

MARKET UPDATE: HOMING IN ON UK HOUSE PRICES

4th September 2017

LAST WEEK – KEY TAKEAWAYS

Markets calm despite Korean missile threat

Tensions escalated in the Korean Peninsula over the weekend, with South Korea setting of live-fire drills in response to indications that the North is preparing an intercontinental ballistic missile launch. However, there was no great reaction from global stock markets on Monday morning (4 Sept).

Brexit negotiations stall

Liam Fox, international trade secretary, has said the UK must not allow itself to be “blackmailed” by the EU over its Brexit settlement, with the size of the so-called “divorce bill” a sticking point in talks. More pressure is coming from the new All-Party Parliamentary Group on EU relations, which calculates the cost of the UK leaving the customs union as £25bn annually.

Hurricane Harvey wreaks havoc on US oil refineries

Storm Harvey, which hit Texas last week, has had a significant impact on US energy infrastructure. Almost a third of US oil refineries, many of which are located on the Gulf Coast, have been affected and this has brought a sharp rise in prices at the pump across the US and beyond. Preliminary estimates suggest property damages in the range of \$30bn, which would make Harvey the 9th largest event since World War II in terms of domestic property damage.

Eurozone inflation up as unemployment remains steady

The rate of inflation in the eurozone rose to 1.5% in August, which was higher than forecasted, but below the European Central Bank’s 2% target. The preliminary estimate for the month was up from July’s rate of 1.3%, primarily due to higher energy prices. At the same time the EU statistics office, Eurostat, reported that unemployment in the eurozone was 9.1% in July, unchanged from the previous month.

Macron launches French labour reforms

The French government has unveiled measures intended to meet longstanding demands from employers to make the country’s jobs market more flexible and simplify labour relations. Business leaders have largely welcomed the reforms, though president Macron is likely to face pressure from unions and those who fear he could cut unemployment benefits.

US recruitment slows in August

The US economy added 156,000 jobs in August, below expectations, as the unemployment rate ticked up to 4.4% from 4.3% in July. Data from the US Department of Labor also showed that employment growth in June and July was lower than originally estimated.

LOOKING AHEAD - TALKING POINTS

UK house prices under the spotlight

Investors should get a better handle on the strength of the UK economy this week with plenty of key data due to be released. The mix includes manufacturing and industrial production as well as consumer inflation expectations and the Halifax House Price Index.

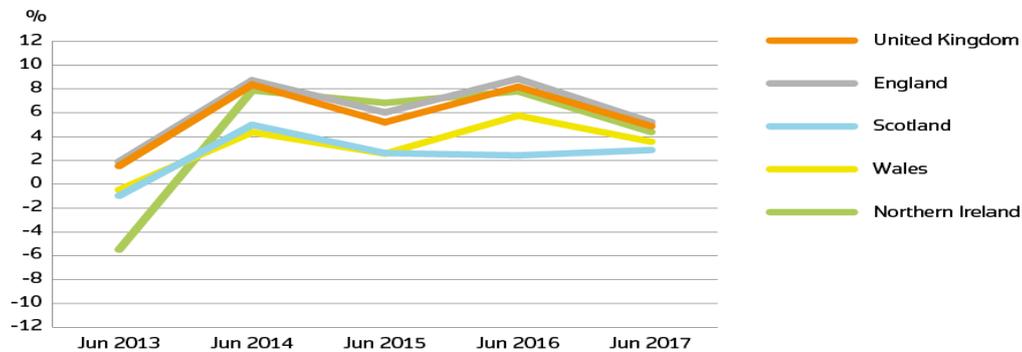
An ever-popular talking point for Brits, fluctuations in the housing market gives an insight into both UK consumer confidence and banks’ willingness to lend. The last Halifax House Price Index at the beginning of August showed annual house price growth to have slowed to the lowest rate in four years, impacted by falling household incomes.

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At the end of the month another lender, Nationwide, said the average price of a UK home fell 0.1% between July and August to £210, 495. It stressed that housing market developments will depend on wider economic performance – the UK economy slowed noticeably in the first half of the year, and there has been little to suggest a significant rebound in the months ahead.

Annual price change for UK house prices by country – 5 years



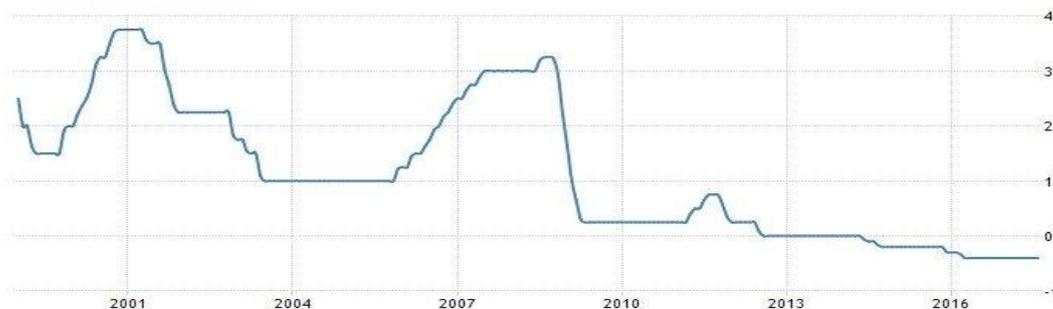
Source: HM Land Registry

ECB in the dark on monetary policy

The Governing Council of the European Central Bank meets for its latest monetary policy meeting in Frankfurt later this week, though an insight into its thinking has already come from one of its members. Austrian central bank governor Ewald Nowotny said last week that there is little room for an interest rate hike as long as inflation is low. As mentioned above, the key reading remains below the central bank’s 2% target.

The ECB’s interest rate is likely to remain at 0% for some time to come, at least until it has finished its asset purchase programme. Quantitative easing is set at €60bn per month until the end of the year. It has been reported that the Governing Council may now not be ready to finalise its decision on next year’s bond-purchase plan until then.

EU deposit facility rate



Source: ECB/Trading Economics

THE OMNIS VIEW

Through a well-diversified approach to asset allocation, the Omnis investment team aims to defend and grow the value of your portfolio through market cycles.

The ongoing Brexit negotiations continue to affect the confidence of UK PLC, while also weighing on sterling. The Omnis Managed Portfolio Service maintains an underweight position to UK stocks, preferring to allocate to higher-growth markets elsewhere. In the medium-to-long term we remain positive on the prospects for equities over bonds.

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