Weekly Market Summary

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Will Trump's Decision To Withdraw from the Paris Climate Accord Lead to More US Jobs Creation? Expect Confvfefe on That Later This Afternoon !!

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It is official…Donald Trump is making America great again! After all, his job as president is to do everything within his power to give America a level playing field, the Paris Accord is a bad deal for Americans and POTUS' (President of the United States) action yesterday is keeping his promise to put American workers first …

The above are not my words, far from it! They are Donald Trump's latest 3 tweets over the past twelve hours, tweets that rapidly followed the US President's decision to withdraw the United States from the Paris climate pact, whilst saying it favors other nations at the expense of American workers (could cost the U.S. 2.7 million lost jobs according to Trump's estimate). "*The Paris accord would undermine our economy, hamstring our workers, weaken our sovereignty, impose unacceptable legal risk and put us at a permanent disadvantage to the other countries of the world*," Trump suggested. "*China will be allowed to build hundreds of additional coal plants. We can't build new coal plants, but China, India can*." "*I was elected to represent the citizens of Pittsburgh -- not Paris*," he added. "*We are getting out, but we will start to negotiate and we will see if we can make a deal, and if we can, that's great*," the US President noted yesterday, arguing the pact benefits China and India. "*And if we can't, that's fine*."

Trump's announcement rebuffs pleas from US corporate executives and even Pope Francis who warned the move imperils a global fight against climate change. His decision also drew an immediate condemnation from the leaders of France, Germany and Italy (supposedly European "allies"), who issued a statement insisting that the agreement was "*irreversible*" and "*cannot be renegotiated*." The Japanese government described the U.S. move as "*regrettable*." Under the terms of the deal, nations are allowed to adjust their individual emissions targets, with a goal of strengthening them over time. However countries' individual pledges vary widely; For instance, where the U.S. promised to cut greenhouse gas emissions by at least 26% from 2005 levels by 2025, China said it would only begin reducing its emissions by about 2030. And India said it would only reduce the carbon intensity of its economy, meaning the nation's emissions could continue to rise.

As the richest nation and the second-largest emitter of carbon dioxide, the U.S. was and remains central to efforts to address global warming. Tesla Inc.'s Elon Musk and Walt Disney Co. Chief Executive Officer Bob Iger – who had urged the US president to remain in the pact - said they would resign from a presidential jobs panel as a result of Trump's decision. Senator Chris Murphy, a Democrat from Connecticut, tweeted "*Dear planet, we're sorry. Please just hang on for three and a half more years and we'll fix this. We promise*". Still, US Conservative groups and fossil fuel advocates quickly applauded Trump's move. "*By not succumbing to pressure from special interests and cosmopolitan elites, the president demonstrated he is truly committed to putting America's economy first*," Michael Needham, the chief executive officer of Heritage Action, said in a statement. Coal executive Robert Murray praised Trump for "*supporting America's uncompromising values, saving coal jobs and promoting low-cost, reliable electricity for Americans and the rest of the world*."

The Paris accord was a signature achievement for Barack Obama's efforts to combat climate change while president. Obama released a statement after Trump's announcement saying the pact "*opened the floodgates for businesses, scientists, and engineers to unleash high-tech, low-carbon investment and innovation on an unprecedented scale*." Trump, who has called climate change a "*hoax*," campaigned on the pledge to exit the 2015 pact. Withdrawal from the accord would put the U.S. in league with just two other nations -- Syria and Nicaragua -- that are not participating in the agreement, although the earliest the U.S. can formally extricate itself from this accord is November 4th, 2020 – i.e. the day after the next presidential election.

Below are other main stories/themes that will soon affect financial markets:

