

## TRUMP SWEETENS SPECIAL RELATIONSHIP

This week our two favourite topics, Trump and Brexit, came together amid the snow and global oligarchy of the World Economic Forum in Davos. Apparently while embarking on an all-out trade war to Make America Great Again, the president will find the time to do the UK a favour on post-Brexit commerce. We'll believe it when we see it; but given Trump has also just promised to testify under oath, as part of the investigation into possible Russian collusion and obstruction of justice, it might be wise to get Vice President Mike Pence on board as well, just in case.

Elsewhere, the Bank of Japan and the European Central Bank are in competition to see who will blink first and raise rates or end QE. Both governors have made a bold 'not on my watch' type statement this week, and the markets certainly expect them to stick to their word. The ace card will be inflation; while price rises in both regions are stubbornly low, inflation in Europe is marginally ahead, giving it a slight lead. We'll see who was bluffing as the year unfolds.

## THE MARKETS THIS WEEK

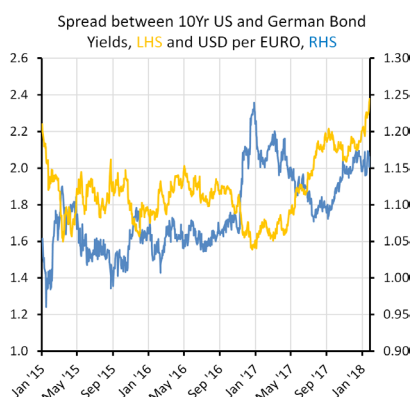
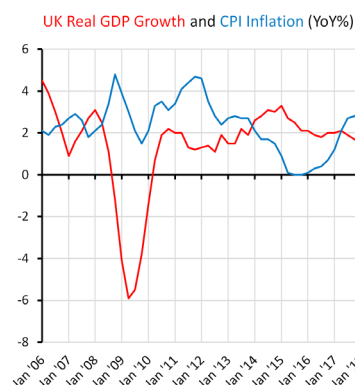
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.13%	+1.47%	-0.74%	-0.16%	+2.79%	-0.04%	+0.06%	+2.14%	+1.66%	+3.37%	+2.73%



### UK: STRONG ECONOMIC DATA SENDS POUND TO POST-BREXIT HIGH

The latest ONS estimates suggest that UK growth picked up in the last quarter of 2017 and the labour market continued to tighten. GDP grew by 0.5 percent in the fourth quarter, the fastest rate of quarterly growth in 2017. The unemployment rate remained at a four-decade low of 4.3 percent while total employment rose by 102,000, the biggest increase since July 2016. These figures come just two weeks before the next interest rate decision from the Bank of England's Monetary Policy Committee.

Although inflation fell towards the end of 2017, it remained well above the rate of earnings growth. This means that earnings continued to fall in real terms. In the three months to November regular pay was 0.5 percent lower in real terms than a year earlier, well below pre-crisis levels. As inflation continues to bite into workers' pay, most economists expect the Bank of England to raise interest rates towards the end of this year. The strong economic data also sent the pound to \$1.426, its highest level since the Brexit vote.



### EUROPE: ECB MAINTAINS RECORD LOOSE POLICY

On Thursday the European Central Bank (ECB) kept interest rates at record lows and expects them to remain at these levels until "well past" the end of quantitative easing. It will continue to purchase 30 billion euros worth of government bonds a month until the end of September 2018 and is prepared to extend these if the outlook for inflation doesn't improve. While recent data suggest that the eurozone economy is growing strongly, the ECB has been reluctant to tighten policy because inflation remains below target.

Following the ECB press conference, the yield on 10-year German Bunds spiked to a two-year high of 0.612 percent and the euro has since climbed to a three-year high of \$1.246. During the press conference, ECB chief Mario Draghi suggested that members of Trump's administration had defied a longstanding agreement not to target exchange rates in comments made at the World Economic Forum in Davos. Trump subsequently reiterated his preference for a strong dollar and claimed that the comments had been misinterpreted. This caused the euro to fall momentarily before continuing its rally.



### US: POLICIES ROLLED OUT TO PROTECT US MANUFACTURING

A three-day government shutdown came to an end on Tuesday with relatively little impact on financial markets. A much stronger impact came from remarks from the Treasury Secretary Steve Mnuchin who announced his support for a weak dollar in the short term. This represents a break from tradition and fuelled speculation that the government is targeting the exchange rate to boost the economy. His comments helped send the dollar index to a three-year low of 88.523.

Meanwhile, Japan, Canada, and ten Pacific Rim countries have agreed to sign the Trans-Pacific Partnership (TPP) trade agreement on March 8 without the US. The TPP was negotiated by the Obama administration only for Trump to sever ties with the bloc shortly after taking office last year. This news broke on the same day that Trump announced a 30 percent tariff on solar panels and a 20 percent tariff on large washing machines, dealing a setback to stocks like SunPower which manufacture solar energy equipment overseas but boosting stocks like Whirlpool which surged at the end of this week.

