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INVESTMENT MANAGEMENT

Weekly Investment Update

The week in review

- No breakthrough in Brexit negotiations
- UK declares record budget surplus in January
- Eurozone economy remains close to stagnation
- Japans manufacturing PMI data shows first contraction in two years
- Palladium hits all time high

The UK is now just five weeks away from leaving the EU, and this week, PM Theresa May sent two of her key ministers to Brussels to try and find a way past the deadlock. Negotiations between Brexit Secretary Steve Barclay and the EU's chief negotiator Michel Barnier, however, did not reach a breakthrough. Further talks will take place next week, and PM May will need to provide some evidence of progress soon as law makers are threatening to take control of the Brexit process from her. MPs will hold a vote on the 27th February on what to do if no deal is reached. On Friday, EU officials said that they expect PM May to be forced to request a 3 month delay to Brexit if Parliament backs the deal but it is not signed off until an EU summit on March 21st. Anything longer than a 3 month delay would put the UK under pressure to take part in the European elections on May 23rd, something that both parties want to avoid.

Brexit aside, Britain posted its biggest budget surplus on record in January despite a slowing economy, putting finance minister Philip Hammond on course to announce the lowest annual borrowing since 2002 in a fiscal update due just next month. Hammond, under pressure for more public spending after years of austerity, has said he could use that headroom to ease any Brexit shock to the world's fifth-largest economy.

The eurozone's manufacturing sector entered its first downturn since 2013, amid a slump in February Manufacturing data. The Purchasing Managers Index figure hit a 69-month low of 49.2 showing a decline in overall business activity. IHS Markit's chief economist said "with factory order books deteriorating at an increased rate, the rate of contraction in the goods producing sector is likely to worsen in coming months".

In Asia, the Nikkei Japan Purchasing Managers Index figure declined to 48.5, slipping below the key expansion/contraction point of 50, providing the first contraction in two and a half years. This followed data released earlier in the week showing a worse than expected fall in Japanese exports in January, with the sub index for production falling from 49.4 to 47. These figures illustrate that the economic outlook has changed for the worse, as a year ago the data showed Japans manufacturing activity was at its strongest in 4 years.

US-China trade talks continued this week, with Treasury Secretary Mnuchin saying the meetings last week were productive. Both parties stated that they had achieved "important progress," and "it's going extremely well." As part of the ongoing trade talks, China has proposed buying an additional \$30 billion year of US agricultural products including commodities such as wheat, corn and soybean, sending grain and soy futures higher on Friday.

Oil (WTI), edged higher once again advancing around 3% for the week as OPEC and its allies balance surging American supplies. Palladium reached an all time high of just above \$1,500 an ounce, extending a powerful rally driven by a supply shortage, as car manufacturers scramble for the material to meet tight emission controls.

Global Markets	2019 YTD %*
FTSE 100	+5.48%
S&P 500	+9.90%
Dax	+6.66%
Nikkei 225	+9.73%
Hang Seng	+12.01%
Fixed Income	Yield %
UK 10 Yr	+1.14%
US 10 Yr	+2.66%
Commodities	2019 YTD %
Gold	+3.41%

Source: FE
Analytics/
Bloomberg.com

*Total
Return/Local
currency

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