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GOVERNMENT SHUTDOWN SET TO ADD FURTHER FUEL TO GLOBAL SELLOFF

This week we got a timely reminder of what really matters as stocks tumbled on the back of the latest Fed rate hike. While the decision was widely anticipated, the market had become convinced that recent events would have changed the banks policy on future rate rises, with expectations dropping absurdly low to just one additional hike in the next two years. This compares to the Federal Reserve forecast of two hikes in 2019 alone, which was reinforced with a statement from Jerome Powell. In a fitting epitaph to 2018 we then got to witness the chaos that follows when stupidity meets reality.

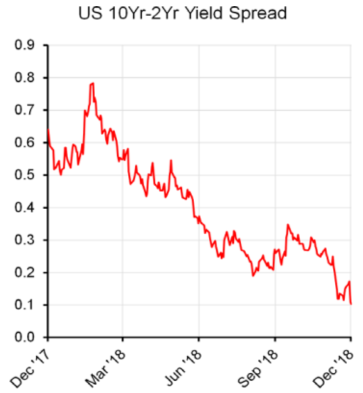
Elsewhere Donald Trump managed to snatch defeat from the jaws of victory, when he turned down an offer to keep the government open after an agreement had been struck between Republicans and Democrats to extend the current financing plans until the New Year. This brings a government shutdown over Christmas a step closer and gave an already depressed market even more to worry about.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-2.41%	-6.91%	-5.65%	-3.60%	-1.34%	-0.09%	-0.02%	-8.66%	+1.88%	-1.09%	+0.72%

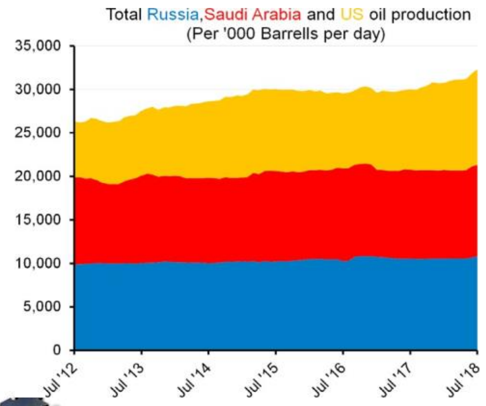
GLOBAL: FED NEWS SENDS MARKETS REELING

In a widely expected move, the Federal Reserve announced its fourth rate hike this year. What was more eagerly anticipated was how many more were forecasted for next year. Chairman Jerome Powell's comment of the interest rate getting closer to "normal" in the run-up to the meeting had the markets hoping for fewer increases for 2019.



However, Powell's defiant speech against yielding to external pressures along with refusing to rule out capping hikes to less than two sent bond yields soaring and global markets in retreat. S&P 500, Dax and Hang Seng indices were down 1.7, 1.3 and 1.2 per cent respectively the following day.

In contrast, the central banks of England and Japan kept interest rate levels unchanged at 0.75 per cent and negative 0.1 per cent respectively. The BoE's hands are tied due to ongoing uncertainty caused by Brexit. There was less surprise that the BoJ decided to hold rates as it hasn't changed since early 2016.



COMMODITIES: OIL PRICES CONTINUE SLIDE AS US SHALE RISES

Oil prices have taken a battering this quarter due to global growth concerns and a glut in supply. OPEC and Russia's agreement to shave off a million barrels of oil per day has yet to take effect as changes to supply levels typically take around six weeks to materialise. To compound issues, US shale oil production is booming with little signs of easing off. The country overtook Russia and Saudi Arabia to become the world's largest producer of oil with an output of 12 million barrels per day.

Rising US production is bad for countries such as Saudi Arabia that rely on higher prices to fund government budgets. Oddly, the country is bullish on oil price for its 2019 budget. It estimates oil will hover around $80 per barrel going against analyst consensus of an average of $73. Even with the optimistic forecast, Saudi Arabia is expected to post a sixth consecutive budget deficit.

COMPANIES: GSK AND PFIZER COMBINE HEALTHCARE BUSINESSES

GSK and Pfizer are set to merge healthcare divisions to create the world's largest over- the-counter medicine business, with a global market share of 7.3 per cent. Combined revenues are estimated to be around £9.8bn. GSK's demerger allows the company to split the business in to two parts, one researching new vaccines and pharmaceuticals, the other focused on over-the-counter medicines. GSK shareholders were pleased on hearing the announcement after years of clamouring to split divisions. The company share rose by seven per cent following the news.

Elsewhere, SSE and Npower's plan of merging their retail businesses, which would have created the UK's second biggest energy company, has been scrapped. SSE cited changing energy market conditions and performance of each business as the reasons for pulling out of the deal.

Data Sourced from FE Analytics, and Bloomberg Finance LP