"FAKE NEWS" SPREADS TO THE BOND MARKETS AND BREXIT NEGOTIATIONS

This week, like a many previous weeks, came with a lot of political noise, but largely saw markets continue to rise regardless. One of the more amusing bits of political theatre the markets ignored was the irritation of the Brexit secretary, seemingly over the EU warning British businesses to prepare for a no-deal Brexit. Despite months of rhetoric such as "no deal is better than a bad deal", David Davis has apparently reacted badly to the EU taking the PM seriously. This is a reasonable point, the reshuffle this week showed that cabinet don't take Mrs May seriously so it's fair to ask why should anyone else.

Elsewhere we had the amusing spectacle of Donald Trump letting us know what he really thinks of Africa, Haiti and El Salvador and that he is apparently quite charmed by Norway, after a visit from their prime minister, or possibly he's just a fan of Disney's Frozen. While these little outbursts don't really mean anything, it is interesting to see how the world has managed to move on without US leadership, with the two Koreas seeming to get along better despite hard-line US policy.

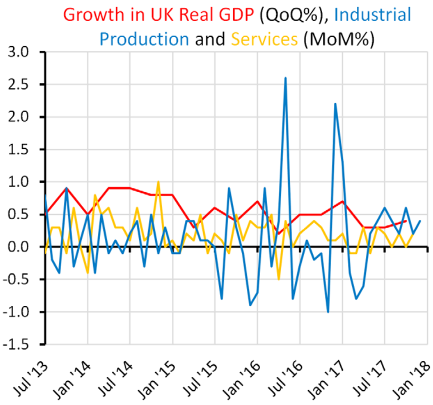
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.58%	+1.60%	+0.63%	-0.22%	+1.94%	+0.07%	+0.07%	+1.82%	+0.90%	+0.81%	+0.21%

UK: DAVIES' FEARS OF INDUSTRY FLIGHT RENEWED

Brussels has been systematically warning UK companies that they should prepare for a "no-deal Brexit" on March 29, 2019. In November and December, EU regulators sent British companies in 15 different industries legal notices, reiterating that the UK will have no automatic right to operate in the European single market following departure. UK-issued operating licenses will expire and as a result many groups will have to create "EU entities for continuity of business" to retain access. Brexit Secretary David Davis has since criticised the EU's preparations for a no-deal outcome, claiming that this encourages UK companies to outsource operations to the continent.

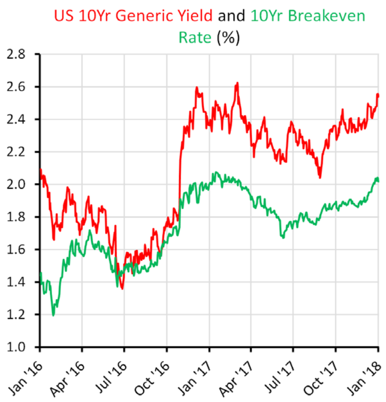
In brighter news, industrial production in November exceeded consensus forecasts, growing by 0.4 percent. Along with encouraging survey data for the services sector (nearly 80 percent of the UK economy), this suggests that economic growth was stronger than previously expected in the last quarter of the year. Based on the latest ONS figures, one leading think tank has estimated that the economy grew by 1.6 percent in 2017, 0.1 percent higher than forecasted in the Autumn budget.



US: TREASURY YIELDS SPIKE ON "FAKE NEWS" FROM CHINA

The yield on 10-year US Treasuries reached a 10-month high of 2.56 percent on Thursday. This followed an aggressive sell-off prompted by fears that China, the world's largest holder of US government debt, was considering reducing its exposure. Beijing later cast doubt on the reports, suggesting that "fake news" was to blame. This helped abate the sell-off, with 10-year yields levelling off into the weekend. 10-year yields have risen 25 percent since September 2017, leading some critics, including debt mogul Bill Gross, to call an end to the long-lived bull market which saw yields fall 55 percent from the start of 2014 to mid-2016.

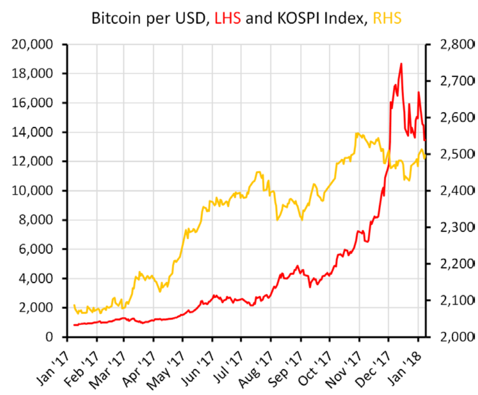
A more bearish bond market may be a sign that investors' inflation expectations have risen. This should be reflected in rising breakeven rates. Towards the end of 2017 the market had also been pricing in the signals from the Fed that policy will be tightened less gradually than previously anticipated. In addition, the market has recently been pricing in expectations that the ECB and Bank of Japan will join the Federal Reserve in scaling back the bond purchases this year.



KOREAN PENINSULA: TALKS UNDERMINE TRUMP'S HARD LINE

On Wednesday, North and South Korea held the first bilateral negotiations in two years. Pyongyang agreed to hold military talks with Seoul and to send a delegation of athletes, cheerleaders and politicians to the Winter Olympics which will take place 50 miles south of the demilitarised zone in February. President Trump has voiced support for the negotiations. However, the South offered to relieve sanctions on the North which threatens to undermine his attempts to coordinate an international hard line against Pyongyang.

Meanwhile back in Seoul, the South Korean government has announced plans to ban cryptocurrency trading on domestic exchanges. The announcement came following raids on two of the largest - Coinone and Bithumb - by police and tax agencies in response to allegations of tax evasion. Bitcoin prices plummeted following the announcement by justice minister Park Sang-ki, with South Korea accounting for around 20 percent of global transactions. The bill is likely to take several months to take effect, leaving plenty of time for investors to make potentially large losses.



Data Sourced from FE Analytics, and Bloomberg Finance LP