# MASHREQ GLOBAL DIGEST UK

## January 04 – January 10

This edition of the Market Digest captures UK's latest macroeconomic, financial, and tech developments, providing a concise snapshot of the country's current economic direction.

## Macroeconomic News

### UK Economy Seen Returning to Growth in November

The UK economy is expected to have returned to growth in November, with monthly GDP rising by 0.2%, according to economists at Pantheon Macroeconomics and Investec, ahead of official data from the Office for National Statistics. The rebound follows two consecutive monthly contractions of 0.1% in September and October and is largely driven by a recovery in car production after a cyber attack disrupted Jaguar Land Rover output. Manufacturing is expected to show the strongest improvement, with vehicle production jumping 22% month-on-month in November, while services growth was supported by resilient hospitality spending, even as retail sales dipped.

Reference: The Independent

### UK Shop and Food Inflation Picks Up Late 2025


UK shop price inflation edged up to 0.7% in December from 0.6% in November, driven by higher food prices, with food inflation at 3.3% while non-food prices continued to fall by 0.6%, according to the British Retail Consortium. Retailers warned that despite easing energy costs and improved crop supplies, higher wages and regulatory costs—including a 4.1% minimum wage increase in April—could keep inflation sticky in 2026, a trend closely watched by the Bank of England as it shapes inflation expectations.

Reference: Reuters

### UK Unemployment Rises to 5.1% — But Not All Bad

UK unemployment rose to 5.1% in the three months to October, the highest in over four years, but the increase is not mainly driven by job losses, according to The Financial Times. Data from the Office for National Statistics show the economically active population grew by 643,000 in the first nine months of 2025, versus 280,000 more unemployed, suggesting rising labor participation. This trend, noted by Deutsche Bank, could ease wage pressures, pointing to an economy that remains resilient despite slowing momentum.

Reference: Financial Times

### UK Consumer Borrowing Surges

UK consumer borrowing rose by £2.08 billion in November, the biggest increase since November 2023, pushing annual consumer credit growth to 8.1%, its fastest pace since mid-2024, according to Bank of England. The rise suggests households continued spending despite uncertainty ahead of Chancellor Rachel Reeves' budget, even as mortgage approvals edged down to 64,530. However, economists at Capital Economics warn this borrowing strength likely reflects front-loaded demand rather than momentum, implying limited scope for a meaningful pickup in consumer spending in 2026 as higher taxes and tighter financial conditions gradually bite.

Reference: Reuters

### UK Wage Pressures Ease Slightly, Inflation Still a Concern

UK firms have marginally lowered wage and price expectations for the coming 12 months, but levels remain high, keeping the Bank of England cautious on rate cuts. A BoE survey shows expected wage growth at 3.7% and firms' price inflation at 3.6%, with consumer inflation seen at 3.4%, well above the 2% target, despite headline inflation easing to 3.2% and rates being cut to 3.75% in December. In short, pressures are cooling only gradually, pointing to limited and cautious easing—likely one or two quarter-point cuts in 2026.

Reference: Reuters

### UK Construction Slump Deepens, Raising Financial Risks

UK construction has suffered its worst run since the global financial crisis, with output contracting for a 12th straight month in December. The sector's PMI fell to 40.1, well below the 50-growth threshold, while housebuilding plunged to 33.5, its weakest level since May 2020, reflecting subdued demand and fragile confidence. Although firms are slightly more optimistic for 2026 on hopes of lower borrowing costs, economists warn the downturn points to continued pressure on construction revenues, employment, and housing-related credit, with any recovery likely to be modest.

Reference: The Guardian

### UK House Price Growth Cools as Uncertainty Weighs on Market

UK house prices recorded their weakest annual increase since March 2024, rising just 0.3% year-on-year in December, according to data from Halifax, as economic and tax uncertainty dampened activity at year-end. Prices unexpectedly fell 0.6% month-on-month in December, missing forecasts, though lower mortgage rates have modestly improved affordability for first-time buyers, with the price-to-income ratio at its lowest in over a decade. However, economists caution that softer labor market conditions may limit wage growth and restrict further affordability gains in 2026, especially as Bank of England is expected to deliver only limited additional rate cuts after lowering rates to 3.75% in December. Regional performance diverged sharply, with London prices down 1.3% year-on-year, while Northern Ireland led gains at 7.5%, and forecasts point to modest national price growth of 1–3% in 2026.

Reference: Reuters

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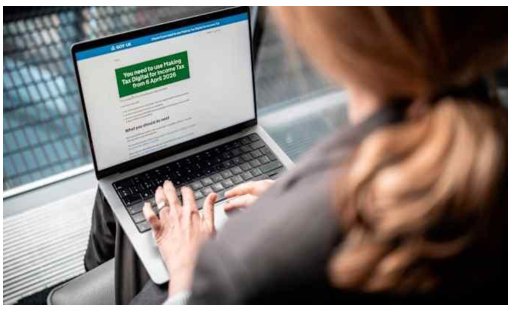
## Financial News

### Markets Signal a Brighter UK Outlook After a Lost Decade



After a prolonged period of weak growth, UK markets are showing signs of renewed optimism. Despite past headwinds, underlying fundamentals such as stronger balance sheets and lower debt levels remain supportive, while investor confidence has improved, reflected in FTSE 100 outperformance, a rally in bank stocks, a firmer pound and increased foreign investment. With inflation stabilizing and interest rates easing, these signals point to a potentially brighter outlook for the UK economy.

