**04/12/23 – Monday**

**US warship attacked**

A US warship and 3 commercial vessels have been attacked on Sunday in the red sea between Yemen and Somalia/ Ethiopia but the Houthis, a Yemen militant group backed by Iran. The attack used ballistic missiles and drones. A UK-owned cargo ship allegedly sustained damage but no injuries. The US made a statement saying that the attacks pose a threat to international commerce and maritime security and going forth, the US will consider all appropriate responses in full coordination with its international allies and partners. This comes after growing tensions in the red sea region – used as a shortcut for Ships trading from Asia and Europe – after an Israeli linked car carrier was hijacked in November. Since then, many carriers have chosen to divert away from the region.

This attack has suggested a widening conflict in the Middle east and therefore acted as a catalyst to gold due to its haven properties. Interestingly, Oil prices dropped today as it seems markets a widely discounting the impact of Yemen in terms of the wider Middle east.

**Gold prices rally**

Gold prices rallied as much as 3% on Monday which was attribute to futures traders taking advantage of a time of low volatility. Gold has been rallying since November last year due to concerns such as the War in Ukraine and Israeli as well as central bank buying, the 3.1% in the DXY since the start of November and falling inflation expectations which boost the attractiveness of non-yielding assets as fixed income yields begin to drop. The latest rise in gold is said to only sustain if ETFs start buying.

**Bitcoin price rally**

The bitcoin rally, fuelled by some of the same forces as Gold, such as lowering inflation expectations and closer interest rates being priced in, has also been sparked by expectations that bitcoin ETFs will be more prominent on the market as well as the passing of two major industry burdens, FTX and Binance. The recent ruling on SBF and the $4.3bn Binance paid in penalties for money laundering and financial sanctions breaches, has allegedly lifted a weight off the back of the crypto market – with that said, Binance is still in operation. This in turn has heightened expectations that spot ETFs will be the way out of dodgy exchanges with firms such as Blackrock filing for ETFS as well as the recent win to Grayscale against the SEC ruling that the rejections of Grayscales applications to convert their Flagship bitcoin trust into a ETF was wrong.

**James Cleverly changes on Migration**

James Cleverly, the new Home Secretary, has announced plans to curb the UK migration after official figures showed net legal migration soured to 745,000 in 2022. The following changes are expected to cut record immigration by 300,000 per year, according to Cleverly that is.

The changes include:

1. increasing the salary threshold for skilled worker Visas from £26,200 to £38,700
2. limitation on the number of dependents that foreign workers can bring with them. This was sparked by more than half the immigrants entering the UK under the care worker route being dependents which is expected to be barred completely.
3. introduce a “shortage occupation list” which allows industries facing chronic staff shortages to pay up to 20% less than the normal wage for some higher paid occupations.
4. Reviewing the student graduate route which allows students to stay in the UK two years after graduation and three years after a doctorate.

Most of the above have faced criticism with the shortage occupation list said to be enabling exploitation and driving down wages and the student graduate review said be an act of “economic self-harm” as students constitute one of the UK’s strongest exports.

**UK home ownership expenses**

The Financial Times article discusses the uneven impact of the UK's cost of living crisis, particularly highlighting how households with mortgages are experiencing the highest inflation rates. According to the Office for National Statistics (ONS), household cost inflation for those with mortgages reached 9.3% in the year to September, surpassing the headline cost inflation rate of 8.2% and the consumer price inflation of 6.7% in the same period.

The ONS's first quarterly publication of the household cost index (HCI) demonstrates that inflation rates vary significantly across different household types, reflecting the diverse expenditure patterns. The HCI, unlike the headline inflation rate, includes mortgage interest rates, stamp duty, and other dwelling-related costs, providing a more comprehensive view of the inflation experienced by households.

This data shows that the rise in borrowing costs, driven by the Bank of England's interest rate hikes, has disproportionately affected households with mortgages, due to higher interest payments. These households also tend to spend more on restaurants and hotels, where prices have risen recently.

The article also notes the contrast between households with mortgages and renters, with the latter spending more on electricity and other fuels. However, the gap in inflation experienced by these groups is expected to widen as electricity and gas price growth turned negative in October, while more households face remortgaging at higher rates.

