Weekly Market Summary

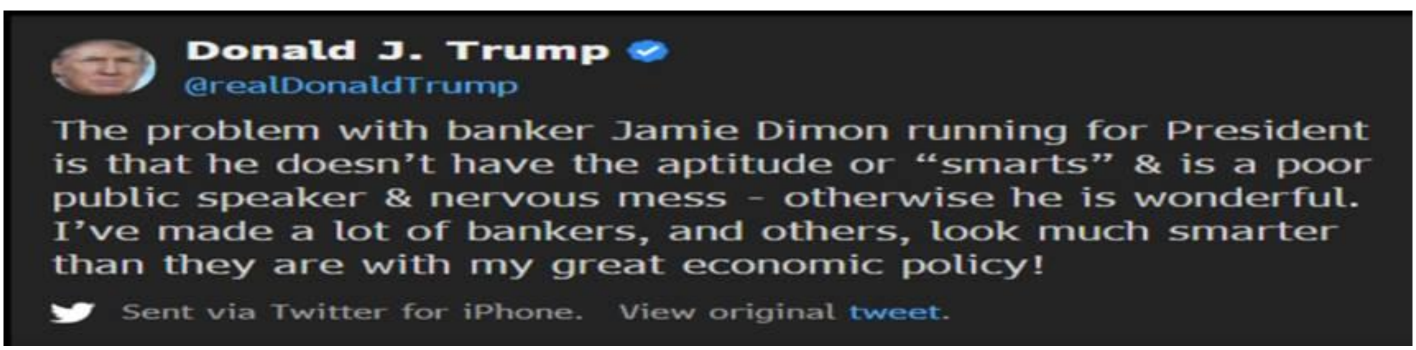
September 14th, 2018

Does Jamie Dimon Really Enjoy Making Headline News?! You Bet!!
Fadi Nasser - Deputy Chief Investment & Treasury Officer

A month back, JPMorgan's Chairman and CEO Jamie Dimon made headline news when he suggested – during a speech at the Aspen Institute's 25th Annual Summer Celebration Gala – that 5.0% was a distinct possibility for 10-year UST yields. "*I think rates should be 4.0% today, and you better be prepared to deal with rates at 5.0% or higher - it's a higher probability than most people think*" Dimon said. Prior to that – and as noted in a summary report sent to our valuable clients in early August - Jamie Dimon labelled Bitcoin "*a fraud*" in late 2017 and said it will soon blow up, before retracting few months later – declaring that he regrets making the previous "*fraud*" comment, whilst also adding that the block chain technology behind bitcoin is real and valid!

So imagine my surprise (NOT!) this week when the same Jamie Dimon made off-the-cuff remarks at an event that was supposed to spotlight JP Morgan Bank's philanthropy, saying he is not running for president but wants everyone to know that - if he did - he could defeat incumbent President Donald Trump. "*I think I could beat Trump*" in an election, the Wall Street Icon said last Wednesday morning, according to a Bloomberg report. "*I'm as tough as he is, I'm smarter than he is.*" He added: "*And by the way, this wealthy New Yorker actually earned his money. It wasn't a gift from daddy*." However, as he had done previously after similar grand claims, Dimon walked back his earlier comments, saying that "*I should not have said it. I'm not running for president. Proves I wouldn't make a good politician. I get frustrated because I want all sides to come together to help solve big problems*." Dimon, incidentally, was a member of Trump's strategy and policy forum prior to its disbanding, and he has praised the business-friendly tax cuts that the president signed into law last year.

Trump for his part, was not amused by Dimon's claims, writing the following on Twitter:



Moving to real and more relevant economic news, the main theme overnight was a relief "risk-on" rally in financial markets, as investors were bolstered by the planned trade talks between China and US. The spokesman for China's Commerce Ministry said yesterday that China received the invitation for trade talks and both sides are working on the details of the talk (even as president Trump boasted ahead of the meeting that the US has the upper hand in the burgeoning trade war and feels "*no pressure*" to resolve the current feud!). Positive developments were also witnessed in Turkey, where the Turkish central bank hiked the benchmark policy rate by 625 bps (6.25%!!) to 24%, higher than the expected hike of 325 bps - and in defiance of a call by President Recep Tayyip Erdogan just hours earlier to lower borrowing costs (what is this guy smoking? Elon Musk might possibly have the answer! ☺).

Meanwhile, the European central bank ("ECB") confirmed – during its meeting yesterday afternoon - that it is on track to halve the volume of monthly bond purchases at the beginning of October to € 15 billion euros. The ECB continues to "*anticipate*" the conclusion of its Quantitative Easing program ("QE") by 2018 year-end. At his press conference after the Governing Council's policy gathering, President Mario Draghi was asked about how the central bank will reinvest maturing bonds next year, but apparently, the topic did not feature heavily. "*Frankly, we haven't discussed, and we haven't – as I said last time – we haven't even discussed when we are going to discuss it*." (No urgency Super Mario! The European bond market bubble burst will most likely be a 2019 story, so still ample time to prepare for that one ☺). With little insight into asset purchases, Draghi was also asked about interest-rate hikes and how the ECB might respond to a slowdown in either growth or inflation. "*Both questions might be in principle very interesting questions but we haven't discussed that. I'm pretty sure there will be a time when we will have to discuss these questions, but it's premature*." So the gathered press moved beyond the euro area, and to the issue of U.S. fiscal policy. Take a guess on that one? Right! Again not discussed in details, though at least there was some analysis on that one ☺! "*We didn't discuss that to any extent other than saying two things that I can remember of our very short discussion. This fiscal expansion is pro-cyclical. There are dangers that its effects could wane in 2020. The risk there is of an increase in interest rates accompanied by a weakening of economic activity. That's the only point that was briefly discussed in the various presentations that were made about the state of the world economy*."

