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Brexit Uncertainty and Value of Pound

In early August, sterling reached a low point of just above \$1.20 against the dollar. It then rose slightly, but the announcement that Parliament is to be suspended ahead of a Queen's speech on 14 October has led to a further fall. The suspension of Parliament effectively reduces the time available for MPs opposed to a no-deal Brexit to pursue legal avenues to prevent it. Sterling has followed a similar pattern against the euro. Strong economies have strong currencies because other countries want to invest there. They need the local currency to do so, pushing up demand and the money's worth Savings: When UK banks raise interest rates, holding savings or investments in pounds become more attractive, as you get more back for your money. So, demand for sterling increases Prices: If UK goods are cheaper than those abroad; they will be attractive to foreign businesses who will need sterling to purchase them. This will tend to push up the exchange rate. Much of the daily fluctuation in the exchange rate is because of these actions of the speculators and their confidence in the country's economic prospects.

China's yuan hits 11-year low

The Chinese currency sunk below to 7.1566 a dollar on 30th August, the lowest rate since February 2008. On 26th August after Washington and Beijing confirmed further tit-for-tat tariffs on hundreds of billions of dollars worth of imports. This latest flare-up also sent shares down sharply across the Asia-Pacific region, as investors ditched equities in favour of safe-haven government bonds. Gold – another measure of investor angst – hit its highest level in six years, at \$1,554 an ounce.

Markets stabilised after Donald Trump claimed that China had asked to resume negotiations. Speaking at a G7 meeting in Biarritz, France, the US president said phone calls had taken place “at the highest level”. The Chinese vice-premier, Liu He, who is Beijing's top trade negotiator, also attempted to calm the crisis. He told a tech conference in Chongqing that China was willing to resolve its trade dispute with the US through calm negotiations, and resolutely opposed the escalation of the conflict.

Trump welcomed those comments, claiming that China wanted to make a deal “very badly”. “China has taken a very hard hit over the last few months. It has lost 3 million jobs, and that will soon be much more,” he said.

Trump added that he would only sign up to a deal if it was “fair”, and “a good deal for the United States”. The drop in the yuan will help Chinese exporters compete abroad, and soften the blow of US tariffs. The fall could also stoke tensions with Washington, which called China a “currency manipulator”.

The yuan's losses came as China's CSI 300 stock index fell by 1.4%. The Hang Seng in Hong Kong closed down by nearly 2%, the Nikkei in Tokyo by 2%, and Seoul's Kospi by 1.5%.

Australia's benchmark S&P/ASX200 index in Sydney closed down 83 points, or 1.27%, with many companies exposed to China's economy leading the selloff. In Australia, energy and tech shares fell 2.91% and 2.82% respectively, leading losses as every sector started in the red.

The Chinese government announced retaliatory tariffs on \$75bn of US goods on Friday. Trump, countered by saying the US would raise its existing tariffs on \$250bn worth of Chinese imports from 25% to 30% on 1 October.“If there was any doubt before, it's a trade war now,” said Kit Juckes, head of foreign exchange strategy at the French bank Société Générale.

Fears that the US-China trade war will hurt global growth have prompted the Swiss bank UBS to cut its rating on equities to underweight, for the first time since the 2008 financial crisis. Trump's calls for US businesses to pull out of China would have an impact on their sales and net interest margins, Western said, adding another layer of concern. “We are even hearing, at a worst-case-scenario, that the US could restrict China's access to the financial markets and that is a genuinely scary proposition.

China puts \$75bn of retaliatory tariffs on US goods

China has unveiled retaliatory tariffs against about \$75bn (£60bn) worth of US goods, putting up to 10% on top of existing rates in the latest tit-for-tat in the dispute between the world's top two economies. The salvo from China on Friday comes after the US unveiled tariffs on an additional \$300bn of Chinese goods, including consumer electronics, scheduled to go into effect in two stages on 1 September and 15 December.

China's commerce ministry said in a statement it would impose additional tariffs of 5% or 10% on a total of 5,078 items from the US, including agricultural products such as soya beans, and crude oil and light aircraft. It also reinstated tariffs on cars and car parts originating in the US.“China's decision to implement additional tariffs was forced by the USs unilateralism and protectionism," the ministry said.US equity index futures fell on the news of the tariffs, pointing to opening losses on Wall Street. The White House trade adviser Peter Navarro told Fox Business Network that trade negotiations with China would still go on behind closed doors. The US trade representative's office had no immediate comment on China's tariffs announcement.

Fed cuts rates, signals may not do more

The US Federal Reserve has cut interest rates to shore up the economy against risks, including global weakness. Federal Reserve in the United States has slashed interest rates for the first time since the global financial crisis. The Federal Reserve has cut interest rates to shore up the economy against risks, including global weakness, but the head of the US central bank says he does not view the move as the start of a lengthy series of rate cuts.

Fed chairman Jerome Powell cited global weakness, simmering trade tensions and a desire to boost too-low inflation in explaining the central bank's decision to lower borrowing costs for the first time since 2008 and move up plans to stop winnowing its massive bond holdings.

