# Weekly Market Summary

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## Fire and Fury on Various Fronts!! Realities or Misconceptions??

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Just as a new prophecy (or "mind control" economic note, you chose your pick!) relating to US bond markets was being released by JPMorgan's strategists - who strongly argued on the first trading day of 2018 that US long term yields will be held down by economic fundamentals that "*dictate a slower and shallower path*" for Fed tightening, and by term premium that "*is more negative in the 10-year sector than at the front end*" - US and European bond markets finally started feeling the heat and yields soon jumped decidedly higher!

Sell-off pressures really emerged on January 9th when the Bank of Japan ("BoJ") surprised markets by purchasing a smaller-than-expected amount of long-term JGBs. The shortfall was rather contained and did not signal any change in the BoJ's policy outlook, nor in the Japanese central bank's commitment to its "Yield Curve Control" policy (i.e. benchmarking the 10-year JGBs yields around 0.00%). Nevertheless, the announcement triggered a mini sell-off in the Japanese bond market (JGBs), with the selling pressure spreading to European and UST markets later on that day. The second knockout occurred the following morning - January 10th – when Bloomberg News carried a story that added to bond investors' jitters and prompted some traders to brace for what they feared could be the end of a three-decade bull market. The Bloomberg report suggested that senior Chinese government officials in Beijing - whilst reviewing the nation's foreign-exchange holdings (currently at $3.1 trillion, with roughly $1.3 trillion invested in US Treasuries) - had recommended slowing or halting purchases of U.S. Treasuries. The market for U.S. government bonds is becoming less attractive relative to other assets, and trade tensions with the U.S. may provide a reason to slow or stop buying American debt, the thinking of these officials went (according to people familiar with the discussions, who asked not to be named as they are not allowed to debate the matter publicly!). Overnight, China's State Administration of Foreign Exchange ("SAFE") said that the news report saying officials reviewing the country's foreign-exchange holdings have recommended slowing or halting purchases of U.S. Treasuries might have quoted a "*wrong source…We think the report might have cited wrong sources or may be fake news*," SAFE said in a statement posted on the administration's website, an apparent reference to the Bloomberg News story. "*China has always managed its forex reserves investments in accordance with the principle of diversification, to ensure the overall safety of FX assets, to maintain and increase their value*," SAFE noted. "*Investments in U.S. Treasuries are managed in a professional way according to market conditions and investment needs*." Nonetheless, the damage had already been done (UST10-year yields last at 2.56%; No real value below 3.00% if you ask me!), prompting bond veteran & legend Bill Gross to claim that a bear market in bonds has already begun. "*Bonds, like men, are in a bear market*," Gross, manager of the $ 2.2 billion Janus Henderson Global Unconstrained Bond Fund, wrote in an investment outlook released yesterday. "*Oprah shouted, 'Their time has come.' The bear bond market's time has come as well. Many would say, including yours truly - 'It's about time*.' The end of a 35-year bond bull market may have been July 2016, when yields on 10-year Treasury bonds hit an all-time low in a "*double-bottomed*" pattern, although it was not apparent at the time, Gross added. The bear market was confirmed this week as rates on the 10-year passed 2.5%, he tweeted again on Tuesday!

Moving to commodities, oil topped $70 a barrel in London yesterday, for the first time in three years as production cuts by OPEC and rising demand erode a global surplus. Brent crude futures, used in the pricing of more than half the world's oil, rose as much as 1.2% percent to the highest since December 4th, 2014! Prices rallied after the longest stretch of declines in U.S. inventories during winter in a decade, showing that the Organization of Petroleum Exporting Countries ("OPEC") and its allies are succeeding in clearing the glut triggered by the growth of U.S. shale oil. Prices have also been supported by concerns that supply disruptions could stem from rising political tensions in OPEC members Iran and Venezuela. "*Pretty much all of the fundamental boxes are supportive of the current rally and a bit more*," said Paul Horsnell, head of commodities research at Standard Chartered Plc in London. With the climb in crude, there are growing signs that OPEC could be falling into a trap it had sought to avoid. After all, rising prices are putting U.S. production on track to rival both Saudi Arabia and Russia, with output likely to exceed 10 million barrels a day as soon as next month and top 11 million before the end of 2019, according to Energy Information Administration forecasts. "*Seventy dollars is too much*," said Eugen Weinberg, head of commodities research at Commerzbank AG in Frankfurt. "*It's not completely unexpected, given the price momentum. But there will be a reaction in U.S. shale, and OPEC's strategy will backfire massively*." Other commentators disagree: Citigroup Inc. predicts that wildcards including war, Middle East tensions, Donald Trump and Kim Jong Un's tough rhetoric could drive crude soon towards $ 80 a barrel. That is in addition to political disturbances in some OPEC members like Iraq and Libya that could see crude supplies decline, boosting oil to levels between $70-$80, Citi said in a January 9th report.

