield up to its highest level since May, closing at 3.04%. In the UK the 10 year gilt yield finished at 1.54%. while in Europe the German 10 year Bund yield closed higher at 0.54%.

Crude oil prices touched a four year high, in anticipation of US sanctions on Iranian oil exports and OPEC and Russia's decision not to raise output at their meeting in Algiers. Oil (Brent) traded at $81.87.

Global Markets	2018 YTD %*
FTSE 100	+1.4
S&P 500	+10.56
Dax	-3.78
Nikkei 225	+6.24
Hang Seng	-4.35
Fixed Income	**Yield %**
UK 10 Yr	+1.54
US 10 Yr	+3.04
Commodities	**2018 YTD %**
Gold	-9.10
Source: FE Analytics/ Bloomberg.com	**Local currency/TR*

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