Interestingly, the gap in inflation rates between poorer and richer households, which was significant throughout 2022, nearly vanished in September 2023. This change reflects divergent trends in energy and mortgage cost.

The article concludes with comments from Paul Dales, an economist at Capital Economics, who suggests that the higher HCI for households with mortgages aligns with the Bank of England's intentions of reducing economic demand by increasing borrowing costs. Dr. Sarah Cumbers from the Royal Statistical Society advocates for the importance of HCI in representing inflation's impact and urges the government to recognize that inflation is hitting those with mortgages and social renters the hardest.

**05/12/23 – Tuesday**

**Moodys cuts China’s credit outlook to negative**

**https://www.ft.com/content/13d8b396-04bb-41cf-a7d0-196a6c47a776**

Moodys cut China’s credit outlook to negative on Tuesday, citing growing risks of persistently lower mid-term economic growth and the overhang from the crisis in the property sector. Due to governments and state companies having to now step in to provide financial support for weak regions, it suggests “broad risks to China’s fiscal, economic and instructional strength”.

There is expected to be a policy meeting later this month which investors will be watching for China’s target for GDP next year. Moody’s expects GDP growth to be 4% in 2024 and 2025 while the OECD expects it to be 4.7% and 5.2% respectively.

Given the lack of developers buying land due to the crisis engulfing the property sector, it has meant local governments are beginning to struggle as they had previously heavily relied on revenues from selling land to developers. This in turn has meant they have begun to reach out for help from both the government and local state companies or even taking out credit, hence a factor contributing to the credit downgrade.

Notably, China’s CSI 300, its blue-chip index, fell 1.9% on the news of the credit downgrade, brining it to the lowest level since 2019. The drop in the index has been ongoing since January as it has dropped 12% in the meantime following poor economic data, such as manufacturing PMIs, and a weak-post COVID recovery.

**Putin to visit the UAE and Saudi Arabia**

In a rare outing for the Russian president since the war in Ukraine began, Putin is expected to visit the UAE and Saudi Arabia on December 6th. The meetings between the countries are expected to touch on bilateral relations and the Palestinian-Israeli conflict. Additionally, Saudi Arabia is increasingly being the main international hub for Russian businesses and a major route for circumventing sanctions (apart from Turkey...) and therefore, the meeting is of great interest to the future of Russia. It also comes amid OPEC+ tensions after their meeting on Thursday in which an uncoordinated approach to production cuts was announced as well as Putin expected to announce his candidacy for the next presidential term before the end of the year.

**On going problems at themes water**

**https://www.ft.com/content/d6438dac-847a-4842-aa07-637ae049f141**

Themes water has been in… deep water since June after Sarah Bentely, the chief executive, abruptly quit after a boardroom row as well as fears that the debt servicing on the companies £14.7bn of debt is piling undue pressure on operations. The debt has mainly been racked up from future NAV borrowing allowing the company to borrow against future revenues. However, since the rise in interest rates, the burden of this debt is very much present.

Tuesday saw the water and sewage services provider announce a 54% drop in pre-tax profits to £246mn in the six months to September 30th while revenues increased 12% to £1.2bn in the same period. Additionally, last week the company revealed it had presented a loan of £500mn to its parent company in an effort to shore up liquidity – however, the company called this “equity”.

These liquidity and internal management issues are worrying considering that Themes Water is the largest privatised water utility company in the UK and offers services to 15mn households. Currently, the group is seeking approval from Ofwat to increase customer bills by 40%, before inflation, by 2030 – something unlikely to go down well with the already squeezed London residents…

**LSEG facing more problems than just branding**

On Tuesday morning, the London Stock Exchange group, whose services are relied on by thousands of investors around the world, saw two outages in which trading in hundred of small-cap stocks was halted. This comes after a similar issue in mid-October when trading in small companies was forced to end early due to a “matching engine fault”.

These problems come as London battles to keep up trading volumes, which dropped by 20% in the third quarter this year. This, in turn, has caused the group to focus more on becoming a market data company, helped by a $27bn acquisition of Refinitiv in 2019.

**Rwanda plans “revived”?**

James cleverly, the new entrant to the Home Secretary post, announced on Tuesday a “revival” of the deal to send asylum seekers to Rwanda after the Supreme Court rules against the plan last month, putting a spanner in Rishi Sunak’s pledge to curb migration. According to three people briefed on the matter, “anyone sent to Rwanda will be given permanent leave to remain there even if their asylum application failed”. This aims to target the issues brought up by the supreme court such as refoulment without proper assessment of claims and the nation lacking a proper appeals process.