- **European Central Bank Monetary Meeting, June 8th**: On Wednesday, markets learned that Euro-area inflation had slowed sharply in May, giving ammunition for ECB policy makers who say it is too early to commit to an exit from monetary stimulus. CPI decelerated to 1.4% this month - the weakest reading for 2017 - from 1.9% in April. A measure that strips out volatile components such as energy and food fell to 0.9%, also weaker than expected. ECB President Mario Draghi has tried to downplay expectations that the Governing Council will do much more than acknowledge the latest economic progress - let alone put the ECB on an exit course - at its meeting next week in Tallinn, suggesting on May 29th to EU lawmakers that the economy still needs support. However separate hard data and sentiment indicators continue signalling strong economic momentum: Eurozone unemployment has declined to 9.3%, its lowest level since March 2009. Growth – expected as high as 0.7% in the second quarter - is surely consistent with tighter monetary policy and has prompted Executive Board member Benoit Coeure to warn earlier this month that "*too much gradualism*" in adjusting the ECB's policy stance bears the risk of larger market adjustments once decisions are finally taken, whilst defending the current plan to finish QE before raising rates. Bundesbank President Jens Weidmann, one of the fiercest critics of the central bank's asset-purchase program, has also argued that questions about the timing of an exit are legitimate, even though he noted that an expansionary stance "continues to be appropriate in principle." The ECB's current guidance says the central bank will keep interest rate at the current or lower level well past the end of its asset purchases, which are set to run at their current pace of 60 billion euros ($67 billion) per month until at least the end of this year.

- **US Federal Open Market Committee Meeting, June 14th**: The Federal Reserve sent a strong signal yesterday that it will raise interest rates this month and soon begin shedding some of its US$ 4.5 trillion in bond holdings, despite weak recent U.S. inflation readings. Fed Governor Jerome Powell, an influential policymaker and among the last to speak publicly before a mid-June policy meeting, said the U.S. economy was "*healthy*" and the central bank should continue to edge toward a more normal footing after nearly a decade of crisis-era stimulus. Powell added that he expects a total of three interest rate increases this year, including the hike already enacted in March. Those comments echoed similar views expressed earlier this week by Federal Reserve bank of Dallas President Robert Kaplan, who is also sticking to his outlook for 2 more interest rate increases this year. Two months of weaker-than-expected price readings have raised concern that the Fed, which has a 2% inflation target, could delay two more planned rate hikes this year. Turning to plans to begin shedding bonds later this year, which risks a surge in market yields if the Fed surprises investors, Powell said the market's so-far muted response "*suggests that there need not be a major reaction*" when the process begins. "*If changes to reinvestment policy do tighten financial conditions more than anticipated, then I expect that the Fed would take that into account,"* he said, suggesting the possibility that rate hikes could be delayed in that case.

- **Markets Need a large Stock Correction or Otherwise a 50 Basis Points Higher in US Yields!** A broad push higher for stocks sent indexes to records yesterday following more signs that the US economy continues improving. The Standard & Poor's 500-stock index broke the 2,420-point level for the first time in the morning and kept rising (it ended at 2,430.06). The Dow Jones industrial average gained 135.53 to 21,144.18, and the NASDAQ composite index rose to 6,246.83, all record highs. Meanwhile, global bonds have rallied for five straight months, the longest stretch to start a year since 2003. The benchmark 10-year Treasury yield, last at 2.20%, is close to its 2017 low (2.17%). One of those investor groups has to lose, in the eyes of Bank of America Corp. rates strategist Shyam Rajan: He forecasts the U.S. Treasury will be under-financed by as much as US$ 4.5 trillion over the next five years (expected cumulative US budget deficits over that period) and have to issue more debt. To find enough demand, interest rates would have to climb 120 basis points from current levels, or equity prices would have to plunge 30%, he said this week in a report (***or surely both when central bank manipulation ends, if you ask me!).***

Last, traders will be focused later this afternoon on the all-important US payroll release*. Bloomberg consensus is for May payrolls rising by 185,000 (versus a strong print of 211,000 in April). As always, it will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to stay unchanged at 4.4%, or possibly move one-tenth higher to 4.5%), average hourly earnings (+0.2% mom /+2.6% YoYyoy), the participation rate (last at 62.9%) and average weekly hours (expected unchanged at 34.4 hours).

**Non-farm Payrolls data showed only a slow pace of growth in May, increasing by 138,000 during the month, ahead of the roughly 100k necessary to sustain the unemployment rate, but below the consensus forecast of 185k. Other details in the report also looked somewhat soft. A downward revision took April's print to 174k from 211k in the previous estimate. Furthermore, wage growth continued to disappoint, not accelerating from the annual rate of 2.5% observed last month. The unemployment did dip to 4.3%, but only because of a decline in the participation rate. The payroll data was on the soft side, but likely not weak enough to derail a rate hike at the June 14th FOMC meeting.*

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