Weekly Market Summary

22nd of Jan 2016

Is the 2016 Panic Trade Coming to an End??

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Bears (financial market bears, and not the animal species☺) have been in full control since the beginning of 2016. Is that about to change soon?!

Equity traders have been watching markets in quiet disbelief over the past few weeks, wondering whether this latest bout of stocks and commodity selling is outright panic or truly reflects weakening economic fundamentals across Asia (and elsewhere). In excess of $ 6.0 trillion has already been wiped out from the value of global stocks since the year started, with similar brutal moves witnessed in commodity and emerging markets.

As a three-week retreat in riskier assets reached new depths yesterday morning, investors across Asia rushed for the exits. The Shanghai Composite Index slumped 3.5% (down 19% YTD), despite the government's decision to inject liquidity in the financial system throughout this week, while a gauge of stock-market volatility for Japanese and Hong Kong equities climbed to the highest in more than four months. Commodities sank to a 16-year low (with March WTI oil trading to a low of US$ 27.56), and the currencies of Malaysia and Indonesia dropped to the weakest levels since the Asian financial crisis in 1998.

And then there was the usual negative noise from the International Monetary Fund. In its latest update released last Tuesday, the IMF's forecasts for global growth for 2016 and 2017 were cut by 0.2% across the board for advanced economies and emerging markets (IMF revisions show global growth of 3.4% in 2016, down from 3.6%, and 3.6% in 2017 – down from 3.8% forecast last October). Ongoing problems with China's economic rebalancing, the huge fall in global commodity prices and rising (?!) US interest rates (my screens show 0.86% and 1.48% on 2s and 5s US Treasury yields, down from 1.00% and 1.75% respectively the day the Fed raised interest rates last December) are seriously hampering global growth efforts, the IMF warned.

Wait a Second …. ECB and Super Mario to the Rescue!!

Following the European Central Bank (ECB) monetary policy meeting yesterday afternoon – where benchmark rates were left unchanged at a record low and no variations were brought to its bond-buying stimulus – the ECB president, Mario Draghi, issued a stronger-than-expected signal that his policy team could step up its stimulus program as early as March (next ECB meeting falls on March 10th) in response to stubbornly low inflation and turbulence in the financial markets. "*Conditions have worsened*" since the central bank's Governing Council met in December, Mr. Draghi said at a news conference while indicating that the Governing Council had been surprised by the extent of recent market turmoil as well as by plummeting oil prices, which are a factor in the Eurozone's dangerously low inflation. "*The Governing Council is open to using all the necessary instruments to cope with a situation that is materially different than the beginning of December.*

***One should not have any doubt that the Governing Council not only has the power and the willingness and the determination but also the cohesion that is necessary to take the actions that are needed*,"** Draghi added.

Buoyed by the hope for more monetary policy intervention sooner than most analysts had expected, investors swiftly drove up Eurozone stocks and sold the Euro against the US dollar and Sterling Pound. Equities globally followed higher, with the turnaround in sentiment fuelled by expectations that other central banks will join the ECB efforts to expand stimulus measures and counter turmoil in financial markets. Diminished inflation expectations and a strengthening yen are seen as increasing pressure on the Bank of Japan to enlarge stimulus at its meeting next week, and China will keep intervening in its equity market to "*look after*" investors while having no intentions of further devaluing the Yuan, according to its Vice President Li Yuanchao (reproduced from a speech at Davos).

Oil too surged in sympathy, rallying a sharp 10% from its Thursday's lows (last at US$ 31.00 for March WTI). Elsewhere, haven assets such as US Treasuries, the Japanese yen and gold retreated. The million dollar question going into next week remains whether this latest positive turnaround in markets will prove to be the start of a constructive long term uptrend that builds support on easy government/central bank policies and improved financial conditions, or just a classic oversold bounce from very depressed market levels that fades within the coming days (I personally don't have an answer to that!).

Here are other key developments that shaped markets this week:

- **China's economy** slowed in December, capping the weakest quarter of growth since the 2009 global recession, as the Chinese leadership engineers a transition to consumer-led expansion. Industrial production, retail sales and fixed-asset investment all slowed at the end of the year, while gross domestic product rose 6.8% in the fourth quarter from a year earlier. Full-year growth of 6.9%, the least since 1990, was in line with the government's target of about 7%. Policy makers must weigh the need for further monetary easing with the risk it would spur more weakness in the Yuan and additional capital outflows.

- **The British pound** sank to its lowest level since March 2009 and headed for a fourth successive weekly decline amid concern that instability in global equities and emerging markets would further hamper the Bank of England's ability to tighten monetary policy, while worries mount that the UK may vote to leave the European Union in a referendum. Sterling weakened against most of its major peers, trading to a low of $ 1.4080 on Wednesday even as data this week showed the inflation rate picked up and wage growth slowed less than economists expected. BOE Governor Mark Carney said on January 19th that "now is not yet the time to raise interest rates," further diminishing the outlook for the pound. Deutsche Bank AG on Thursday reiterated its call that sterling would tumble to $1.15 by the end of 2017!

- **Deutsche Bank**'s shares fell nearly 10% on Thursday after warning it would report a record loss for 2015, highlighting the scale of the problems facing new Chief Executive John Cryan as he restructures Germany's biggest bank. The bank said late on Wednesday it expected to report a net loss of about 6.7 billion euros ($7.3 billion), as write-downs, litigation charges and restructuring costs were compounded by tough trading conditions in the fourth quarter. Elsewhere, **Barclays Plc** Chief Executive Officer Jes

Staley started a fresh round of cuts at the investment bank, with plans to eliminate more than 1,000 jobs worldwide and exit several Asian countries, people with knowledge of the matter said.

The U.K. bank plans to wind up its cash equities business in Asia and exit operations in countries including Australia, Taiwan, South Korea and Malaysia and plans to maintain offices in Hong Kong, China, Japan, Singapore and India, and keep its prime brokerage and derivatives business in Asia.

- **World Economic Forum 2016 - Davos Gathering**: Leaders of the global economy sought glimmers of light amid the darkest outlook since the financial crisis tipped the world into recession seven years ago. As market's panic reached new heights on Wednesday with oil plunging and European equities sinking, the World Economic Forum's annual meeting began in Davos, Switzerland, with the list of worries ranging from China's slowdown to tumbling commodity prices and geopolitical tensions. The concerns were tempered by the hope that markets will soon stabilize.

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