



The End of Volatility?

Last week the most notable headline came from Jerome Powell, the Chair of the US Federal Reserve, when he announced that he thought interest rates were “just below neutral”. This apparent softening of stance has done wonders to soothe a jittery market, with US stocks rallying on the news. Whether or not this is materially any different from previous statements and actually signals any change in policy is debatable, but it is definitely what the market needed to hear. This might be the reassurance needed to put an end to the current period of volatility.

Elsewhere an awful lot of attention was paid to a range of “No-Deal Brexit” forecasts, from both the Bank of England and the Treasury. While they caused no end of comment, the information wasn’t new. Crashing out of the EU without any sort of contingency will be bad. Exactly how bad is up for debate, but the Treasury forecast is in that ball park. The Bank of England ruffled a few more feathers with its bleak worst-case scenario, but the worst-case scenario for anything is usually pretty bleak, it’s rather the point of the exercise.

UK: Banks Ready to Weather No-Deal Brexit Storm

UK banks are well-prepared to face a no-deal Brexit, said the Bank of England on Wednesday. Results of the central bank’s second stress test since 2008 revealed that the seven biggest lenders in the UK – HSBC, Barclays, Lloyds, Nationwide, RBS, Standard Chartered and Santander – would all be able to continue lending in the event of a no deal Brexit and still have enough capital to cover fines and compensation for wrongdoing. Of the seven, Nationwide and Santander were the best performers, while Barclays and Lloyds came out at the bottom, but the BoE maintained that “no bank needs to strengthen its capital position as a result of the stress test”.

Contrarily, the central bank noted that if the UK was to crash out of the European Union without a deal, it could trigger a recession worse than that seen in the financial crisis of 2008. The worst-case scenario would see GDP fall by more than 10 per cent over the next five years and house prices drop by 30 per cent.

US: ‘Real’ Interest Rates Almost Neutral

‘Real’ interest rates in the US are almost at a neutral level – where growth neither speeds up nor slows down – according to Jerome Powell. The statement from the Chairman of the Federal Reserve on

Wednesday was well-received in equity markets on the belief that the rate-hiking course the US has been embarking on may start to slow down. In the bond market, the US 2-Year Treasury yield fell 2 basis points, while the US 10-Year Treasury hardly moved. The Fed, however, gave no indication as to whether they would curtail their rate increases, only that they would be monitoring the economic and financial indicators very closely.

Powell, who has come under fire from President Trump for his rate hiking, also took the opportunity to defend the continued increases. The Fed Chairman said that interest rates, currently 2.25%, are still low by historical standards. He added that the Fed's expectations for the US economy were in line with many private sector economists and forecasted continued growth of the economy, low unemployment and an inflation figure not far off 2 per cent.

Global: Trump Furious After GM Announce Cuts

A ceasefire in the ongoing trade war between the US and China doesn't look likely ahead of the G20 summit in Argentina on Friday where President Trump and President Xi are set to meet. Larry Kudlow, Trump's chief economic adviser, said that further tariffs were likely if China didn't bring any new ideas to the table.

The US President also seems to be starting fights at home, as the US's biggest carmaker General Motors announced it would be shutting 7 of its factories worldwide and slashing thousands of jobs in an attempt to save \$6bn. The carmaker cited preparing for the effects of an economic downturn and trade wars as the reasons for doing so and its share price rose 5 per

cent off the back of the announcement. With four of the plants set to close in the US, the move goes against Trump's desire to rejuvenate the manufacturing industry and after the news broke, the President voiced his opposition to the closures and threatened to remove all subsidies to the carmaker.