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BREXIT DELIVERED?

The UK officially left the EU on 31 January and is now embarking on an 11-month transition period during which formal trade negotiations will take place.

Brexit has undoubtedly been an arduous process, costing two British Prime Ministers their jobs and dividing families the length and breadth of the country. However, since Boris Johnson won a landslide victory in December's election with a mandate to *'get Brexit done'*, the UK had been heading inexorably towards the EU exit door.

The final hurdle in the 1,317-day saga was safely cleared when the European Parliament rubber-stamped the Withdrawal Agreement on 29 January. And, at the stroke of 11pm on 31 January, the UK ceased to be a member of the EU; the divorce had finally been sealed.

In many ways, however, while Brexit day carried huge political symbolism – with a commemorative 50p coin minted to mark the occasion – little will change initially as the country enters a transition period due to last until 31 December 2020. So, while UK citizens are no longer EU citizens, the country remains in the EU single market and customs union and will continue to follow EU rules.

More significant changes are likely to occur on 1 January 2021, the UK's first scheduled day outside of EU rules. And what happens then will depend upon the type of deal the UK manages to negotiate with the EU. Formal trade talks are due to start towards the end of February or early March with the British government's stated aim to secure a *'zero tariff, zero quota'* free trade deal by the end of 2020.

With trade deals typically taking years to conclude, there is scepticism that negotiations can be completed within such a short timescale. However, while reaching agreement on a comprehensive deal by the end of 2020 may prove elusive, securing a *'bare bones'* package covering areas such as trade, fisheries and security certainly could be achievable.

BUSINESS SENTIMENT IMPROVING

Although data released by the Office for National Statistics (ONS) has confirmed the economy was weak during the final few months of last year, recent survey data points to a potential pick-up in economic activity.

Gross domestic product statistics released by ONS showed the UK economy grew by a lacklustre 0.1% in the three months to end-November 2019. Additionally, year-on-year growth across the September–November period slowed to just 0.6%, from 1.0% in the previous three-month period; this represents the lowest annual rate of expansion since spring 2012.

This sluggish performance last autumn, however, partly reflects the heightened political uncertainty relating to Brexit and the forthcoming general election at that point in time. And, more recently, there have been clear signs of a post-election pick-up in the economy with survey evidence pointing to improved business sentiment and growing consumer confidence.

For instance, the January UK Purchasing Managers' Index found that companies enjoyed their best month for over a year, while a recent Confederation of British Industry survey pointed to a record jump in confidence amongst manufacturers. There have also been signs of the public adopting a more upbeat demeanour in the aftermath of the election, with a survey commissioned by Barclaycard revealing a distinct rise in consumer optimism.

Whether or not this improved level of confidence will translate into a meaningful and sustained boost to economic growth remains to be seen, but economists have certainly been heartened by improvements across such a wide range of indicators since the general election result was announced. And there is certainly growing optimism that the UK economy has enjoyed a relatively encouraging start to the new year.

MARKETS: (DATA COMPILED BY TOMD)

At the end of January, several major global markets closed in negative territory. The recently signed US-China trade deal was expected to lift the global economy, but the coronavirus outbreak, coupled with lethargic US economic data and mixed corporate earnings, has intensified global growth concerns.

In the UK, the FTSE 100 closed on Brexit day down 3.40% to end January on 7,286.01. The FTSE 250 followed suit, losing 3.38%. The mood was similarly negative on European markets, as the Euro Stoxx declined 2.78% in the month. In the US, the blue-chip Dow Jones Industrial Average had its first monthly loss since August, while the Nasdaq was supported by strong earnings from Amazon.

On the foreign exchanges, sterling closed the month at $1.32 against the US dollar. The euro closed at €1.18 against sterling and at $1.12 against the US dollar.

Gold had its best performance in five months as concerns drove investors toward safe-haven assets. The precious metal is currently trading at around $1,590.14 a troy ounce, a gain of 4.82% on the month.

Crude prices slipped as disruptions to supply chains and travel curbs took hold. Traders continue to worry about the virus' impact on global demand. Brent crude is currently trading at around $56 a barrel, a loss of over 15% on the month.

INDEX	VALUE (at 31/01/20)		% MOVEMENT (since 31/12/19)
FTSE 100	7,286.01	▼	3.40%
FTSE 250	21,143.49	▼	3.38%
FTSE AIM	950.99	▼	0.76%
EURO STOXX 50	3,640.91	▼	2.78%
NASDAQ Composite	9,150.94	▲	1.99%
DOW JONES	28,256.03	▼	0.99%
NIKKEI 225	23,205.18	▼	1.91%

INFLATION FALLS; RATES ON HOLD

Despite the rate of inflation in the UK falling to its lowest level in more than three years, the Bank of England (BoE) once again opted to leave interest rates on hold.

Official ONS data showed that the Consumer Prices Index 12-month rate – which compares prices in the current month with the same period a year earlier – stood at 1.3% in December, lower than all forecasts in a Reuters poll of economists. It was also lower than the 1.5% rate recorded during the previous month and means that prices are now increasing at their slowest pace since November 2016.

This easing of inflationary pressures was partly driven by a fall in hotel room costs, with ONS saying that a third of all hotels surveyed in December reported falling prices, compared with just one in 10 that reported an increase. Steep reductions in the price of women's clothing also helped push down December's overall rate of inflation.

However, despite the benign inflation data, the BoE once again decided to leave interest rates unchanged following the latest meeting of the Monetary Policy Committee (MPC) on 30 January. In Mark Carney's final rate-setting meeting as Governor, the MPC voted 7-2 to maintain its existing monetary policy stance and leave the Bank Rate on hold at 0.75%.

A spate of soft economic data had fuelled speculation that rates would be cut at this meeting, but instead policymakers said they wanted to monitor whether a post-election pick-up in business sentiment would lead to stronger growth. The minutes of the meeting, though, did state that the MPC remained poised to reduce rates, if necessary. The next meeting is scheduled to take place on 26 March and will be the first chaired by new BoE Governor Andrew Bailey.

BUDGET DATE ANNOUNCED

Chancellor Sajid Javid has promised an *'infrastructure revolution'* when he delivers the country's first post-Brexit Budget on Wednesday 11 March.

The annual fiscal event, which was delayed from last autumn due to the general election, will allow the government to formalise spending commitments made during the election campaign. Announcing the revised date at a construction site in Manchester, the Chancellor pledged billions of pounds in infrastructure spending, with a shake-up of Treasury rules likely to see higher levels of investment directed towards projects in the Midlands and north of England.

Following the announcement, Mr Javid said: *"We set out in our manifesto how we can afford to invest more and take advantage of the record low interest rates that we are seeing. There will be up to an extra £100bn of investment in infrastructure over the next few years that will be transformative for every part of our country."*

Meanwhile, the latest public sector finance statistics released by ONS provided the Chancellor with a modest degree of cheer. UK public sector net borrowing (the gap between the country's overall income and expenditure) totalled £4.8bn in December 2019. This was £0.2bn less than the same month of the previous year and £0.5bn below market expectations.

This better-than-expected December figure, allied with new rules that will allow the Chancellor to increase public borrowing in order to invest for the future, will provide some potential room for manoeuvre as Mr Javid finalises his Budget plans. However, total borrowing across the first nine months of the fiscal year still amounted to £54.6bn, a £4.0bn increase on the same period of the previous financial year, and this will inevitably provide some restraint to the Chancellor's spending ambitions.