

Weekly Market Summary

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Rumors, More Rumors But Very Little Market Reaction ... Once More, Are Markets Witnessing The Final Calm Before the Storm??

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Another week, another tight trading range in markets and a further drop in implied volatility measures (the Chicago Board Options exchange Volatility Index, alias VIX, traded below 10 in past few days – an eleven-year low !). That said, the question remains whether these little moves are a reflection of investor calm or increased complacency. Either way, the latest dip in various volatility gauges leaves room for a renewed surge in market instability should negative market outcomes materialize.

Beginning with positive tangible news, the International Monetary Fund (“IMF”) confirmed earlier this week that the world economy is enjoying its most widespread and fastest growth momentum since a temporary bounce back from the global recession in 2010. In a rare upbeat “World Economic Outlook”, published at the start of the annual meetings of the IMF and World Bank in Washington, the Fund added that the unexpectedly good news had further to run in 2018 and higher investment was also beginning to improve the longer-term economic prognosis. The last time the global economy grew so fast was in 2010 as the world economy staged a temporary recovery from the 2008-09 financial crisis, so this year’s performance is significantly stronger, according to Maurice Obstfeld, chief economist of the IMF. *“This is not bounce back from a sharp deceleration, this is an acceleration from the fairly tepid growth rates of recent years, so that is really good news,”* Maurice told the FT in an interview ahead of the report’s publication. The IMF estimates that the world economy will expand 3.6% in 2017, up from 3.2% recorded last year, and it is likely to grow 3.7% in 2018, the IMF predicted.

Still, not all news out in past week(s) has been positive & rosy - with lasting political/economic uncertainties expected to cast doubts about future rallies in business/consumer confidence as well as equity prices. Below are some of the top stories/worrying developments we have been closely following at our end:

- **Brexit Talks & the Risk of No Quick Deal:** The U.K. is pinning its hopes on European leaders throwing Prime Minister Theresa May a bone at a summit next week after the latest round of Brexit talks ended in deadlock, though it is likely to be disappointed. There is little appetite to make any concessions for the sake of an embattled May, even at the risk she is toppled and is succeeded by a hardliner. That is the assessment of a top European official, speaking on condition of anonymity. At the summit, European leaders are expected to make it clear that trade talks cannot start yet, and they will reassess in December, according to a draft of the conclusions. But they will call for *“internal preparatory discussions”* so that they are ready to start negotiations on trade and transition in December if they decide to. That, along with some encouraging words on progress, represents a small step forward for the U.K, which had hoped to start trade talks next week.
- **Catalonia’s Uncertain Future:** Spanish Prime Minister Mariano Rajoy has given his Catalan antagonist Carles Puigdemont five days to clarify whether or not he has declared independence from Spain, as the country prepared for its national holiday on Thursday. Puigdemont has until 10 a.m. Monday to clear up his position. If he is found to be in violation of the law, he will be given another three days to back down. After that, Rajoy will trigger the legal procedures to force the Catalan administration from office. While the army has remained firmly on the sidelines, the military is ready to help impose order in the region if the separatists try to resist the state’s authority, according to a person familiar with the government’s planning. Rajoy also plans to remove the Catalan police chief, Josep Lluís Traperó, who was interrogated by a Madrid court as part of a sedition probe last week. The prime minister is looking to press home his advantage after Puigdemont failed to enlist international support for his campaign to break away from Spain and faced potentially fatal splits within his governing majority in Barcelona. The Catalan leader is trying to hold together a disparate coalition that includes both anarchists and conservatives with the threat of lengthy jail terms hanging over some leading activists.