Financial markets had widely expected the Fed to reduce its key overnight lending rate by a quarter of a percentage point to a target range of 2.00 per cent to 2.25 per cent, but many traders expected a clearer confirmation of forthcoming rate cuts.

In a statement "in light of the implications of global developments for the economic outlook as well as muted inflation pressures". The central bank also said it will "continue to monitor" how incoming information will affect the economy and "will act as appropriate to sustain" a record-long US economic expansion. "It's smart of them to go ahead and take out some insurance here. It's better than none at all," said Brett Ewing, chief market strategist at First Franklin Financial Services in Tallahassee, Florida.

Powell, speaking in a news conference after the release of the Fed statement, characterised the rate cut as "a mid-cycle adjustment to policy", comments that do not imply sharp further cuts are on the way.US stock prices fell after the Fed's statement and during Powell's press conference.

The Fed's policy decision drew dissents from Boston Fed president Eric Rosengren and Kansas City Fed president Esther George who argued for leaving rates unchanged.

"This is the most dissent we've had in the current Fed — we had two hawkish dissenters on this decision," said Eric Donovan, managing director of over-the-counter foreign exchange and interest rates at INTL FCStone. Rosengren and George have raised doubts about a rate cut in the face of the current expansion, an unemployment rate that is near a 50-year-low, and robust household spending.

On the opposite flank, US President Donald Trump is likely to be disappointed the Fed did not deliver the large rate cut he had demanded.

What the Market wanted to hear from Jay Powell and the Federal Reserve was that this was the beginning of a lengthy and aggressive rate-cutting cycle which would keep pace with China, The European Union and other countries around the world..

Trump has repeatedly harangued the central bank and Powell for not doing enough to help his administration's efforts to boost economic growth. Powell and other Fed officials in recent weeks have walked a middle ground, flagging risks like continued uncertainty on the global trade front, low inflation and a weakening world economy, but repeating the view the US is fundamentally in a good spot.

The Fed said in its statement it continued to regard the labour market as "strong" and added that household spending had "picked up". But it noted business spending was "soft" and that measures of inflation compensation remain low.

The Fed said the rate cut should help return inflation to its 2 per cent target but that uncertainties about that outlook remain. Sustained expansion of economic activity and a strong labour market are also the most likely outcomes, the Fed said.

Underscoring its decision to ease policy across the board, the Fed also said it would stop shrinking its $US3.6 trillion in bond holdings from August 1, two months ahead of schedule."I think ending the quantitative tightening right here was also a good call," First Franklin's Ewing said.

Trade war and Service sector

Discussions about the trade war between the United States and China have largely focused on goods. This is not surprising, given that tariffs have been the most visible weapon in this war. Tariffs apply to goods, not services – hence the focus on products. However, that misses a big, or maybe the biggest, part of the picture.

The impact of the trade war on services was the topic of a World Economic Forum panel that I recently joined, forcing me to think more thoroughly about it. I must admit that I was surprised to realize how pervasive the ramifications of this trade war have been on different services sectors. Services are the hidden side of this trade war.

Tariffs on goods affect the services content of those goods. For example, about 30% of the value of an automobile comes from the services that go into it. They include research, design and engineering services, distribution and logistics, and marketing and sales services, among others. So when a country raises tariffs on a car, a wide range of services providers are affected. As we know, the "servicification" of manufacturing is poised to rise, making the problem all the more relevant.

Tariffs on goods disrupt value chains – and the services providers along them. As manufacturing companies try to adapt to new trade barriers, services providers along the value chain also suffer the consequences. In some cases, they need to follow the moves of supply chains or risk being left out of business. Services provide the "glue" that connects the dispersed production stages of global value chains (transport, logistics, communications, financial and business services). If a company is relocating out of China (or the US) to avoid tariffs, most of its services providers are likely to be affected.

Slowing goods trade has an impact on the services that are key to moving goods across borders, such as maritime and road transport, express delivery and other logistics operators with an international focus. In August, China's exports to the US dropped 1% and Chinese imports from the US contracted by 5.6%.

Business restrictions at the company level for national security reasons affect a wide array of services providers. The issue here is the so-called Entity List from the US Department of Commerce, which affects services. In the case of Huawei, if the ban goes ahead, companies such as Google and Microsoft could be forced to discontinue their services as providers to Huawei. US companies providing financial services, logistics and other services to Huawei could also be affected. Huawei, as a services provider, could be prevented from providing support and cloud services for US telecom carriers. Services providers in third countries could be affected as well. Emblematic as the Huawei case may be, it is only one case. Even if on a different scale, all the other Chinese companies on the list tend to face serious disruptions. Additionally, China has announced it will come up with its own list of "unreliable" foreign companies – so a lot more may follow.

Travel and tourism, as well as educational services, are examples of "pure services sectors" affected by the trade war, unrelated to tariff hikes. According to the US National Travel and Tourism office, revenue with Chinese tourism in the US grew, on average, 20% year-on-year for a decade, only to contract by 2% in 2018. The prospects for this year don't look any brighter: China has officially discouraged its citizens from travelling to the US. In educational services, there is the potential for significant disruption in the flow of Chinese students to the US, affecting the business prospects of American universities and other educational establishments. In 2018 alone, there were approximately 350,000 Chinese students in the US.