Despite the marked surge in oil prices over the past six months (almost 50%), it has been largely a US Shale rig-less recovery, a mystery for traders seeking to forecast the future. Normally, one would expect the rigs to return to the field in significant numbers as producers - flush with added cash - look to boost output. But the weekly Baker Hughes tally has stayed remarkably still, with current rig numbers remaining less than half the count in the middle of 2014! And yet, America is set to rival Saudi Arabia and Russia. The reason: Explorers are doing more with less (a combination of faster and wider horizontal drilling and more intense fracking allowing production to explode), forcing traders to use a bigger toolbox of statistics, metrics and gauges to track U.S. production that is expected to top 10 million barrels a day as the year progresses. "*A well that comes online in U.S. onshore today is dramatically different than one that came on five or 10 years ago*," Leo Mariani, an analyst who covers explorers and producers at NatAlliance Securities, said in a phone interview. "*It is just a different animal*." For the market, that means the country that has become the world's swing producer and a spine in OPEC's side will become a whole lot harder to read and move soon to call all shots relating to the future direction of crude oil!

Last – but not least – there is this quite remarkable book, the one Michael Wolff wrote about Donald Trump. Perhaps you have heard about it ☺? President Donald Trump had entered 2018 with momentum: The massive tax cut he signed just after Christmas, he hoped, would give his legislative priorities a lift early in the New Year. But all of that energy vanished after publication of excerpts from a bombshell book detailing dysfunction, backstabbing and chaos in his White House and Trump's ensuing rupture with his former chief strategist, Steve Bannon. "*What's surprising is that it's now on paper and Steve Bannon wielded the knife -- and this early in the term*," said Representative Charlie Dent, a seven-term Republican who isn't seeking re-election to his competitive Pennsylvania seat. "*It seems that the people around the president feel no particular loyalty to him, and the president is not particularly loyal to them*." Trump wasted no time firing off a tweet saying that the book, "*Fire and Fury*" by Michael Wolff, was "*full of lies, misrepresentations and sources that don't exist*." He added that he had given Wolff "*Zero access to White House (actually turned him down many times)*." Wolff responded the next day on NBC, confirming that he spoke to Trump during the campaign and after his inauguration. "*Whether he realized it was an interview or not,*" the conversations were not off the record, Wolff added.

The book features vivid anecdotes depicting Trump as paranoid, inept and ignorant and his aides as self-interested, opportunistic and sceptical of their boss' ability to govern and even his fitness for office. This turnabout imperils a new phase of Trump's agenda that the White House hoped would include an overhaul of welfare programs, a massive infrastructure initiative, and construction of his signature border wall. He is also weakened just as he enters talks with Democratic leaders on government spending for the remainder of the fiscal year. It is worth noting that some of the people quoted in the book have insisted the accounts are untrue and have pointed to reports that Wolff has a reputation for exaggeration. Additionally, many of the book's most salacious claims are published with unclear attribution or without citing any source at all. White House Press Secretary Sarah Huckabee Sanders called the book "*a complete fantasy full of tabloid gossip*" at a recent briefing. "*It's sad, pathetic, and our administration, our focus, is going to be on moving the country forward*."

Nonetheless, everyone would agree that the first chapter of the Trump presidency has been interesting to say the least! One can hope that the next chapter does not find the protagonist left all on his own, embarking upon a series of truly hair-raising adventures (a la "*Will someone from his depleted and food starved regime please inform him [Kim] that I too have a Nuclear Button, but it is a much bigger & more powerful one than his, and my Button works"* – Donald Trump tweet on North Kora, January 3rd 2018)

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