Weekly Market Summary

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What Matters Most To Markets?!? Jerome Powell's Choice as the New US Fed Chair or Bitcoins Trading To a Record High of US$ 7,449!!

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The search for a new US Fed Chair is over! President Donald Trump's official choice settled late Thursday on Jerome Powell, a member of the Federal Reserve Board of Governors and a former investment banker at Carlyle (i.e. a solid business background!). During a ceremony in the White House Rose Garden with Trump yesterday, Powell talked up the strength of the U.S. economy as he pledged to guard against financial market risks. "*In the years since the global financial crisis ended, our economy has made substantial progress toward full recovery*," Powell noted. "*By many measures we are close to full employment, and inflation has gradually moved up toward our target.*" His nomination to succeed Janet Yellen, whose term as Fed chairwoman expires February 3rd, 2018, is now subject to Senate confirmation.

In recent weeks, Powell's name made it to Trump's short-list but his pick remained unclear. After all, the US President had no problem with the way Yellen had lead the central bank during her four-year term, and as he watched the stock market reach new highs day after day since his election (also claiming personal credit for the strength of the U.S. economy L), he kept coming back to the idea of re-nominating the woman most responsible, namely Fed Chair Janet Yellen. Then his Treasury Secretary got his ear: Steven Mnuchin exerted outsized influence as the President deliberated on the Fed, people familiar with the matter said, and Mnuchin favoured Powell. His argument beat that of Vice President Mike Pence, who urged Trump to make a more dramatic change of direction at the Fed by nominating Stanford University economist John Taylor, a hawk and favourite of conservatives across Washington - also famously known for the Taylor rule (an interest rate forecasting model based on changes in inflation, output, and other economic parameters). And whilst Taylor, too, did get a serious look from Trump, the end choice settled on Powell as the US President felt he would have best judgment and collective experience of the people he considered for the Fed job, and also that he is the person Trump is most comfortable with, according to four White House officials who briefed reporters before Trump's announcement on condition of anonymity.

Markets do not expect an imminent shake-up! Powell – a centrist on monetary policy, also known as pragmatic and down-to-earth official with private sector and government experience - is viewed by many financial market players as likely to continue on the path of gradual interest-rate hikes set by Yellen. Since his appointment as Fed governor in late 2012, Powell - 64 - supported Yellen's policy of only gradually raising interest rates in the face of robust jobs growth, and has supported only modest adjustments to the raft of banking regulation implemented in the wake of the 2008-09 financial crisis. Whilst many Republican lawmakers are hoping Powell will help them roll back post-crisis banking regulation they believe is stifling economic growth, he made a point of saying the financial system had been made safer. "While post-crisis improvements in regulation and supervision have helped us to achieve these gains, I will continue to work with my colleagues to ensure that the Federal Reserve remains vigilant and prepared to respond to changes in markets and evolving risks," Powell commented (banking regulation has become, if possible, an even hotter political potato than monetary policy, and there is a long record of unpredicted consequences from changes to banking regulations!).

Interestingly - in case you had missed it - Powell's nomination came a day after the FOMZzzzz (i.e. a very predictable and dull Federal Open Market Committee – "FOMC" J) met on Wednesday afternoon and decided to leave the o/n fed fund rate unchanged in a 1.00% - 1.25% range, whilst upgrading growth to "solid" from "moderate". And that was about it! Nothing happened to change the perception that a 25 bps rate rise next month (December 13th) is a virtual certainty, and nothing changed perceptions of what may happen thereafter. Treasuries, stocks, commodities and the US dollar hardly moved on the news (as such, you could be excused for believing you had the date of the meeting wrong!).

Yet, the Yellen doctrine - which consists of holding back policy rates or keeping policy very accommodative while waiting for inflation to rise - has all the markings of the same mistakes Bernanke made in the last cycle (namely ignoring asset inflation because price inflation was well behaved). As a result, equity markets continue powering to new highs, whilst bonds hold in a tight depressed range (my favourite gauge is the 30-year bond yield, last at 2.82%, easily a full 100 – 150 bps below fair value associated with current economic performance and upcoming planned tax cuts!).

And Then There Was Bitcoin!!

Bitcoin climbed past $7,000 yesterday for the first time, breaching another milestone less than one month after it tore through the $5,000 mark. Spot pricing for bitcoin climbed this morning to a new high of $7,449 before pulling back slightly to $7,400 at the time of writing this note. The cryptocurrency is up as much as 640% this year (it started 2017 at roughly $950) and is now worth more than $100 billion. It got new impetus this week after CME Group Inc. (Chicago Mercantile Exchange), the world’s largest exchange owner, said it plans to introduce bitcoin futures by the end of the year, citing pent-up demand from clients. The cryptocurrency's record run was also fuelled by speculation that authorities in China and Russia could be prepared to relax restrictions on trading (after three major exchanges were shut down in China last month), as well as reports the Goldman Sachs is looking at ways in which it could play a market-making role in the virtual currency world.