Reference: Financial Times

### UK Rules Out EU Alignment Talks for Financial Services

UK Prime Minister Keir Starmer has ruled out including financial services in talks on closer alignment with the European Union, reassuring City of London firms that there will be no return to EU-era regulatory rules. While the government will pursue cooperation with the EU where it benefits the wider economy, officials signaled that financial services will remain outside these negotiations, preserving the sector's post-Brexit regulatory independence. This decision was welcomed by financial industry lobbyists who had warned that reintroducing EU regulations could undermine London's competitiveness.

Reference: The Guardian

### UK Mortgage Rates Near Their Floor Despite Expected Rate Cuts

UK mortgage rates are unlikely to fall much further in 2026 even if the Bank of England cuts interest rates again, as markets have already priced in expectations that Bank Rate will bottom out around 3–3.25%. Average mortgage rates currently stand at about 4.5% for two-year fixes and 5% for five-year deals, with lenders guided more by medium-term rate expectations than short-term policy moves. Around 1.8 million homeowners will refinance this year, bringing limited relief for some borrowers but little scope for a meaningful drop in mortgage costs.

Reference: Yahoo Finance

## Tech News

### AI Seen as Major Driver of UK Growth

Artificial intelligence could account for 43% of UK economic growth by 2032, according to PwC, which estimates AI-driven productivity gains of £2 billion in 2026, rising to £7 billion by 2029 and £23 billion by 2032. AI is expected to contribute around one-tenth of GDP growth in 2026 alone, as the UK increasingly relies on productivity gains rather than international trade. The message for policymakers and investors is clear: AI is shifting from a long-term promise to a near-term growth lever, with the potential to help the UK avoid stagnation—provided adoption accelerates across the broader economy.

Reference: This is Money

## Markets

### Market Dashboard

- U.S. equities ended the first full week of 2026 firmly higher, with the S&P 500 up 1.6% to a record close, the Nasdaq gaining 1.9%, and the Dow rising 2.3%, driven mainly by strength in chipmakers and AI-related stocks such as Broadcom, Lam Research, and Intel. A weaker-than-expected December jobs report reinforced expectations of Federal Reserve rate cuts, supporting risk appetite, while gains broadened beyond tech into materials, utilities, and other lagging sectors. Value stocks continued to outperform growth early in the year, despite elevated valuations, as investors balanced strong momentum with lingering policy and tariff-related uncertainty.
- Bitcoin held near the $90,000 level, trading in a tight range as crypto markets steadied after the U.S. Supreme Court delayed a ruling on Trump-era tariffs, easing near-term macro uncertainty. Prices hovered around $90,000–$91,000 following an early-January rally, with modest pullbacks reflecting consolidation rather than a trend reversal, as traders await a clearer catalyst. While tariff uncertainty and policy signals continue to influence short-term moves, bitcoin's long-term narrative remains supported by its fixed supply nearing 21 million coins and growing speculation that U.S. policy could eventually turn more supportive, including discussions around potential government bitcoin purchases.
- Gold posted a strong weekly gain of nearly 4%, supported by weaker-than-expected U.S. payrolls data, expectations of multiple Federal Reserve rate cuts in 2026, and elevated geopolitical and policy uncertainty, including unresolved U.S. tariff decisions. Spot gold traded around $4,500/oz, close to record highs, as investors sought safety amid tensions spanning Iran, Ukraine, Venezuela, and broader de-dollarization trends. While banks such as HSBC and Metals Focus see potential for gold to test or exceed $5,000/oz in 2026, they also warn of heightened volatility and the risk of corrections later in the year if geopolitical risks ease or the Fed pauses its easing cycle.
- Oil prices posted solid weekly gains, rising on heightened supply risks linked to escalations in Iran and intensified attacks in the Russia–Ukraine war, which kept markets on edge about potential disruptions. Brent crude settled near $63.34 per barrel and WTI around $59.12, with both benchmarks up about 2% on Friday and 3–4% for the week. However, upside remains capped by rising global inventories and lingering oversupply, while markets closely watch developments around Venezuelan oil exports, as U.S. officials and energy firms discuss how stored barrels could return to global markets.
- The U.S. dollar logged a second straight weekly gain. The greenback strengthened broadly, hitting a one-year high against the yen and edging higher versus the euro and pound.

| Indicators | 2-Jan-26 | 9-Jan-26 | % Change |
|---|---|---|---|
| S&P 500 | 6,858.47 | 6,966.28 | 1.57% |
| Bitcoin | 89,944.70 | 90,513.10 | 0.63% |
| Gold | 4,330.50 | 4,510.45 | 4.16% |
| Crude Oil | 60.75 | 63.34 | 4.26% |
| EUR/USD | 1.1750 | 1.1658 | -0.78% |

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