UK GROWTH AND INFLATION FIGURES CAST INTO DOUBT

This week we got the welcome news that inflation might have peaked, with the latest figures showing a slight decline. However, it seems we may never know the true effect of this on the UK economy after it was revealed that there are major flaws in the way the Office for National Statistics calculates growth and inflation. Given that their numbers govern everything from gilt yields to student loans, and even had a hand in last year's interest rate rise, it would be nice to know they were correct.

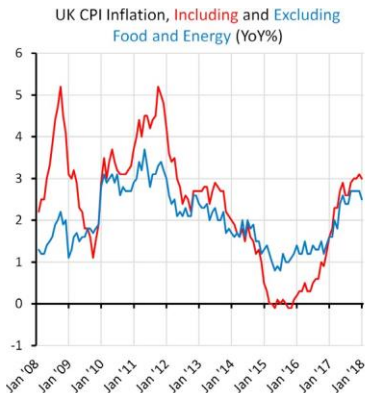
Elsewhere, the UK government pulled out all the diplomatic stops for French president Emmanuel Macron, when he visited the UK this week. Theresa May took him to a pub and Boris Johnson suggested building a bridge over the channel, perhaps taking a too literal interpretation of his ministerial brief. In return, the Bayeux Tapestry is heading to the UK for the first time in a thousand years, but unfortunately financial services are still going to Paris and Frankfurt after Brexit.

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
-1.02%	+1.81%	+0.65%	+0.42%	+2.68%	+0.08%	0.00%	-1.94%	-0.12%	-1.50%	+1.51%

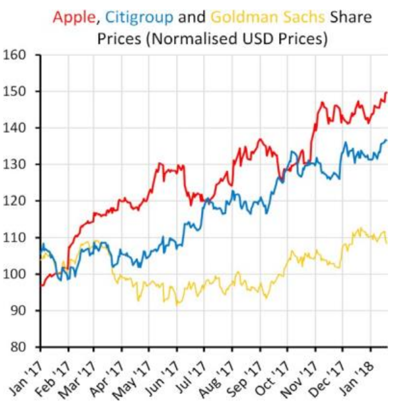
UK: INFLATION ENDS 2017 BELOW SIX-YEAR HIGH

The latest figures from the ONS suggest that inflation may have peaked at the end of 2017, which would cap a year and a half of accelerating consumer prices following the Brexit vote. Between November and December, the year-on-year headline rate of consumer price inflation fell from a six-year high of 3.1 percent to 3 percent. This is still one percentage point above the Bank of England's target, but falls within the range that does not require Mark Carney to send a formal explanation to the government.



Many economists perceive this to mark the end of a long period of rising inflation, which is largely attributable to the weakness of the pound since the Brexit vote in June 2016, when inflation stood at only 0.5 percent. This has made imported goods more expensive, which has continued to put upward pressure on consumer prices a year and a half later because suppliers typically order their stock at least one year in advance. The deceleration in prices is welcomed by the Bank of England which raised interest rates for the first time in a decade in November.

US: APPLE DANCES TO TRUMP'S TUNE

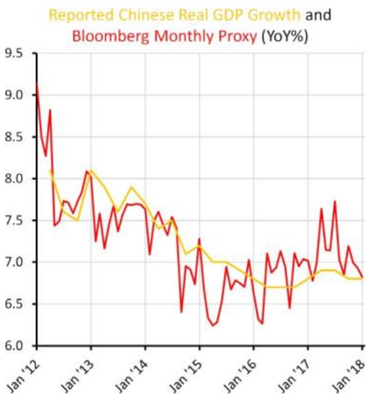


Apple has announced that it will provide a "direct contribution" of $350bn to the US economy over the next five years. This includes a $38bn one-off tax payment on accumulated foreign income and capital investments which are expected to create 20,000 jobs. The move comes less than two months after a massive overhaul of the tax code designed to boost domestic industry. The reforms include higher levies on accumulated foreign income, of which Apple has more than any other US company, hence its $38bn bill. Citigroup and Goldman Sachs have had to pay $22bn and $4bn respectively with Goldman Sachs recording its first quarterly loss in six years as a result.

The announced spending by Apple is significant partly because it equates to average annual expenditure of 0.3 percent of 2016 GDP over the next five years. Also, it represents the first major response to the tax reforms, a response which Trump has hailed as a "huge victory for American workers". Apple's share price reached an all-time high of $180 on Thursday on the back of the announcement.

CHINA: PARTY CONGRESS PICKS UP GROWTH IN 2017

Reportedly, Chinese GDP accelerated in 2017 despite policymakers' successful efforts to curtail credit growth and reduce financial risk. The economy grew 6.9 percent over the course of the year, the fastest rate since 2015. Policymakers in Beijing no doubt wanted to ensure robust income growth in the run-up to the five-yearly Communist Party congress which took place in October. Although not the double-digit rates of growth seen in the years preceding the financial crisis, the acceleration is impressive given that Xi Jinping's government also managed to start reducing the country's debt burden.



Between the first and second quarters of the year, the country's total debt fell from 269 percent of GDP to 268 percent. This is still considerably higher than pre-crisis levels but suggests that the government's measures to regulate the shadow banking sector and tighten monetary policy have been somewhat effective. The country's debt burden rose sharply following the financial crisis when the PBC began providing large monetary stimulus to buffer the economy but it eventually became the biggest perceived threat to growth.

Data Sourced from FE Analytics, and Bloomberg Finance LP