MARKET UPDATE: INTERNAL MARKET BILL ESCALATES TENSIONS BETWEEN THE UK AND EU

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LAST WEEK – KEY TAKEAWAYS

UK: Government raises stakes in Brexit negotiations

- The pound weakened against the US dollar after the UK government announced plans to alter the withdrawal deal which set out the terms for the country's departure from the EU;
- With the Internal Market Bill, the government intends to change the rules governing the movement of goods between Northern Ireland and the mainland and state aid (subsidies to particular companies or industries), two of the key issues holding up negotiations of a free trade deal;
- There was better news for the UK economy which grew by 6.6% in July compared with the previous month as easing lockdown restrictions allowed business activity to pick up.
- **Omnis view: Altering the withdrawal deal, approved by Parliament in January, would have repercussions not just for Brexit but for any future negotiations, so whether the government intends to follow through with the new bill or use it as a bargaining tactic remains to be seen. Either way, uncertainty has intensified, as the risk of a hard Brexit has increased, and will weigh on domestic assets.**

US: Tech shares retreat again

- US stock markets fell for the second week in a row as the sell-off in technology shares continued, with the tech-heavy NASDAQ index extending its losses to around 10% from its recent peak;
- Also weighing on US shares was the failure by politicians to approve the latest proposal for a further round of measures to support the US economy's recovery from the coronavirus pandemic.
- **Omnis view: As we pointed out last week, technology shares have looked overvalued for some time and this correction appears to have been caused by investors taking profits rather than concerns about the companies in question. However, the sell-off seems to have plateaued for now.**

China: Exports remain on upward trajectory

- Chinese exports (goods produced in China and sold abroad) beat forecasts to grow by 9.5% in August compared with the same month last year, according to figures released by the country's customs agency.
- **Omnis view: The healthy growth in exports bodes well for the global economic rebound from the pandemic because it shows that activity continues to pick up in China, which was one of the first countries to go into lockdown. It also indicates demand from the rest of the world is increasing again.**

Europe: ECB keeps rates on hold

- The euro rose against the US dollar after the European Central Bank's (ECB) decided to leave interest rates unchanged and maintain its bond-buying programme, known as quantitative easing (QE), but pledged to monitor the strength of the single currency.
- **Omnis view: A stronger euro could hamper the EU's economic recovery from the pandemic as it makes exports more expensive to the region's trading partners.**

Oil: Prices drop over concerns about demand

- Oil prices fell amid concern that the number of new coronavirus cases in several countries around the world would lead to the slowing of economic activity and a subsequent drop in demand.
- **Omnis view: Oil prices had bounced back after falling sharply earlier in the year as countries went into lockdown, but they are likely to remain sensitive to any hint of a second wave of infections. Lower oil prices typically depress energy-heavy indices like the UK's FTSE 100.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Tuesday- Chinese unemployment rate in August; UK unemployment rate in July;
- Wednesday- UK inflation (rate at which prices rise) in August; US consumer spending in August
- Friday- Japanese inflation in August; UK consumer spending in August.

Central banks

- Wednesday- Federal Reserve (US central bank) interest rate decision;
- Thursday- Bank of Japan interest rate decision; Bank of England interest rate decision.

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