MASHREQ GLOBAL DIGEST
UK
February 9 – February 15

This edition of Market Digest highlights UK's key macroeconomic indicators, financial updates, and major deals, providing insights into current economic trends.

Macroeconomic News

UK Economy Grows 0.1% in Q4 2024

The UK economy grew by 0.1% in Q4 2024, defying expectations of a contraction. Growth was driven by services and construction, despite declines in business investment and stagnant household spending. Sterling rose to a weekly high of $1.25155 following the surprise growth. Real GDP increased by 0.9% in 2024, but living standards were under pressure with a drop in output per head. The 2025 outlook remains weak, with inflation, weak demand, and external factors posing ongoing challenges. The Bank of England lowered 2025 growth forecasts to 0.75% and cut interest rates to 4.5%, with markets expecting further easing.

Reference: Reuters, Forbes ME, Reuters

UK Housing Market Cools, But Optimism Remains

Britain's housing market showed signs of slowing in January, with cooling house price growth and reduced buyer demand. The Royal Institution of Chartered Surveyors (RICS) reported weaker sales and lower inquiries, but surveyors remain optimistic for the months ahead. Economists expect an increase in stamp duty land tax in April to drive higher housing market activity in the first half of the year. Additionally, reductions in Bank of England interest rates are likely to provide further support.

Reference: Reuters

UK Job Market Slows Amid Rising Uncertainty

A survey by the Recruitment and Employment Confederation (REC) and KPMG shows that UK job vacancies dropped at their fastest rate since mid-2020, with hiring for permanent roles contracting sharply. Wage growth also slowed, easing inflation concerns for the Bank of England (BoE). Businesses remain cautious due to economic uncertainty and upcoming tax increases, including a payroll tax hike set for April. While the BoE's recent interest rate cut to 4.5% could help boost confidence, firms are still in a "wait and see" mode.

Reference: Reuters

Trump's Tariffs: U.K. Gains

Under Trump's trade policies, the UK stands to benefit from potentially avoiding tariffs. With its services-based economy, particularly in finance and consulting, the UK would experience limited impact even if tariffs are imposed. Staying tariff-free could make the UK an attractive destination for investment, especially in luxury goods, pharmaceuticals, and advanced manufacturing. Additionally, businesses rerouting trade to bypass tariffs on other regions could boost the UK economy, strengthen the pound, and attract investment. Analysts believe the UK's political stability, low interest rates, and favorable market conditions could make it a prime destination for investment in 2025.

Reference: CNBC

Heathrow Plans £Multi-Billion Expansion

Heathrow Airport's £multi-billion expansion, including a third runway, aims for take-offs in 10 years. However, businesses and airlines argue the airport's high charges, driven by its funding model, must be reformed for the project to proceed. They call for a review of regulations to address overpricing. Heathrow insists the expansion will improve passenger experience, but stresses the need for cost-effectiveness. The government supports the project, which could create 100,000 jobs and increase flights from 480,000 to 720,000 annually.

Reference: BBC, BBC

Giant Gas Field Discovery Could Power UK for a Decade

A new gas field discovered under Lincolnshire by Egdon Resources could meet the UK's energy needs for the next decade, potentially reducing reliance on imports and creating tens of thousands of jobs. The field, located near Gainsborough, may add up to $140bn (£112bn) to GDP and yield $34bn in direct taxation, according to an analysis by Deloitte. However, exploiting the field would require lifting the current ban on fracking, which was imposed after earlier projects caused minor earthquakes. The discovery has sparked a debate on the balance between economic growth and achieving net-zero emissions. If confirmed, the find could significantly impact both local economies and national energy policy.

Reference: The Telegraph

UK Launches Offshore Wind Incentives

Britain introduced the 'Clean Industry Bonus' to stimulate investment in offshore wind projects, aiming to decarbonize its energy system by 2030. The scheme offers £27 million ($33.5 million) in funding for each gigawatt (GW) of capacity from successful projects. Currently, Britain's offshore wind capacity stands at approximately 15 GW, with plans to increase it to between 43 and 50 GW by the end of the decade. Funding will be allocated through upcoming renewable energy auctions, where developers bid for government-backed price guarantees for the electricity produced.

