

Thursday, 13<sup>th</sup> December 2018

## Morning Round Up

### Theresa May Wins no Confidence Vote

Theresa May won a vote of confidence by the Conservative Party yesterday with a 200 to 117 result, retaining her position as party leader and securing her immunity from a leadership challenge for a year. Both sides are claiming victory with comments from Jacob Rees-Mogg stating it was a "terrible" outcome for May, adding "she ought to go and see the Queen urgently and resign". While Theresa May has retained her position, the vote has demonstrated the resistance she faces as she tries to get the Brexit deal through a parliamentary vote. Overcoming the confidence vote has removed some of the uncertainty from the UK however, the questions around a Brexit resolution remains a major drag on UK, European and Irish equities. The overall performance this year of UK shares has been pretty much in line with their European counterparts on a Euro basis and marginally better in Pound terms. The impact of the pound is one of the main topics for UK equities, any sharp drop in sterling's value could soften investors aversion to the UK market, however the correlation could eventually turn positive with both falling together if the drop is caused by further uncertainty around the UK economy. Some major market participants are underweight UK equities. However, they acknowledge that UK assets are undervalued and any renewed sell off could present buying opportunities. Fund flows still show a short position on the pound, but some investors have started to cover these positions and reduce exposure on the long and short side. Once the UK moves on from Brexit the near-term uncertainty in the market and economy will be significantly reduced, this will provide a boost to UK stocks and the pound. Attention today will be focused on negotiations in Brussels as Theresa May is returning to the Belgium capital to try and convince the EU to tweak the withdrawal agreement so that it will be passed by Parliament. If May is successful a Brexit deal and soft exit for the UK could be one step closer.

### Busy Day in Europe

EU leaders are set to meet in Brussels this afternoon, with Brexit likely being the top of the agenda. British Prime Minister, Theresa May, will be in attendance looking for concessions to the "Irish backstop" solution as part of the exit agreement to help push it through Commons. Outside of Brexit, the other issues to be discussed include Russia's interference with Ukrainian ships in the Strait of Azov and an endorsement of the deal done on progressing a banking union by the Council of Finance Ministers. Meanwhile in Frankfurt, the Governing Council of the ECB will meet to discuss monetary policy. We are expecting Mario Draghi to announce the end of QE, with asset purchases falling to zero and no change to headline interest rates. There will also be updated economic forecasts for the Eurozone. Market participants will be looking to gauge the ECB's concerns by reading into any downgrades in growth expectations. Finally, the Swiss National Bank has left rates unchanged this morning and the Norges Bank meets later today as well.

### GBPUSD 1 Year Price Chart



Source: Bloomberg, CF Research December 2018

### Key Upcoming Events

13/12/2018 ECB Meeting  
13/12/2018 EU Summit  
19/12/2018 FOMC interest rate decision

### Market View

The US finished the day positive yesterday after a strong rally in European markets on improving trade sentiment. The rally continued into Asian trading, with most markets in the region positive. Europe has opened flat this morning with US futures pointing to a positive open later today. The pound strengthened on the back of Mrs May's victory, trading at £0.8982. Yields remain lower with the US and German 10 year trading at 2.90% and 28bps. European politics and US trade should dominate the headlines today. On the data front, there is Irish GDP numbers out, US import/export prices and German inflation data. The ECB will hold a press conference at 1.30 PM.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24527	157.03	0.64%	-0.78%
S&P	2651	14.29	0.54%	-0.84%
Nasdaq	7098	66.48	0.95%	2.82%

Nikkei	21816	213.44	0.99%	-4.17%
Hang Seng	26524	337.64	1.29%	-11.35%

Brent Oil	59.86	-0.29	-0.48%	-10.48%
WTI Oil	50.85	-0.30	-0.59%	-15.84%
Gold	1242	-3.93	-0.32%	-4.69%

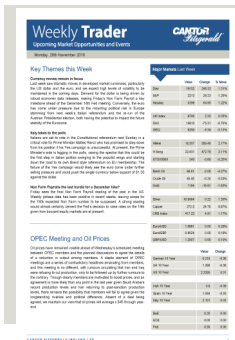
€/\$	1.1374	0.00	0.04%	-5.26%
€/£	0.8986	0.00	-0.18%	1.18%
£/\$	1.2658	0.00	0.23%	-6.33%

	Yield	Change
German 10 Year	0.274	-0.01
UK 10 Year	1.241	-0.04
US 10 Year	2.8951	-0.01

Irish 10 Year	0.945	-0.03
Spain 10 Year	1.411	-0.02
Italy 10 Year	2.89	-0.1100

Source: Bloomberg, CF Research December 2018

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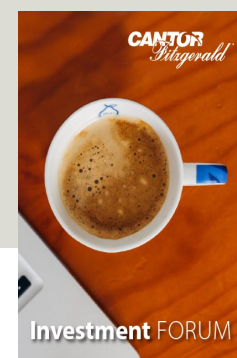
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