There is also contention within government as to whether a “notwithstanding” clause will be applied to the new legislation as this would disapply the UK’s international and domestic human rights obligations in relation to the Rwanda policy. This was pushed back on by 20 tory ministers who wrote to Sunak saying they would not support the move.

Cleverly is expected to be the only one being sent off on a plane to the African nation thus far in an effort to sign the treaty. One thing to note is that this issue is merely addressing the symptoms (the asylum seekers) rather than the problem (the criminal gangs organising these crossings).

**07/12/23 – Thursday**

**Rwanda strategy continued**

The Rwanda bill has now been said, by Rishi Sunak, to “block every single treason that has ever been used to stop flights top Rwanda taking off”. This was achieved by putting “notwithstanding” clauses into the new bill, making it immune to any laws such as the Human Rights The bill also makes it very difficult to be challenged by Asylum seekers as only those who are at risk of irreparable harm by being sent to Rwanda can dispute being sent off on a plane.

After the bill was announced, Immigration minister Robert Jenrick stepped down, suggesting some internal unrest with the new clauses. He stated on his departure that the Rwanda policy was “a triumph of hope over experience”.

Despite it seeming like plane sailing for now, Suella Braverman, the previous home secretary, stated that the legislation “will not work” and that the conservative party was in a very “perilous position”. The bill is expected to be voted on in the house of commons next week – suggesting there may be some hurdles left before the planes can start taking off.

**Yen rallies as investors anticipate BoJ pivot on interest rates**

The Yen increased 1.7% against the dollar to trade at 144.86 while Japanese 10yr bonds rose 0.1% to 0.75%. The moves come after the BofJ governor, Kazuo Ueda, met with the Japanese Prime Minister, Fumio Kishida, and told the Japanese parliament that the BoJ was facing an “even more challenging environment” heading into 2024.

**US Oil production**

US Oil production has reached a fresh all time high of 13.2mn barrels per day in September, making US Oil account for one in eight barrels of global output. In turn, this is causing difficulties for the OPEC+ cartel who last week negotiated a cut in production for their members in order to alleviate oil prices.

New technologies and increased efficiencies are enabling higher production, this includes advancements in horizontal drilling and hydraulic fracturing (which unleashed the shale revolution in the mid 2000’s). These advancements allow drillers can bore horizontally, and laterally, for more than 3 miles of rock, thus, allowing them to squeeze the most out of the land.

Many expect the current advancements to be the tip of the iceberg which could result in the US producing more than 15mn bpd in 5 years’ time.

These advancements and renewed interest in drilling have been spurred by the conflict in Ukraine as this has increased prices and made it more compelling for driller to resume after Oil prices went negative in 2020 – during the COVID pandemic. Additionally, natural gas production is also likely to expand given the lack thereof in Europe after the Russia weaponised the commodity.

What is particularly surprising is that the US is both the largest Oil and Gas producer in the world – which is stemming some calls of hypocrisy as the US places itself as one of the leaders of the green energy transition at the COP28 summit currently ongoing in Dubai. However, in its defence, one must understand that by recognising the needs of today’s world, it allows for a much smoother transition to green energy in the future.

**UK blames FSB for cyber attacks**

Star Blizard, a subordinate of Russia’s Federal Security Service (FSB), has been denounced publicly for interfering in political and democratic processes in the UK – as well as beyond – by the UK government.

The attacks are said to have been ongoing since 2015 and are articulated by doing thorough research into the contacts of certain targets, namely MP’s, peers, civil servants, journalists, and NGOs, and from there, building a rapport with them before sending them a malicious link.

The foreign office announced it had sanctioned two individuals involved in the operations and called upon Andrey Kelin, the UK’s Russian Ambassador, to express the country’s “deep concern about Russia’s sustained attempts to use cyber to interfere in pollical and democratic processes in the UK and beyond”. Furthermore, the national crime agency investigated which resulted in the aforementioned individuals not only sanctioned, but also publicly named. This was done to serve as a warning that the UK will seek to track down and retaliate against individuals involved in malicious cyber campaigns.

