

Weekly Market Summary

20th of January 2017

What To Expect When You're Least Expecting?! Trump, Europe & Theresa May Fadi Nasser - Head of Treasury Sales

On the eve of his inauguration as the 45th U.S. president, Donald Trump offered a measure of humility and a promise of unity to thousands of supporters who had arrived in Washington for the ceremony. *"This journey began 18 months ago,"* Trump said Thursday, addressing a crowd from the steps of the Lincoln Memorial. *"I had something to do with it but you had much more to do with it. I am just a messenger." (one can only hope that the world is not about to witness another lunatic – a la George Bush - that intensely believes he is driven with a mission from God to make America and the world better!)*

Reiterating the promises he made during his successful campaign -- hardened borders and a strengthened military -- Trump said he wanted to unify the nation after a particularly divisive election. *"We're going to make America great for everybody,"* he said. *"We have by far the highest IQ of any Cabinet ever assembled,"* Trump added. The president-elect was participating in a series of pre-inaugural rituals and celebrations, beginning with a reception at the Trump International Hotel he opened in downtown Washington last year. The events are a run-up for his swearing-in at about noon US time (Eastern Standard Time) today. *"It is going to be a very humbling and moving day for the president-elect, his family and mine,"* Vice President-elect Mike Pence said at a briefing for reporters on Thursday. *"We are ready to go to work. In fact, we can't wait to get to work for the American people." (hopefully not just wealthy Americans, Goldman Sachs and Wall Street traders!)*

Trump stayed in Washington overnight ahead of today's inauguration. He and his wife Melania will have morning tea at the White House with President Barack Obama and first lady Michelle Obama before heading to Capitol Hill for the swearing-in. The Senate will vote on confirming at least two of Trump's Cabinet secretaries Friday afternoon, Senate Democratic leader Chuck Schumer said Thursday. They include two retired Marine Corps generals: James Mattis, who has been nominated to lead the Defense Department, and John Kelly, who will lead the Homeland Security Department.

Overnight, Warren Buffett said he *"overwhelmingly"* supports President-elect Donald Trump's choices for cabinet positions. *"I feel that way no matter who is president,"* the billionaire Berkshire Hathaway Inc. chairman and chief executive officer said in New York at the premiere of a documentary about his life. Buffett – 86 - backed Hillary Clinton in the U.S. presidential election, stumping for her in Omaha, Nebraska, and headlining fundraisers. The billionaire frequently clashed with Trump and scolded him for not releasing income-tax returns, as major party presidential candidates have done for roughly four decades. Since the election however, Buffett has struck a more conciliatory tone toward Trump and called for unity. In an interview with CNN in November, he said that people could disagree with the president-elect, but ultimately he *"deserves everybody's respect."*

Surely that message has not resonated with all Americans! Trump's popularity is the worst for an incoming president in at least four decades, with just 40% of Americans saying they have a favorable impression of him, according to a Washington Post-ABC poll published last Tuesday. A Facebook group called "Donald Trump is Not My President" has nearly 150,000 members (too small to have any impact). And if you trust billionaire George Soros (NOT ME!), you would have to believe that America has elected a would-be dictator as president. Calling Trump a "con man", Soros said the billionaire will fail because his ideas are contradictory and his White House advisers and cabinet members will fight with each other, an apparent reference to the conflicting views expressed during Senate confirmation hearings. The stock market rally since the November election, spurred by Trump's promises to slash regulations and boost spending, will come to a halt, Soros predicted (Soros's pessimism has been costly to him, as he lost nearly \$1 billion on his bearish equity bets as a result of the 6% stock rally spurred by Trump's surprise win, the Wall Street Journal reported earlier this month).

Moving to Europe, the European Central Bank's 25-member governing council led by President Mario Draghi made no changes in its interest rates or bond-buying stimulus program at a meeting yesterday afternoon. During the ensuing press conference, Draghi stressed that the Bank is determined to keep pumping newly printed money into the economy through bond purchases – to boost inflation from dangerously low levels and support an economy that is slowly gathering steam - despite criticism from stimulus skeptics. A recent uptick in inflation in the Eurozone, he added, was caused by higher oil prices - and not by a fundamental improvement in demand for goods in the economy. "*Underlying inflation pressures remain subdued*".

Annual inflation in the 19-country Eurozone has jumped to 1.1% in December from 0.6% the month before. But core inflation, which excludes volatile fuel and food, has been stuck at 0.8%-0.9%, and higher prices have so far not been reflected in wage growth (a view disputed by German lawmakers and economists who point to the negative or zero returns on consumers' savings with banks and in German bonds, at a time inflation is pushing higher). The euro fell on Draghi's comments, from \$1.0668 to \$1.0604, as the prospect of more monetary stimulus sent the European currency's exchange rate lower against its peers. The course of the ECB, the main monetary authority for the Eurozone, contrasts sharply to that of the U.S. Federal Reserve, which has so far raised interest rates twice in the past 13 months, and is ready to hike rates "*a few times a year*" until 2019 according to Fed Chair Janet Yellen's recent remarks/speeches.

Last, but not least, UK Prime Minister Theresa May delivered last Tuesday her vision for pulling Britain out of the European Union's single market (*some commentators referring to it as May's wish list!*). May said Britain is aiming to boost global trade and remains open for business, but it was also clear that her agenda now is for the UK to leave the single market, quit sending large sums of money to Brussels, clamp down on immigration and restore law-making powers to British politicians and judges. In her much-anticipated vision on how she wants to withdraw Britain from the European Union, May interpreted June's narrow vote as a call for change. Instead of the EU membership that evolved over four decades, she told an audience of European diplomats in London that she wants to customize the customs union and deliver a "bold and ambitious" fresh trade deal with the bloc. Her ideal accord would allow tariff-free trade between Britain and the EU, while she would secure the liberty to strike new pacts with other countries. It remains unclear whether the shape of the final agreement will allow London-based banks to provide services across the continent with ease and get enough time to adjust to the new order. Still, the British pound closed up 2.61% higher on the day, at \$ 1.2382, making its biggest daily rise since October 2008. That comes a day after sterling touched its lowest level since last October 7th flash crash (typically what we refer to in market jargon as "*sell the rumor, buy the fact*" or vice-versa!). However, the FTSE 100 suffered its steepest fall since the immediate aftermath of the EU referendum, surrendering 107 points or 1.46% to close at 7,220 as the surge in the pound hurt internationally-focused companies dominating the index.

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