Weekly Market Summary

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The US Federal Reserve, US President Trump and Mexico's "Bad Hombres"!

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Like everyone else trying to figure out what the swift - at times impulsive - executive orders and remarks from President Donald Trump mean for growth and the US economy in general, not to mention his narcissistic and short-tempered tweets on the state of both national and foreign affairs, the Federal Reserve met last Wednesday and decided to play it safe, leaving their benchmark lending rate (US overnight Fed funds rate) unchanged at 0.5% - 0.75%. Still, US central bankers used their statement to acknowledge that sentiment has gained, and added that inflation WILL rise to their 2% target even with "gradual" adjustments in interest rates.

"The Federal Reserve acknowledged the boost in sentiment on the part of consumers and businesses, but were not certain enough about the outlook to signal a rate hike was a strong possibility in the near future," Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ in New York, said in an e-mail sent to clients. Investors currently see a roughly one-in-three chance (33% probability) the Fed will raise rates by a quarter percentage point (0.25%) at their next meeting, on March 15th , with the odds of an increase rising to around 70% by their June meeting, according to pricing in federal funds futures markets.

Moving to Trump's second week in office, the US President - and some of his deputies – wasted no time hitting out at some of America's closest friends, blasting a "dumb" refugee re-settlement deal with Australia ("Do you believe it? The Obama administration agreed to take thousands of illegal immigrants from Australia. Why? I will study this dumb deal! Worst Call" – Trump tweeted), and accusing Japan and Germany of manipulating their currencies. Ties with Mexico have also deteriorated to the point its government had to deny reports that Trump told President Enrique Pena Nieto he might send U.S. troops across the southern border. "When you hear about the tough phone calls I have, don't worry about it," Trump said to an audience of religious and political leaders at the National Prayer Breakfast yesterday, a yearly event in Washington. "The world is in trouble -- but we're going to straighten it out, OK? That's what I do." (perhaps the dumbest presidential statement I have personally heard since the George W. Bush days!). For the first time in decades, America's oldest allies are questioning where Washington's heart is (Trump's own financial interests & "camarade" Putin come straight to mind!). Trump's willingness to publicly attack America's friends in Europe and Asia marks a sharp contrast from the Obama administration, which sought to build a united front against Russia and China's military and economic clout (not necessarily a noble and smart move!). President Trump – instead - has suggested Asian nations should pay more for U.S. security and pulled out of a 12-nation Pacific trade deal.

The dilemma for officials globally is figuring out if Trump's blunt style is simply a tactic to keep them off balance or the start of a move to tear up the rule book that has guided relations with the U.S. since World War II. In the meantime, allies have little choice but to prepare for the worst. Similarly, his talks and sometimes foolish tweets about financial markets have created heightened uncertainties/frustrations amongst investors. Take for example Trump's pre-election assurances that the stock market was in a "big, fat, ugly bubble". But last week, he joined in the celebration after the Dow Jones Industrial Average closed above 20,000 for the first time. "We just hit a record, and a number that has never been hit before. So I was very honored by that," Mr. Trump told ABC News! Ray Dalio, founder of the world's biggest hedge fund firm overseeing $160 billion in assets – Bridgewater Associates – was amongst those who were very bullish on the incoming US president ability to stimulate the economy. Now Dalio is saying that he is more concerned that the damaging effects of Trump's populist policies may overwhelm the benefits of his pro-business agenda. "Nationalism, protectionism and militarism increase global tensions and the risks of conflict. For these reasons, while we remain open-minded, we are increasingly concerned about the emerging policies of the Trump administration," Dalio suggested.

As to Mexico's "Bad Hombres" (possibly a reference to Mexican criminals and drug cartels), reports that were apparently based on a leaked White House document suggest the US president told his Mexican counterpart Peña Nieto "you have a bunch of bad hombres down there. You aren't doing enough to stop them. I think your military is scared. Our military isn't, so I just might send them down to take care of it." Whilst confirming the President's call Wednesday night included conversation about security issues, a White House official told the Associated Press the comment was meant to be taken as a joke (who is laughing □?). "Those comments, while lighthearted, were part of a discussion about how the United States and Mexico could work collaboratively to combat drug cartels and other criminal elements, and make the border more secure," the official confirmed.

Last - but not least - the monthly U.S. jobs report* for January will be released later this afternoon (4:30 pm Bahrain time). As always, welcome to random number generator, also known as US Non-Farm payrolls ("NFP"); Bloomberg's consensus is for a 180,000 increase in jobs on the month (although the whisper number is possibly higher at 200,000 following a stronger-than-expected 246K jump in the US ADP Employment release on Wednesday) , an unchanged unemployment rate and workweek (at 4.7% and 34.3 hours respectively) and a healthy wage component (+0.3% month-month and 2.8% YoY versus a 2.9% annual rate in December). This report will surely shed light on the upcoming path of policy interest rates, while a strong print could bring a March US rate hike strongly back into the picture (as a reminder, the US Federal Reserve had suggested at their December meeting that the o/n Fed funds will be lifted by an additional 75 bps – 3 hikes of 25 bps - in 2017).

*US Job report Out: It has been a solid 2017 start for the US economy so far, with market sentiment and hiring looking robust. The pace of non-farm payrolls gains accelerated to 227,000 January, from 157,000 in the prior month. While the unemployment rate edged up a tick to 4.8%, it was mainly due to a 0.2% increase in labor participation. The only weak spot was the monthly gain of 0.1% in average hourly wages. Although the annual rate of wage inflation was likely to decelerate a couple of ticks, the fall from the revised 2.8% to 2.5% will be seen as a counterbalance to the stronger headline payroll number. With the ADP survey already signaling the pickup in employment earlier in the week, the market is likely to trade off of the wage number, leading to small gains in fixed income markets (higher bond prices, lower yields) and losses for the US dollar.

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