CHN

FINANCIAL CONSULTANCY

MARKET COMMENTARY

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BREXIT DELAYED UNTIL OCTOBER

This week the Brexit saga took another step towards its ultimate outcome, dragging on into infinity. A conditional delay to the end of October 2019 is welcome but unlikely to change anything. Hopefully government will use this time to come up with a workable solution, but don't be surprised if we have to beg for another extension after this one. The hard-irreconcilable truth is that a desirable Brexit isn't deliverable either by WTO, reopening the withdrawal agreement or any other means, and a deliverable Brexit isn't desirable, as Theresa May discovered in three separate Commons defeats.

Even if the Brexit process comes to a halt, as seems possible, it isn't going away. The uncertainty that is weighing on investment will always be present when every election, leadership contest or opinion poll threatens to kick the whole process off again. While the current political situation seems unlikely to deliver Brexit, it is still all that we'll be talking about for many years to come.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
+0.05%	+0.31%	+0.29%	-0.10%	-0.09%	+0.03%	+0.05%	+1.69%	-0.03%	-1.07%	+0.29%

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UK: DEBENHAMS FALLS INTO ADMINISTRATION

This week Debenhams entered administration after turning down two separate rescue plans from Sports Direct boss Mike Ashley. Instead it ceded control to lenders potentially putting 166 stores and 25,000 jobs at risk. Entering administration will also mean shareholders see their stakes completely wiped out which includes Sports Directs 30 per cent share in the high street retailer. Failing to keep up with cyclical fashion trends and nimbler online competitors have squeezed margins resulting in the 206-year old firm's market cap falling from £980m to around £20m in just three years.

Debenhams isn't the only store to struggle from the rise of ecommerce, BHS went under in 2016 and the House of Fraser confirmed it will close over half its stores late 2018. However, not all brick and mortar retailers have struggled - Selfridges have managed to post five consecutive years of profit.

EM: SAUDI ARAMCO'S RECORD-BREAKING BOND SALE

This week it turns out the world's most profitable company isn't Apple, but petroleum company Saudi Aramco. Ahead of its debut bond sale it decided to finally open up its secretive books to potential investors. The company posted a $111bn profit in 2018, twice that off Apple. Subsequently, Saudi Aramco sold $12bn of bonds after receiving over $100bn in orders, quickly becoming one of the most oversubscribed deals ever recorded for emerging markets.

With earnings before tax of $224bn last year and low debt relative to its cash flow, the oil company doesn't need to issue bonds. However, the sale does go a long way in establishing Saudi Aramaco's legitimacy as an independent company rather than a functioning arm of the Saudi Government. The Government were shunned last year following the murder of Jamal Khashoggi on Turkish soil. Although no official state sanctions have yet to be applied, it appears the markets have drawn a line in the sand over last year's event.

US: FEDERAL RESERVE LEAVE ROOM FOR RATE HIKES THIS YEAR

The Federal reserve meeting minutes of its March 19-20 policy meeting were published this week. Overall, there were no hidden surprises. Some policymakers would like to see the target range modestly lifted this year if the economy picks up, several would happily like to see it shift either direction depending on economic data results.

However, the majority agreed on a cautious approach leaving the target range unchanged for the rest of 2019. Futures markets have already priced in no chance of an increase this year and in fact a 55 per cent chance of rate cut. Markets remained muted after the minutes were released as interests turned to the start of earnings season. Finally, US central bankers also debated on what to do after ending its balance sheet runoff in September. Some policymakers advocated resuming purchasing US treasury securities in order to stabilise the level of reserves after the programme has finished.