Reference: Reuters

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Reeves Considers Stealth Tax Hike in Spring Statement

UK Chancellor Rachel Reeves is considering a "stealth" income tax rise in the upcoming Spring Statement, potentially extending the freeze on income tax thresholds beyond 2028 to address a fiscal shortfall. Without adjusting the thresholds for inflation, rising wages would push more people into higher tax bands, effectively increasing the tax burden on them. This could generate up to £4 billion annually. Despite previously promising no further tax increases, Reeves has not ruled out the possibility, especially as recent economic challenges threaten her fiscal targets. Though politically risky, the move could improve government finances without requiring immediate legislation.

Reference: The Telegraph

Financial News

BoE Cuts Rates to 4.5% Amid Slower Growth

The Bank of England (BoE) cut interest rates by 0.25% to 4.5%, despite a higher-than-expected inflation forecast. Inflation is now projected to peak at 3.7%, up from the previous estimate of 2.8%. The BoE expects inflation to return to the 2% target by the end of 2027. The rate cut comes in response to weaker growth, with some policymakers pushing for a more aggressive rate cut due to concerns about the economy's sluggish performance.

Reference: Reuters

UK Pressured to Cut Long-Dated Bonds

The UK is under pressure to reduce the issuance of long-dated government bonds as demand from pension funds declines. The average maturity of UK government debt remains the longest among major economies, but investors suggest issuing shorter-term bonds, as long-dated bonds carry more risk. Shorter maturities attract a broader investor base, offering more flexibility in managing debt. The UK government will announce its debt issuance plans for the upcoming financial year in March.

Reference: Reuters

AI-Driven Disinformation Poses Growing Threat to Banks

A UK study reveals that AI-generated disinformation can significantly impact UK customers' banking behavior, increasing the risk of bank runs. The research found that a third of UK bank customers were highly likely to move their money after seeing fake news or disinformation spread on social media, while another 27% were somewhat likely. With the rise of AI, the ability to generate and amplify misleading content has become quicker and cheaper, making it easier for malicious actors to influence customer decisions. The study emphasizes that banks must enhance monitoring systems to detect the impact of misinformation and its influence on customer withdrawals.

Reference: Reuters

Deals

UK and China Strengthen Ties

China is committed to improving relations with the UK, focusing on cooperation in trade, investment, and infrastructure. During his visit, Foreign Minister Wang Yi met UK leaders, emphasizing the importance of mutual trust and strategic communication. The two countries plan to strengthen ties in areas such as climate change, AI, and clean energy while addressing differences on issues like human rights.

Reference: Reuters

Markets

Market Dashboard

- The S&P 500 ended the week with a 1.47% gain, marking a positive performance driven by strong tech sector gains. The Nasdaq rose by 2.58%, its biggest weekly increase since early December, while the Dow Jones Industrial Average climbed 0.55%, reflecting a more moderate upward trend. Despite some mixed performance across sectors, the overall sentiment was optimistic, particularly in tech stocks, which led the gains.
- Bitcoin showed positive performance this week, rising to $97,509, approaching a potential $100,000 barrier. The cryptocurrency's value gained momentum, supported by MicroStrategy's continued Bitcoin purchases, which increased its holdings to a record high. U.S. 10-year treasury yields also declined, providing further support for Bitcoin's rise.
- Gold prices fell over 1% on Friday due to profit-taking but were still set for their seventh consecutive weekly gain, driven by fears of a global trade war following U.S. President Trump's announcement of a reciprocal tariff plan. Gold reached a record high of $2,942.70 on Tuesday before dipping to $2,883.18, with a weekly gain of 0.8%. The drop in U.S. retail sales and ongoing inflation concerns contributed to the bullish trend in gold, as investors sought safe-haven assets.
- Oil prices saw mixed performance for the week. Brent gained 0.11%, while WTI dropped 0.37%. The market was buoyed by hopes for a Ukraine peace deal easing supply disruptions, though concerns over tariffs limited further gains.
- The dollar posted a weekly loss against the euro, due to delayed tariff plans and optimism surrounding a potential Russia-Ukraine peace deal. Retail sales data showing a bigger-than-expected decline further pressured the dollar.

Indicators	7-Feb-25	14-Feb-25	% Change
S&P 500	6,025.99	6,114.63	1.47%
Bitcoin	96,529.09	97,508.97	1.02%
Gold	2,860.39	2,883.18	0.80%
Crude Oil	74.66	74.74	0.11%
EUR/USD	1.0386	1.0462	0.73%