**08/12/23 – Friday**

**Questions raised about the relationship between the UK and Saudi Arabia**

Saudi Crown Prince Mohammed bin Salman was expected to visit the UK on the 3rd of December after months of planning between officials. However, the Prince later shunned the plan and instead, met Vladimir Putin on the 6th – brining into question the strength if the UK’s relationship with Saudi.

Sunak had recently, as of October, visited Saudi Arabia and had an “excellent and productive” meeting, according to Saudi Officials.

Given the missed meeting, many have called the act a “Snub” by Saudi Arabia, however, Prince Khalid bin Bandar, Saudi’s ambassador to London, stated that such as suggestion is “nonsense” given the strength of the Saudi-UK relationship.

Additionally, Robert Courts, a senior Tory MP, stated that the UK should review the resources and strategy behind its foreign policy to prevent the slide of states toward strategic competitors, he also suggested the postponement of the meeting represented a UK diplomatic failure.

**Jobs Report**

US employers added 199,000 jobs in November, a rise from October and higher than 180,000- 183,000 economist expectations. The U3 unemployment level, fell from 3.9% to 3.7% and the average hourly wages figure rose 0.4% MoM and was at an Annual rate of 4% (higher than the 2% inflation target).

This in turn suggests that interest rates may stay higher for longer as the labour market is still demonstrating signs of being tight. Additionally, given the 4% year-over-year average hourly wages increase, this too adds to the narrative that rates need to be higher for longer so that the labour market loosens and creates less inflationary pressure.

**US bonds and stocks hit by the higher than expected jobs numbers**

Given the jobs report released this morning with jobs added in November (non-farm payrolls) and the unemployment rate both being higher than expected, equities and bonds have seen a sell off. The two-year treasury yield has increased 0.105 points and the 10 year yield has increased 0.077 points.

A full rate cut is still priced in for May while odds on cuts for March have dropped.

**Bitcoin**

Bitcoin has seen one of the greatest rallies in all the markets this year, increasing by 164%. This has led many to speculate the reasons why so many are running into the market as of now. The following is a variety of reasons for the optimism:

1. The US has successfully secured criminal prosecutions against CZ (Changpeng Zheo) and SBF (Sam Bankman-Fried) while the former has also been charged $4.3bn for breaching money laundering and financial sanctions and the latter is in prison. This is a catalyst as it symbolises somewhat of an end to the wild west of crypto and increased regulatory scrutiny, making it more appealing to financial institutions/ other companies to gain exposure.
2. Potential approval of a bitcoin spot ETF after the SEC lost a court case whereby Grayscale, the trustee of one of the largest bitcoin trusts, sued them for wrongfully rejecting their requests to list the trust as an ETF. This has signalled to markets that the likelihood of an ETF is becoming all the more probable. This, in turn, will open up bitcoin to retail investors as they no longer need to go through shady exchanges to access the cryptocurrency.
3. Last but not least, April next year will see “the halving”, whereby crypto miners receive half the current amount of bitcoins for successfully mining a block, which, reduces the rate of supply to the markets. This is seen to be bullish on price, especially if demand continues to outweigh the supply as of now.

However, despite all this optimism, Vanguard and State Street, the two largest ETF providers, are yet to file an application for a spot bitcoin ETF with State Street saying in November that “there was no investment case for crypto”. Additionally, with the likelihood of interest rates staying higher for longer, it may be the case that the time for a real rally is yet to come…

**Inflation expectations ease in the UK**

A Bank of England survey asking the British public what they expect the inflation figure to be in the next year fell to its lowest level in 2 years. The current figure stands at 3.3% for November, down from 3.6% in August when the question was last asked.

This is an important survey due to inflation expectations impacting pay rise demand and consumer spending. This is because if the public expect inflation to rise, they are more likely to ask for a pay rise to compensate their reduced purchasing power. Additionally, the public will be more cautious with their spending if they believe prices to rise higher In the future, thus, reducing demand for goods and services.

The public’s dissatisfaction with how the BofE was dealing with inflation also fell for November from 40% in August to 34%. This signals increased confidence in the abilities in the bank which in turn leads to higher consumer confidence.

This data comes before the MPC meeting on December 14th where members are expected to vote for rates to remain at their 15-year highs of 5.25%.