- **Turkey's Incursion into Syria & Mounting Tensions with the US:** Turkey sent special forces and commandos over the border into Syria, the start of a joint mission with Russia and Iran whose stated goal is to monitor a cease-fire agreement and pacify a stronghold for Islamic militants - but one that also has major implications for the region's Kurds. Turkish troops began establishing observation points in Idlib on Thursday, the army said in a statement on its website. "*We said that we could come suddenly one night, and as you know, last night our armed forces started an operation in Idlib,*" President Recep Tayyip Erdogan said in a speech in Ankara to provincial leaders from his party. "*No one can ask us why we're doing this. We're the ones who have a 911-kilometer border with Syria. We're the ones who are constantly under threat.*" The incursion is one of Turkey's biggest moves yet in the Syria conflict, adding to the nation's geopolitical risks following an attempted coup in 2016 and subsequent political crackdown. Additionally, the lira tumbled after the U.S. and Turkey suspended visa services for each other's citizens on Sunday, a sharp escalation of simmering tensions between the two over issues including U.S. military involvement in Syria and Turkey's recent closer ties with Russia.
- **Bleak Future for Iran's 2015 Nuclear Deal:** President Donald Trump is expected later today to refuse to certify that the multinational accord to curb Iran's nuclear program sufficiently serves U.S. interests, though he will stop short of abandoning it, according to two senior administration officials. Trump will make the declaration in a speech where he will outline a broader Iran policy aimed at curtailing what the administration sees as the Islamic Republic's malign behaviour in the Middle East - including its sponsorship of terrorism, the officials said. After twice acquiescing to arguments from his advisers and U.S. allies, who say Iran is keeping its end of the deal by curtailing its nuclear program, Trump is expected to refuse to certify Iran's compliance again in advance of October 15th, the next deadline set by a law Congress passed to supervise the agreement. Once Trump decertifies that the deal is in the interests of the U.S., Congress will have 60 days to introduce legislation re-imposing the sanctions on Iran that were eased under the agreement - a move that would likely kill the accord. But Trump is expected to ask Congress to hold off sanctioning Iran for now and instead amend the law, the Iran Nuclear Agreement Review Act, according to the officials, who asked not to be identified ahead of Trump's speech. He will ask that Congress set benchmarks for Iranian action, for example by imposing new restrictions on its ballistic missile program.
- **Unclear Outlook for ECB's QE Programme:** European Central Bank ("ECB") officials are considering cutting their monthly bond buying by at least half (from EUR 60 billion to EUR 30 billion a month) starting in January and keeping their program active for at least nine months, according to officials familiar with the debate. Policy makers - led by President Mario Draghi - are becoming increasingly confident that they can agree on October 26th to the specifics of how much debt the euro-area's central banks will buy in the coming months. After more than 2-1/2 years of trying to revive the region's economy through bond purchases, some governors see the recent period of robust growth as a reason to rein in the support. Others are concerned that inflation remains too weak. While governors are split on the need to identify an end date for purchases, a pledge to keep buying bonds until September -- with the proviso that it could be extended if needed - may offer grounds for compromise, the officials said. Earlier this week, the IMF predicted the Euro area will see inflation of 1.5% this year and 1.4% next year. ECB staff see inflation even lower in 2018, at 1.2%, before an acceleration to 1.5% in the following year.
- **Divided FOMC Panel:** Federal Reserve officials struggled in September to come to terms with persistently low inflation but decided to continue to signal the possibility of raising interest rates for a third time this year. The minutes of their most recent policy meeting - released on Wednesday - show that a group of Fed officials expressed concern that low unemployment could cause inflation to surge and a rate hike was needed, presumably when it meets later this year. Another group suggested that no further rate increases were called for in the near term. Investors, though, have settled around the notion that a December rate hike is all but guaranteed, but some economists express more uncertainty. They think the Fed might not raise rates by year's end unless economic reports between now and its December 12-13th meeting show that inflation has begun to edge up toward the Fed's 2% target (more on that later this afternoon when the Bureau of Labour Statistics - known as BLS - releases monthly CPI inflation data, with Bloomberg's median expectation calling for a 2.3% year-on-year increase in September CPI data & a 1.8% annual rise for the core - ex food and energy- number). The Fed's key rate is at a still-low range of 1% to 1.25% after two quarter-point rate hikes this year, in March and June.

And if all the above was not enough, markets will constantly have to face their biggest ever dilemma: Is President Trump a “Moron”? On October 4th, a report by NBC news suggested that US Secretary of State Rex Tillerson considered resigning over the summer and referred to the US President as a “moron.” Asked to comment on that claim, Tillerson said “I’m not going to deal with petty stuff like that” and added “it is intended to do nothing but divide people.” It later fell to State Department spokeswoman Heather Nauert to say Tillerson never used such term. “The secretary did not use that type of language to speak about the President of the United States,” Nauert told reporters. “He did not say that.” She also added that Tillerson and Trump spoke by phone on that same day and “he told me it was a good conversation.” However, President Trump this week challenged Tillerson to a duel, suggesting that he and his beleaguered adviser match scores from their respective IQ tests to see who is smarter. “I think it is fake news, but if he did say that, I guess we’ll have to compare IQ tests,” Trump said of Tillerson in an interview that Forbes published on Tuesday. “And I can tell you who is going to win.”

You betcha! No doubt who would win that one: After all, Trump has issued various blanket warnings – on several prior occasions - to those who might question his intellectual chops, as he did in this Twitter post from 2013 ☺

Donald J. Trump @realDonaldTrump

Sorry losers and haters, but my I.Q. is one of the highest - and you all know it! Please don't feel so stupid or insecure, it's not your fault

Twitter: Donald J. Trump on Twitter

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