THOMAS MILLER INVESTMENT

View from the Front

13th November to 19th November 2017

In the rear view mirror of last week we saw

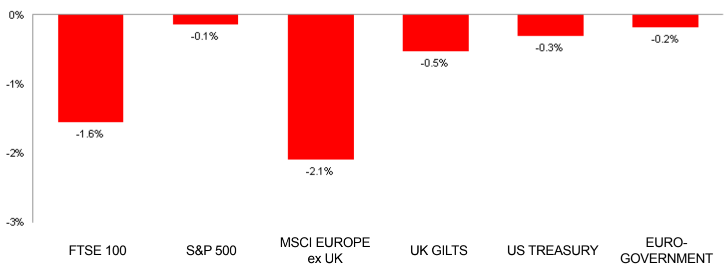
- At the end of last week we saw some brighter news for the UK economy where both industrial and manufacturing production reached their highest levels for 2017, ending the third quarter on a strong note. The figures were well above economists' expectations. Driven higher by the production of cars and medical equipment, the data should have been a good news story for the Government given the current malaise surrounding Brexit negotiations. However Theresa May's cabinet appears to be in a period of self-combustion, after Michael Fallon's resignation was followed by that of Priti Patel as Secretary of State for International Development. The cracks appear to be widening as reports over the weekend indicate that a group of Conservative MPs, as many as 40, have agreed to sign a letter of no-confidence in the PM. Given the slim majority in Parliament, the news has sent Sterling lower this morning as international investors' concern over the fragile leadership ticks ever-higher.
- In Saudi Arabia last week, we witnessed the emergence of a more forthright leader in Crown Prince Mohammed bin Salman who has ordered the arrest of over 200 people as part of anti-corruption drive. Some very high profile businessmen, intellectuals and clerics have been arrested, including Prince Alwaleed bin Talal – the billionaire investor, once dubbed the 'Warren Buffett of the Middle East'. The actions have brought much instability to the Middle East over the past week with Iran and Lebanon caught in the cross-fire. As a result oil prices have spiked higher, having already been in an uptrend for the month. Indeed since June the price of Brent crude, one international benchmark price, has risen more than 40%. This rise has not gone unnoticed at central banks where concerns over increasing inflation continue to dictate interest rate policy.
- Donald Trump made a highly publicised trip to Asia last week, generating headlines for his aggressive statements and less than diplomatic comments. However as we have seen with Trump on many occasions, he retreated from some of his public grievances over trade when facing leaders in person. He went as far as describing the Chinese Premier, Xi Jinping, as a "very special man" having previously blamed China for America's trade deficit with the country. His trip meant he has had little influence over the passing of US tax reforms which entered the Senate last week. Equity prices in the US have been whipsawed by the proposals to amend corporate tax rates. In the end the Senate made significant changes to the Bill passed by the House of Representatives, the most significant being to implement the plan in 2019 – having previously been proposed as a 2018 plan by Trump.

Front and centre of our thoughts this week include

- Much of the attention of this weeks' economic data will be focused around the release of global inflation numbers. With interest rate policy so dependent on the path for inflation in developed markets the October readings in the UK and Germany will be widely watched. The September reading in the UK (as measured by CPI) climbed to 3%, a level not seen in 5 years. When the Bank of England (BoE) raised interest rates last month, they specifically noted how inflation had moved above target as a driver behind their decision-making.
- That day the BoE also stated that wage growth would rebound as a natural consequence of historically low unemployment in the UK. On Wednesday the Office for National Statistics will release the latest labour market data, a first opportunity to validate the BoE's forecasting since that monetary policy meeting. Since the recession the UK has fallen into a pattern of high employment, low levels of joblessness but modest wage growth. This year inflation has grown faster than wages, which means that in real terms (i.e. when stripping out inflation) wages for the average UK consumer have actually fallen.
- Mid-week also gets busy in the US as they receive inflation, business inventories and manufacturing data. Of most significance is the October data for retail sales, a measure of spending by the US consumer. With the business cycle most advanced in the US, many analysts are keeping a keen eye on this in order to evaluate any potential sign of a slow-down in the economy.
- The same data sets (i.e. inflation and retail sales) are also set to be released in Europe over the course of the week. The story in Europe remains very different from the US, despite some significant improvement in the strength of the wider Eurozone economy. Inflation is running distinctly lower in Europe with the central bank concerned over its current historically low level.

In the side view mirrors of corporate activity we notice

- Marks and Spencer, former darling of the UK high street, has delivered an assessment of the challenges it faces. The company have appointed industry turnaround veteran Archie Norman as Chairman, who noted in last week's trading update that there had been some "opening the cupboards and pulling the skeletons out" already in his time there.
- AT&T, the US telephone company giant, has been told by the US Justice Department that it must sell CNN in order to get approval for the acquisition of media company Time Warner. The request reflects some political posturing given Donald Trump's previous comments where he called CNN a broadcaster of 'fake' news.



Source: Bloomberg. Figures are for the period 6th November to 12th November 2017. Where the index is in a foreign currency, we have provided the local currency return.

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