Weekly Market Summary

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When a Timely Phone Call Can Make All the Difference!!
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Markets in Chaos!! That was surely a recurring theme throughout last week. According to a Bloomberg Opinion piece, released last Sunday, turbulence was the order of the day (well, five of them) for global markets. Major stock indexes had suffered three days of steep declines, got one day of relief, and then slid back into the red after tech giants posted disappointing earnings (Amazon & Google's parent Alphabet). Bloomberg Opinion writers, exploring every aspect of the turmoil - from its many causes to its possible outcomes - wasted no time posting the following miserable stories (unfortunately we're living in a miserable world, with market focus firmly shifting away from economic data to politicians' stupidities – as highlighted in our June-end weekly piece):

Sunday
Despite a Strong Economy, Investors Are Defensive!

Monday
Not Even China's Largesse Can Improve the Mood
Emerging Markets Need Fixes to Stay Calm
China's National Team Is Saving the Wrong Stock Targets

Tuesday
Goldilocks Has Abandoned the Stock Markets
Fears Are Overtaking Facts in Market Sell-Off
Markets Seek a Silver Lining That Isn't There
Bonds Flash a Warning Sign to the Fed

Wednesday
Let Me Count the Ways Markets Are Tanking
Postcards From the Edge of the Carnage in Stocks
Stocks Are On the Brink of a Bear Market

Thursday
Wall Street's New Buzzword Actually Makes Sense
Earnings Are a Convenient Excuse for Market Lurches
Junk Bonds Are No Shelter in the Storm
Depressed by China Stocks? Booze and Drugs Won't Help
China's Market Rescuers Could Use a Rescue
Amazon Finds It's the Wrong Time to Disappoint

Friday
The Trump Bump Is Now Turning Into a Dump

In fact, this week wasn't looking much better: With major uncertainties - pertaining to restoration of US sanctions on Iran oil (November 4th), US midterm elections (November 6th), messy Italian fiscal plans and politics (Italy has been presented with a 3-week deadline, till November 15th, to provide a revised financial plan) and unknown Brexit talks' outcome - still persisting and keeping markets nervous, it was just a matter of time before things take another turn for the worse! Or at least that's what traders and investors were bracing for!

The Rest is History!! From last Wednesday onwards, all news has turned rosy again and financial markets are now back firmly in "risk-on" mode. So what has really changed over the past 72 hours? Maybe – just maybe - your GIB banker can still make some sense of such irrational and "silly" markets, and provide you with the latest explanations:

1. ***A Timely and "Beautiful" Presidential Phone Call***: President Donald Trump earlier this morning has asked key U.S. officials to begin drafting potential terms for a trade agreement with China, according to four people familiar with the matter (Melania, Ivanka, Jared & Stormy Daniels ☺) - who suggested the US president is keen to reach an agreement on trade with Chinese President Xi Jinping at the Group of 20 nations summit in Argentina later this month. The push for a possible deal with China was prompted by the president's telephone call with Xi on Thursday, the people said, requesting anonymity to discuss internal deliberations. Afterwards, Trump described the conversation as "*long and very good*" and said in a tweet that their discussions on trade were "*moving along nicely*." The telephone conversation on Thursday was Trump and Xi's first publicly disclosed call in six months. [How convenient?! 72 hours prior to opening polling stations for the upcoming US mid-term parliamentary elections].

2. ***UK banks to Get Access to the Single Market Under a Brexit Deal***: There has been unconfirmed reports in past days that a Brexit deal has been tentatively reached - and will be completed by November 21st - that will allow UK based banks to have access to the single market after the U.K. leaves the bloc. The Times newspaper in London suggested that the new plan will be based on equivalence - the tool that the EU already uses to allow non-EU companies to sell services in the bloc. In any case, such a deal on the future trade terms – even if true - is not binding. That is because Brexit is being done in two parts. First the divorce deal - the legally binding treaty that sets the terms of separation. A separate document - a political declaration - will set out both sides want to see in a future trade deal. That is where this financial-services agreement would go. However, the U.K. government recently said in an emailed statement: "*While we continue to make good progress agreeing new arrangements for financial services, negotiations are ongoing and nothing is agreed until everything is agreed*." Additionally, the European Union's chief Brexit negotiator Michel Barnier has cast further doubt on the deal as outlined in the Times report. "*EU may grant and withdraw equivalence in some financial services autonomously,*" he wrote on Twitter. *"Misleading press articles today on #Brexit & financial services*."

