FINANCE WATCH

IAN MACFARLANE DIRECTOR – JCRA

It would be difficult to resist a comment on the current state of Brexit, which would appear to have marginally improved of late, depending on your point of view. I wonder if recent attention has focused on the dwindling timetable leading up to the assumed 29 March 2019 'B' day, resulting in some renewed effort from EU chief negotiator, Michel Barnier.

While the EU has made noises around some minor concessions of late, UK Prime Minister Theresa May still seems intent on championing the Chequers 'suggestion' that has only mustered minimal government support. So little in fact, that it must surely be heading for the bin.

So with less than seven months to go, what do we expect will be the likely outcome? There are calls for a further referendum, including from the Liberal Democrats and the TUC. If the TUC support gathers pace, the Labour Party may be persuaded to adopt this as policy.

I suggest a second vote is now unlikely, indeed I am not sure it is even legally possible, but if it did transpire then this would surely signal the end of May and her beleaguered Conservative Party.

However, with the way things are going you could forgive the government for planning to just leave with no deal, with the expectation that something is negotiated subsequently. There seems to be significant focus on why a 'no-deal' is terrible for the UK, but can it be worse than ending up with only a 'semi-Brexit'?

I suggest that in reality, the EU is well aware that it needs the UK as much as the UK needs the EU. There are plenty of countries that have a buoyant trading relationship with the EU without having any sort of trade deal. These countries traditionally do so under World Trade Organisation rules. If the UK leaves with no clear deal on trade that does not mean that countless other issues will not be agreed. I think that the public, and some politicians, need to recognise that leaving the EU will not result in an overnight transition: things will evolve over time and maybe, just maybe, once the UK has left, it could be easier to negotiate a more favourable position.

As we head towards the end of summer in Europe, financial markets are relatively quiet. Interest rates have remained steady in the UK and the eurozone with key economic indicators looking positive. Mark Carney has been persuaded to stay on as Bank of England governor for another year and I would be surprised to see any further change in UK rates until Q2 next year.

European Central Bank President Mario Draghi still plans to wrap up his bond purchases by the end of the year, with no expectation of a change in rates for the foreseeable future.

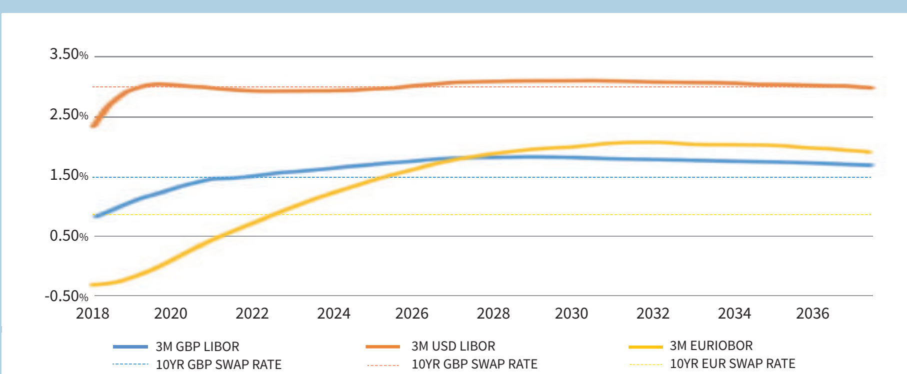
In the US, things seem to be slowing down a little and although we are still promised one more rate rise this year, this may be the last for a while. President Donald Trump still seems to be running the popularity gauntlet (in between his trade war with China) with his latest quest to hunt down the whistleblower in the White House who supplied the *New York Times* with a damming article about him. I am surprised Trump has taken it so badly given the countless bad press he encounters on a regular basis. However, one does have to wonder just how long he can keep this up, or indeed how long he can continue to rely on his supporters from middle America.

From an infrastructure perspective in the UK, Transport for London is now pushing forward with Silvertown Tunnel with an expected financial close later next year. It is interesting to note that there will be three significant UK PFI projects underway at the same time next year, including the A303 bypass and the Lower Thames Crossing. I am quite convinced that they will all secure competitive funding such is the ongoing appetite to lend to these types of long dated projects.

However, rather disappointingly, these are all major hard infrastructure projects that will take years to deliver. There still seems to be little or no focus on the increasing requirement for more affordable, easier and quicker to deliver social infrastructure in the UK.

Given impending Brexit, and the perceived economic worries that go with it, surely a programme of supported infrastructure would be good for the UK and a perfect advert to the world that the UK is open for business. PB

Projected 3MTH GBP/EUR/USD IBOR CURVES and corresponding 10 Yr Swap Rates



11 Sept 2018			
	GBP	**EUR**	**USD**
3 Month IBOR	0.80113%	-0.31900%	2.33425%
Swap Rates			
3 YR	1.1576%	-0.0483%	2.9640%
5 YR	1.2919%	0.2522%	2.9749%
7 YR	1.3854%	0.5236%	2.9800%
10 YR	1.4954%	0.8645%	3.0090%
20 YR	1.6222%	1.4038%	3.0550%
30 YR	1.6054%	1.4856%	3.0280%