Financial Weekly Market Commentary as of 14th Dec 18

Last week pretty much sums up the year; a lot of noise and drama and we've ended up back where we started. The challenge to Theresa May dominated the airwaves for two days, but despite seeing off the challenge, nothing about Brexit has fundamentally changed. While the PM is temporarily safe from her own party; she still has a deal nobody wants and seems unlikely to get any material change from the EU, who are just as fed up with the whole process as we are. We still think that May's strategy is to run the clock down and try and force something through at the end. Other scenarios involving a referendum or election require too much risk for the Conservative party, so we think they fall in line at the end.

Elsewhere the announcement that the ECB has finally come to the end of its QE program went largely unnoticed, but really deserved a bit more attention. It is incredible that a decade after the financial crisis only now are the extraordinary emergency policies put in place to fend off total collapse being withdrawn. While the crisis itself has faded in memory, the effects are still being felt everywhere, from the riots in France to Brexit.

JAPAN: ECONOMY CONTRACTS AFTER STRING OF NATURAL DISASTERS

Japan's GDP numbers published last week made for grim reading. The revised annualised growth rate showed the economy contracting by 2.5 per cent in the third quarter. The nation has been unfortunate to suffer from a powerful typhoon, heavy flooding and an earthquake in Hokkaido over the last few months and with the economy geared towards export and tourism, growth was expected to dip. Even so, the contraction was sharper than predicted. Unusually, the Yen was little affected by the news as the currency is considered by investors to be a "safe haven" from trade war volatility.

Meanwhile, in a bid to continue to insulate itself from the fallout of the ongoing trade war, Japan has struck a new trade deal with the EU. The deal will see the nation scrap tariffs on around a €1bn of goods such as wine, cheese and meat. In return the EU will remove duties on Japanese cars.

EUROPE: ECB CONFIRMS THE END OF QUANTITATIVE EASING

After months of speculation it has been confirmed that the European Central Bank will end its quantitative easing programme this year. The ECB had been hinting heavily that the programme would end after reducing monthly purchasing from €30bn to €15bn last summer.

However, sluggish regional growth and contractions in key economies for Q3 put pressure on the Bank to rethink its planned end date. ECB chairman Mario Draghi also confirmed the downward revision of Eurozone growth next year from 1.8 per cent to 1.7 per cent citing uncertainties due to geopolitical factors, market volatility and protectionist threats as the reasons for the change.

Elsewhere in the Eurozone, Italy has begrudgingly amended part of its budget plan in order to bring an end to its standoff with the EU. The country would have liked to have increased spending to kickstart its stagnant economy whereas the EU preferred if they could cut back on mounting debt. Italy has proposed to cut its budget deficit for 2019 to 2.04 per cent from 2.4 per cent in earlier drafts.

UK POSTS SLUGGISH GDP GROWTH

House prices grew at their slowest rate in almost six years. November growth was 0.3 per cent, in comparison, the October figures were at 1.5 per cent. Most of the blame has been attributed to Brexit as buyers and sellers wait to see how it plays out.

To compound further misery, the last quarterly figures (Sep-Nov) showed house prices falling by 1.1 per cent in comparison to the prior quarter, this has been the biggest quarterly drop in house prices so far this year.

The UK posted sluggish growth in the latest set of quarterly figures. GDP grew by 0.4 per cent in the rolling three months to October. Growth was supported by the resilient performance of the services sector, specifically the accounting and computer programming components of the industry. Manufacturing was flat through the quarter with falling car sales detracting from growth.