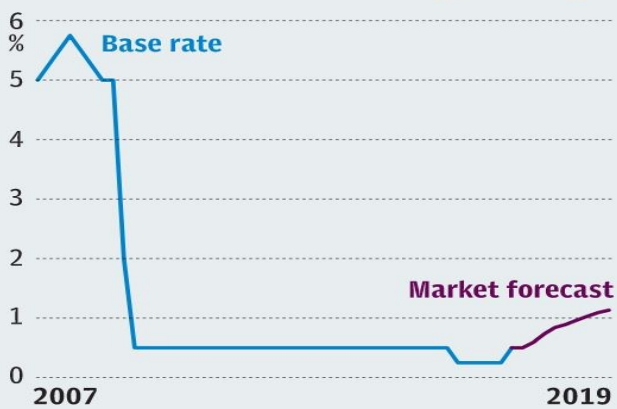


THE LATYMER ECONOMICS BULLETIN

Week Beginning 19/3/18

Interest rates are rising slowly



SOURCE: BLOOMBERG

Rate Rise Speculation



Tariffs Round 2: Trump vs China

aramco

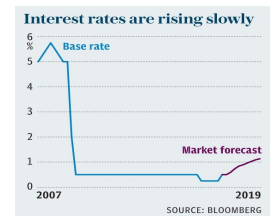


Aramco PLC?

Rate Rise Speculation

What's going on here?

A member of the Bank of England rate setting committee has implied that the interest rate is set to rise. Gertjan Vlieghe discussed in a speech that he thought a rate rise is required due to improved employment rates in labour markets. Vlieghe pointed out that "The data have shifted further in the direction that warrants a continuation of the removal of monetary stimulus over the forecast period." Recent minutes from the Bank's Monetary Policy Committee meeting showed that two policy-makers voted to raise rates from 0.5pc to 0.75pc immediately



Why is this important?

The base rate has not been higher than 0.5% since 2009, when it was decreased in attempt to boost the UK economy following the 2008 financial crisis. A very cautious approach is required when changing interest rates, as a change could have benefits and drawbacks for consumers and firms. For example a tighter labour market pushing up domestic inflationary pressures could warrant an interest rate rise, as rising inflation means that consumers experience reduced real wage growth and thus will have reduced spending power. However an interest rate rise would also mean that some consumers are worse off, as the cost of borrowing will increase, which could reduce their disposable income (especially if they have variable rate mortgages).

Tariffs Round 2: Trump vs China

What's going on here?

Donald's Trump's recent announcement of tariffs on \$60 bn worth of Chinese imports has increased the likelihood of a trade war, which could engulf the global economy. Hours after Trump announced the proposed import duties, China said they had prepared retaliatory tariffs on approximately \$3 billion worth of US imports.



Why is this important?

These tariffs could trigger a damaging trade war for both, considering that China was the third largest market for US exports in 2016. Moreover analysts believe that in addition to US and Chinese businesses and consumers, other countries could suffer from 'collateral damage' as a result of dampened demand and higher prices. This is because US-China bilateral trade investment ties are integrated with global supply chains.

Aramco PLC?

What's going on here?

The Kingdom of Saudi Arabia is reportedly watering down plans to turn its state-owned oil company, Aramco into the world's most valuable publicly traded company. Talks of selling a stake in the company to investors via an Initial Public Offering (IPO) began in 2016, with an aim to raise up to \$100 billion in a deal that would value Aramco at \$2 trillion. It has been reported that the plan is now to sell a much smaller stake in the oil giant.



Why is this important?

Aramco predominantly based its \$2 trillion valuation on the size of its oil reserves, which is the amount of oil it could extract in the future. Investors may not have agreed with this valuation, given that they may be uncertain about investing in a stock which is tied to the price of oil. This is because the company will not be as profitable if in the future even more countries decide to ban petrol cars and renewable energy develops further.