3. ***China Confirms More Stimulus Measures for its Economy Are Being Planned***: China's leadership has signalled in past days that further market aid is being planned, as disappointing economic data showed that the current piecemeal approach is not working. The nation's economic situation is changing, downward pressure is increasing, and the government needs to take timely steps to counter this, according to a statement from a Politburo meeting Wednesday chaired by President Xi Jinping. The world's second largest economy is being damaged by its trade war with the U.S. and a domestic debt clean-up. With those pressing constraints, officials have added modest policy support so far, ranging from tax cuts to regulatory relief, rather than repeating the fiscal firepower seen after a previous slowdown. Investors seem unpersuaded by the drip-feed approach with the yuan hovering around a decade low and stocks sliding. "*The leadership is paying great attention to the problems, and will be more pre-emptive and take action in a timely manner*," according to the statement Wednesday. The Politburo (Political Bureau of the Communist Party of China) reiterated that China will maintain a proactive fiscal policy and a prudent monetary policy, while trying to find solutions to help private businesses.

4. ***Meltdown in Oil Prices to Boost Consumer Spending?*** The U.S. has agreed to let eight countries -- including Japan, India and South Korea - keep buying Iranian oil after it re-imposes sanctions on the OPEC producer on November 5th, a senior administration official said. Whilst the Trump administration's goal remains to choke off revenue to Iran's economy, waivers are being granted in exchange for continued import cuts so as not to drive up oil prices, said the official, who asked not to be identified before Secretary of State Michael Pompeo announces the number of exemptions later this afternoon. China - the leading importer of Iranian oil - is still in discussions with the U.S. on terms, but is among the eight, according to two people familiar with the discussions who also asked not to be identified. The other four countries that will get waivers were not identified. The administration must maintain a delicate balancing act with the waivers: Ensuring the oil market has sufficient supply and avoiding a politically damaging spike in fuel prices, while also ensuring that Iran's government doesn't collect enough revenue that the U.S. sanctions become irrelevant. Global benchmark Brent crude has fallen about 15% from over $85 a barrel last month on increasing speculation that at least some nations will get waivers, as well as signs that other OPEC members will pump more to offset any supply gap. Brent oil futures were last at $72.75 a barrel in London (December West Texas Intermediate "WTI" last at $ 63.50). Countries that get waivers under the revived sanctions must pay for the oil into escrow accounts in their local currency. That means the money won't directly go to Iran, which can only use it to buy food, medicine or other non-sanctioned goods from its crude customers. The U.S. administration sees those accounts as an important way of limiting Iranian revenue and further constraining its economy.

Iris Murdoch, a well-known Irish novelist and philosopher, once said: "*We live in a fantasy world, a world of illusion. The great task in life is to find reality*!" My guess is that we'll have to wait and see how long-lasting the impact of these 4 "probable" factors will be on markets over the coming weeks.

In the meantime, this afternoon brings the release of the all-important US payroll release. Bloomberg consensus is for October payrolls* to have risen by a strong 200,000 (following a "weakish" 134,000 jump in NFP for the month of September). It will also be worth keeping a close eye on the other important elements of the report, namely the unemployment rate (expected to remain unchanged at 3.7%), average hourly earnings (likely to rise by a strong +0.2% mom & +3.1% YoY, from 2.8% in September), the participation rate (last at a still depressed 62.7%) and average weekly hours (expected unchanged at 34.5 hours).

**US employers gained back the jobs that were lost in the eye of the prior month's storm and then some. The 250K jobs created in October was above expectations for a 200K advance, whilst the unemployment rate held steady at 3.7%. The strong start to Q4 suggests that the US economy is on track for still-solid growth to end the year. The Fed has been looking for signs that wage pressures are mounting and today's report was a step in that direction. While October's 0.2% wage gain was unremarkable, annual wage growth – last at 3.1% YoY - is above 3% for the first time since the recession.*

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