

MARKETS UNFAZED BY BREXIT NOISE

This week has been dominated by politics. While we should have more to say about the week's events, a crushing defeat for the government on Brexit and scraping survival in a no confidence vote, hasn't really changed anything. The markets have ignored all of it, suggesting that ministerial impotence and uncertainty are now priced in as the new normal. With the UK now effectively having no functioning government, and with no hint of one in opposition either, we think the market might be on to something.

After elections in Belgium in 2010 the Flemish and Walloons took 589 days before agreeing to a coalition and forming a government. The Belgian stock market lost eight per cent over the period. At this point, dissolving parliament for 2 years and only losing eight per cent is at the optimistic end of the range of possible outcomes.

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
-0.19%	+1.51%	+2.49%	+1.12%	+1.59%	+0.07%	+0.08%	+2.21%	-0.36%	-0.38%	+0.78%

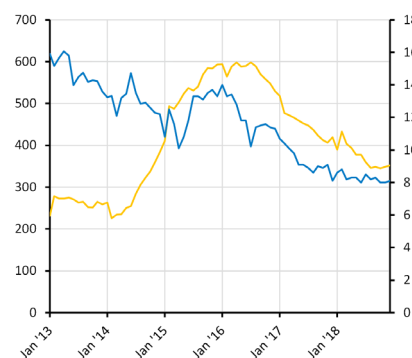
CHINA: CENTRAL BANK INJECTS RECORD AMOUNT OF MONEY INTO ECONOMY



Sluggish money supply and credit data released this week prompted the People's Bank of China (PBoC) to step in and boost liquidity. This was done by giving banks 570bn Renminbi (~\$86bn) in the form of a reverse repo bond (short term borrowing to dealers in government securities). Asian Pacific markets were down earlier in the week following poor data results but rallied after China's stimulus injection with the Topix, Nikkei and the Hang Seng Index closing up 1.67, 1.79 and 3.3 per cent following the news.

Not to be outdone by PBoC's fiscal stimulus, China's Finance Minister Liu Kun promised to lower tax rates for some industries and offer rebates to others in a bid to boost the flagging economy. The nation has shifted from a manufacturing focused export heavy driven model to a focus on consumption and productivity, but it still isn't immune from economic headwinds as witnessed by cooling house prices for the month of December. Minister Kun also pledged to tighten general expenditure by five per cent although precisely what areas are to be cut remains unclear.

China Monthly Money Supply (M2 YoY%), RHS and Trade Balance (Billions USD), LHS



US Fourth Quarter Earnings per Sector VS. Analyst Consensus (%)



US: BANKS POST STRONG RESULTS AHEAD OF FAANG EARNINGS REPORTS



Goldman Sachs and Bank of America announced Q4 earnings, beating Wall Street estimates, driven by strong investment and consumer banking performance. Both stocks traded up 9.5 and 7.2 per cent respectively. Goldman Sachs new boss also took the opportunity to apologise and distance the firm from the Malaysia 1mdb scandal. The bank played a pivotal role in underwriting \$6.5bn for the fund. Most of the money raised for the fund was allegedly embezzled and used to buy property, a private jet and ironically, finance the Wolf of Wall Street film.

In more sombre news, Vanguard founder and creator of the world's first index fund Jack Bogle passed away on Wednesday at the age of 89. Bogle's legacy is providing a low-cost way for individuals to invest in global markets. Vanguard has since grown to be a behemoth in the index fund space with over \$5tn in assets under management. Remarkably, Bogle structured the company as a credit union rather than going public or keeping it for profit, ensuring that members of Vanguard benefitted from its rise.

SEMICONDUCTORS: TSMC FORECASTS BIGGEST SALES DROP IN DECADES



TSMC, the world's largest contract chipmaker, forecasts a 22 per cent revenue fall for Q1 as slowing high end phone sales and weaker global outlook hinders returns.

The chipmaker whose main customers are Huawei and Apple expects revenue to be around \$7.3-7.4bn, down from \$9.4bn last quarter. New phone models failed to impress consumers in 2018, while a collapse in crypto markets stifled demand for processing power to mine the currency.

The wider semiconductor industry is also struggling with demand from its three main markets – computers, smartphones and data centres estimated to slow this year before turning negative for 2020. Samsung who provide chips for both smartphones and data centres issued a profit warning as the likes of Amazon, Google and Microsoft slowed down adding new data centres. So great is South Korea's reliance on semiconductors that the economy continues to struggle this year as exports dip.

Global Semiconductor Sales (Billions USD) RHS and TSMC (USD Prices), LHS

