Weekly Market Summary

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Fast Approaching Deadlines … And a Misunderstood & Mocked U.S. President!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

This week kicked off on a positive note! Chinese manufacturing and non-manufacturing PMI data, released the previous weekend, had shown both indices bouncing back nicely, easily beating market expectations. Indeed, China's Purchasing Managers' Index PMI rebounded to 50.2 in November, its highest since March, and above the 50-point mark that separates growth from contraction on a monthly basis (analysts' expectation was for the number to come at 49.5), whilst the Non-Manufacturing index - a measure of retail, real-estate, construction and software sectors - jumped to 54.4 during the same month, from 52.8 in October. This latest economic improvement, mostly attributed to a government push on infrastructure investment and a de-escalation in U.S.-China trade tension in October (when both sides said they had substantially progressed on a "Phase 1" agreement and the United States delayed a tariff increase scheduled to take place on October 15th) was music to traders' ears and a clear signal that risk-on trading would resume in full swing when markets open on Monday.

And whilst global bond yields and stock futures rallied sharply in the early hours of Monday trading, further supported by the release of better-than-expected European factory data, the risk-on trade once again proved to be short-lived! Weak US manufacturing data (deeper into contractionary territory at 48.1) and harsher trade rhetoric by the White House (re-upping the threat of increased tariffs on China later this month and restoration of Aluminium tariffs on Argentina and Brazil in apparent retaliation for currency weakness that is hurting US farmers) were clear reminders to investors that risks to the growth outlook remain elevated. In turn, those contrasting forces left the Dow Jones Industrial Average down 269 points on the day, while 10-year US bond yields finished 5 bps higher.

On Tuesday, equity markets sustained a selloff for a third consecutive session while bond markets reversed the previous day's move and rallied sharply; The catalyst? A statement by the US President that there is "*no deadline*" for a trade deal with China and the fact that he does not mind waiting until after next year's presidential election to make one! With tensions already flaring from the previous week after Trump had signed legislation expressing US support for pro-democracy demonstrators in Hong Kong and investors building hopes for at least enough progress to fend off new US tariffs on Chinese goods scheduled to start December 15th, these latest hawkish US views were once again putting a dampener on earlier market optimism. Also, on the same day, Trump proposed tariffs on $2.4 billion of French products in retaliation for a French tax on global tech giants including Google, Amazon and Facebook.

Then came Wednesday! US stocks climbed nicely, and bond markets sold off aggressively following news that a trade deal between the US and China may soon happen, possibly before American tariffs are set to rise on December 15th (Seriously?! How do CFOs budget & Fund Managers invest during such uncertain and irrational times !?) And if you were one of many left perplexed and deceived by President Trump's earlier comments that an agreement might not come until after the 2020 presidential elections, then cheer up: Trump's comments were misunderstood and not really intended to say the talks were stalling, Bloomberg was now confirming – citing anonymous sources – as he simply was "*speaking off the cuff*." (alias Bluffing, Blah Blah, B.S.!) "*The trade war will be the key driver of sentiment in the immediate few weeks,*" DBS Group analysts wrote in a report (Wow…. Well-articulated DBS! I have the same impression ☺).

The bottom line is that Trump has gotten away with his trade wars and hostile rhetoric over the last eighteen months as the US economy was previously on steroid whilst competitors were struggling with a manufacturing-led slump (lately began spilling over into the service sector). That definitely went to the Trump's (& Director of Trade Peter Navarro) head; Both misread the real balance of global economic power! Now, suddenly the US economy is losing steam from fading stimulus and becoming the weak link, uncomfortably close to stall speed and prey to the slightest external shock.

And whilst recent monetary bailouts by the Federal Reserve (via three precautionary 25 bps cuts since late July) could have kept the President's game going for a bit longer, the outlook is surely projected to darken rapidly should Mr. Trump chose to abandon his "Phase One" trade deal, instead further escalating with 15% tariffs on another $160 billion of Chinese goods. The Chinese know that Trump cannot withstand perpetual trade wars as he would most likely face defeat in the upcoming elections, especially if Wall Street goes into a tailspin and the US economy buckles in 2020. They are upping the ante and demanding a greater roll-back in outstanding tariffs!

Mr. Trump's latest threat to China, at the NATO gathering in London this week, is a far-fetched bluff from a gambler fast losing his wager. And his attempt to fortify the plot with macho side-fights over Brazilian and Argentinian steel, or French wine and German cars, no longer cuts much ice! Whilst that might sound too harsh on Mr Trump, who tweeted in 2014 that "*we need a President who isn't a laughing stock to the entire World …we need a truly great leader, a genius at strategy and winning. Respect!",* the latest breaking story (reproduced below) from this week's NATO gathering in London clearly shows that even US allies, tired of flattering Donald Trump, are now mocking him:

As dignitaries and world leaders milled around Buckingham Palace on Tuesday at a NATO summit reception, Canadian Prime Minister Justin Trudeau, British Prime Minister Boris Johnson and French President Emmanuel Macron chatted in a loose circle. Snippets of their conversation rose above the din and were captured in a short video that went viral after viewers surmised that the group appeared to be joking about President Trump's performance earlier in the day. "Is that why you were late?" a smiling Johnson asks Macron in the 25-second clip first shared by the Canadian Broadcasting Corp. "He was late because he takes a 40-minute press conference off the top," Trudeau chimes in. After Trudeau's comments, Macron can be seen replying inaudibly and gesturing. "You just watched his team's jaws drop to the floor," an animated Trudeau later tells the group.

Trump did not take kindly to the comments. While answering questions at NATO Wednesday, he responded to the video by lobbing an insult — buffered by a compliment — at Trudeau. "Well, he's two-faced," Trump said of the Canadian leader. "Honestly with Trudeau, he's a nice guy. I find him to be a very nice guy. But the truth is that I called him out on the fact that he's not paying two percent and I guess he's not very happy about it."

In other major news, Saudi Aramco announced yesterday evening that it had raised $25.6 billion from the world's biggest initial public offering (1.5% of its shares, soon to be listed on Tadawul), closing a deal that became synonymous with the Kingdom's crown prince and his plans to reshape the nation. The state-owned oil giant set the final price of its shares at 32 riyals ($8.53), valuing the world's most profitable company at $1.70 trillion. It received total bids of $119 billion. Funds from the sale will be transferred to the Public Investment Fund (PIF), which has been making a number of bold investments in past years, deploying $45 billion into SoftBank's Vision Fund, taking a $3.5 billion stake in Uber Technologies Inc. and planning a $500 billion futuristic city.

This afternoon brings the release of the US November payroll data*. Bloomberg consensus is for payrolls to have risen by a healthy 185,000 (following a 128,000 jump in NFP for the month of October). It will also be worth keeping a close eye on other important elements of the report, namely the unemployment rate (expected to remain unchanged at 3.6%), average hourly earnings (likely to rise by a healthy +0.3% mom & +3.0% yoy), the participation rate (expected unchanged at 63.3%) and average weekly hours (also unchanged at 34.4 hours). A strengthening of the labour market would dampen the chances of seeing further rate cuts by the Federal Reserve anytime soon. Worth keeping in mind that today's payroll release is poised to present misleadingly robust results due to a temporary boost from returning GM autoworkers (their prior strike negatively impacted the October figure).

**November US NFP was up 266,00, well above consensus expectation and fairly broad-based across sectors. With a lower unemployment rate at 3.50% and upward revisions to prior data suggesting that wage growth is a little firmer than it appeared a month ago as well, the strong job reading reinforces the view that the Fed is done with interest rate cuts at this stage.*

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