Bitcoin’s meteoric rise is now attracting a ton of attention. So is it ready for the mainstream? Prior to answering this question, one has to confirm whether bitcoin a legitimate asset, or a super- bubble waiting to implode. The range of opinions is both wide and emotional: the cryptocurrency will either change the world, or it is the biggest fraud ever!

Bitcoin, the biggest of the cryptocurrencies, is controlled by computer algorithms rather than central banks, unlike mainstream currencies. Advocates applaud its traceability, while critics say it is an avenue for money laundering, terrorist financing and fraud. Like bitcoin, cash can be held and transferred anonymously - except that cash is physical and bitcoin is digital. You can hold all of your bitcoin assets in a small device, but few people nowadays want to hold cash under their mattresses. State controlled cryptocurrency is a march toward a digital economy and a cashless society. Once the masses have accepted the cashless society, governments will possess absolute power. Without cash, there can be no bank runs. Or imagine the sheer, dystopic evil of embedding an expiry date on digital currency forcing consumers to spend it within a certain period to compel the population to spend more and stimulate the economy. Then, there are those who bend the laws of finance by arguing about owning bitcoin for diversification or hedging. The problem is that unlike other financial assets, bitcoin does not negatively correlate to other financial assets, so it cannot act as a reliable hedge or diversification. Goldman Sachs recently released a report that supports gold as a reliable store of wealth rather than bitcoin, which is untested in market downturns. It emphasised that cryptocurrencies are vulnerable to hacking, arbitrary government regulation and infrastructure failure. In dollar terms, bitcoin has been seven times more volatile than gold this year.

As prices for the cryptocurrency skyrocket, investors and pundits are increasingly taking sides. Whether you are a backer or a detractor, what is not in doubt is bitcoin’s surreal rally this year, and that despite governmental crackdowns and mainstream market skepticism. The digital currency’s evangelists are led by Roger Ver, known in the industry as “Bitcoin Jesus.” Ver remains optimistic about bitcoin’s sustainability amid attempts from governments like China to curb some of the more speculative elements of trading. “The only way to stop (bitcoin) is to turn off the entire Internet in the entire world and keep it turned off,” he said in a September interview with Bloomberg News. Thomas J. Lee of Fundstrat Global Advisors, who has turned cautious on bitcoin in the short term because of its big gains, says he remains a long-term bull on the digital currency - maintaining a 2022 price target of $25,000. Some countries are also jumping on the bitcoin bandwagon, with Argentina’s most important futures market considering offering services to investors in digital currencies, whilst Turkish Central Bank Governor Murat Cetinkaya said digital currencies may contribute to financial stability if designed well.

For others, the speculation around bitcoin is the “*very definition of a bubble*,” Credit Suisse Group AG CEO Tidjane Thiam told reporters in Zurich on Thursday. “*The only reason today to buy or sell bitcoin is to make money*,” and such speculation “*has rarely led to a happy end*,” Thiam said. Themis Trading LLC – an independent, no-conflict, institutional agency brokerage firm specializing in equities - raised a red flag this week after CME Group Inc. announced plans to introduce bitcoin futures, saying the world’s largest exchange owner appeared to have “caved in” to pressure from clients. “*A bitcoin future would be placing a seal of approval around a very risky, unregulated instrument that has a history of fraud and manipulation*,” the firm said in a blog post. JPMorgan Chase & Co. CEO Jamie Dimon remains one of Wall Street’s most strident bitcoin opponents, saying in October that people who buy the currency are “stupid” and that governments will eventually crush it (I am guessing the elite in the US government haven’t been talking to Jamie for weeks ☺), whilst his counterpart at BlackRock - Larry Ink – thinks it will mostly be used by criminals. Finally, some like Goldman Sachs Group Inc. CEO Lloyd Blankfein are not sure what to make of bitcoin and are unwilling to reject the digital currency just yet. “*I know that once upon a time, a coin was worth $5 if it had $5 worth of gold in it*,” Blankfein said in another Bloomberg TV interview. “*Now we have paper that is just backed by fiat ... maybe in the new world, something gets backed by consensus*.”

To end this week’s piece on a happy note, it appears that the world in general, and the US in particular, breathed a short but pleasant sigh of relief on Thursday night, when U.S. President Donald Trump’s personal Twitter account went down abruptly for about 11 minutes (660 precious seconds!), a brief deactivation the social media company blamed on an employee who was heading out the door J. Attempts to call up Trump’s personal page, @realDonaldTrump, turned up a message saying, "Sorry, that page doesn’t exist!", prompting many Twitter users to send out screenshots. Within minutes, the account was once again available. The official feed for the U.S. president, @POTUS, was not affected. “Through our investigation we have learned that this was done by a Twitter customer support employee who did this on the employee’s last day. We are conducting a full internal review,” the company tweeted, after citing inadvertent “human error” in an earlier post.

And to think that the elite wants us to soon shift all of our savings to virtual bitcoins!!

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