

# MARKET UPDATE: US CUTS INTEREST RATES FOR FIRST TIME IN 10 YEARS

5 August 2019

## LAST WEEK – KEY TAKEAWAYS

### US: Interest rate cut weighs on equities

- US equities fell after the Federal Reserve lowered interest rates for the first time in 10 years by 0.25%, blaming global economic uncertainty and trade tensions;
- Meanwhile, the US economy added 164,000 jobs in July, in line with forecasts, although June's figure was revised down from 224,000 to 193,000.
- **Omnis view:** The markets were disappointed that the Fed decided against reducing rates by a greater margin and by comments from chairman Jay Powell claiming this was an isolated adjustment rather than the start of a series of cuts.



*Performance of the S&P 500 for week commencing 29<sup>th</sup> July 2019 (source: ft.com)*

### UK: Sterling weakens despite Johnson's reassurance

- Sterling hit its lowest point against the US dollar since Article 50 was triggered after Michael Gove, the minister responsible for planning the UK's departure from the EU, suggested a 'no deal' Brexit was the government's working assumption;
- There was further pressure on sterling as the Bank of England downgraded its forecast for UK economic growth, but it held the interest rate at 0.75%.
- **Omnis view:** The Prime Minister subsequently rebutted Mr Gove and insisted that he still believes the chances of a 'no deal' Brexit are remote, although the two sides do not seem to be moving any closer to a resolution on the contentious issue of the Irish border.

### Trade: Trump ramps up tensions with China

<sup>1</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20190731a.htm>

<sup>2</sup> <https://www.bls.gov/news.release/empsit.nr0.htm>

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- Global equities fell after US President Donald Trump tweeted he would impose tariffs of 10% on an additional \$300 billion worth of Chinese goods from the start of September, and China pledged to take countermeasures.
- **Omnis view:** The optimism following the meeting between President Trump and his Chinese counterpart Xi Jinping at the G20 summit has faded, and a breakthrough appears to be unlikely any time soon.

## LOOKING AHEAD - TALKING POINTS

### Economic data

- Thursday- Chinese imports, exports and balance of trade in July;
- Friday- Chinese inflation rate in July; UK economic growth in the second quarter.

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