With little meaningful high-level political and economic discussions currently taking place, all eyes remain on ongoing military developments and humanitarian crisis in Syria, Yemen and Libya. As another US guided missile destroyer reaches the Mediterranean sea, the US may soon have 200 'Tomahawks' ready for a strike on Syria (Russia continues to warn that "terrorist" groups in Idlib – including the self-proclaimed civil defence group White Helmets - are planning a fake chemical attack). Last week, the attack submarine USS Newport News (SSN-750) arrived in the Mediterranean as well, whilst Russian troops were busy conducting massive naval manoeuvres off the Syrian coast that culminated in marine landing drills and missile launches. It is not entirely clear why the US believes the Syrian president would deliberately provoke Western airstrikes on Syrian forces - by giving his forces the order to conduct chemical attacks on civilians in Idlib - when they are on a winning streak in their war with the opposing factions (?!), but it does seem apparent that Washington intends to prevent Syria from regaining sovereignty over Idlib. In Yemen, a crisis that began seven years back - when president Ali Saleh left office as part of a mediated agreement between the Yemeni government and opposition Houthi groups - has lately turned into a major humanitarian nightmare with Meritxell Relano, the UNICEF Representative in the country, telling Reuters "*the conflict has made Yemen a living hell for its children*", with more than 11 million children - or about 80% of the country's population under the age of 18 - facing the threat of food shortages, diseases, displacement and acute lack of access to basic social services. As to the latest news emerging from Libya, investors have lately learned that Tripoli's international airport has been closed and flights re-routed after a series of overnight rocket attacks rendered all but meaningless a ceasefire announced by the United Nations days earlier. The incidents came a little more than a day after Islamic State militants attacked the headquarters of the National Oil Corp. in Tripoli (also declaring that the nation's oil fields are a "legitimate target"). The capital, which is notionally run by the internationally-recognized government of Prime Minister Fayez al-Sarraj, has become the arena for the latest burst of fighting to convulse Libya since the 2011 ouster and killing of Muammar al-Qaddafi. Clashes there over the past few weeks have left more than 60 people dead and about 100 others wounded.

The "*New Middle East*" project - introduced publicly to the world in June 2006 in Tel Aviv by US Secretary of State Condoleeza Rice – has so far unleashed the forces of chaos and violence throughout various states in the region, without allowing the big powers to redraw the Middle-East map in accordance with their geo-strategic needs and objectives. One would surely assume that the time has come to start implementing peaceful, secure and longer-lasting solutions instead !

Disclaimer

It is important that you only use this report if you are the intended recipient of this report and you have satisfied yourself that you are eligible to receive such information. This report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The Treasury and Investment Management department of Gulf International Bank B.S.C. ("GIB") have compiled the information in this report. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report is intended for the accredited investors, as defined in the Investment Business Code of Conduct published by the CBB. This information has not been reviewed by the CBB or any other regulatory authority in any jurisdiction and neither CBB nor any other regulatory takes any responsibility for the correctness or accuracy for the information contained in this report.

The information contained herein is not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses or authorizations by the relevant branch, subsidiary or affiliate office of GIB and such licenses or authorizations have not been obtained. The recipient of such information is responsible for ensuring that this information has not been received by it in breach of laws and regulations of any jurisdiction.

This report contains publicly available information only, which has only been complied by GIB. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind. GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. The information here is, and must be construed solely as, compilation of information (unless expressly stated otherwise) and not statements of fact as to credit worthiness or recommendations or opinions of GIB.

This report does not provide individually tailored investment advice. Any materials contained herein have no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The document is provided for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. GIB makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the materials, nor are they a complete statement of the securities, markets or developments referred to herein. Recipients should not regard the materials as a substitute for the exercise of their own judgement. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GIB as a result of using different assumptions and criteria. GIB is not under any obligation to update or keep current the information contained herein.

The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

The information contained in this report is just for informational purposes. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. GIB does not intend to provide investment, legal or tax advice through this report and does not represent that any securities or services discussed are suitable for any investor. When making a decision about your investments and business, you should seek the advice of professional advisors.

The report may contain statements that constitute "forward looking statements". While these forward looking statements may represent GIB's judgment and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from GIB's expectations. GIB is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The historical information is provided for information purposes only. Performance figures are calculated before tax (if any) and after deducting ongoing fees and expenses. The performance figures are historical and past performance is not necessarily an indication of future results. Certain amounts (including %ages) included in this document may have been subject to rounding adjustments. Accordingly, figures may not be an exact arithmetic aggregation of the figures to which they relate. The values and forecasts shown represent our current indicative valuations and forecasts of the relevant transactions, currencies, interest rates, commodities or securities as at the date shown. Any value or forecast shown herein is not an indicative price quotation. We expressly disclaim any responsibility for the accuracy of the values or forecasts shown, any errors or omissions in the report

With the exception of information regarding GIB and save as otherwise specifically indicated, the information set out in this report is based on public information. We have, where possible, indicated the primary source of information. We strongly recommend the recipients consult the primary source of information. Facts and views in this report have not been reviewed by, and may not reflect information known to, professionals in other GIB business areas.

This Report, and the information contained herein (save to the extent that such information is publicly available) is confidential and may not be disclosed by you to any other person outside of your organization without our consent.