Weekly Market Summary

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A Strong Sense of Deja-Vu!! Could This Time Be Possibly Different??

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Back in early 2016, markets were in complete turmoil. At that time, I released two weekly pieces entitled *"2016 Starts with a Bang!" and "No Straight Answers to recent Market Carnage .. Better Ask the red Indian Chief*" (both accessible on www.gib.com, under the Treasury section – Market Updates) that highlighted the deepening stress in financial markets following 1- China's weakening stocks and currency, 2- The rout in oil markets and 3- The start of a withdrawal in Federal Reserve stimulus – with all three factors prevailing, persisting and keeping investors up at night! My personal view back in those days remained that investors' pessimism was premature and overdone, and that it was too early to jump to tormenting conclusions (a la another 2008 crisis!) as "*surely the big market meltdown could wait at least for another year or two, until inflation shows its ugly head and market yields jump markedly from current depressed levels!*"

Fast forward to today (2-1/2 years later!), and one would get a strong sense of Déjà Vu (*similar occurrences*):

- **Oil Teeters Near Record Losing Streak After Entering Bear Market**: Oil was set earlier today for its longest stretch of declines on record after entering a bear market, with investors awaiting a weekend meeting of OPEC and its allies to discuss output strategy. Futures in New York slipping for an 11th day, extending a dramatic plunge that's dragged prices down over 20% from a 2014-high just five weeks ago. The slump has rattled producers, and the Organization of Petroleum Exporting Countries has signalled it may cut output next year - an option that will be part of talks when the group meets with partners in Abu Dhabi on Sunday. Oil's slump has been exacerbated by a U.S. decision to allow eight countries to continue importing from Iran even after it hits the OPEC member with sanctions. That revived concerns of a supply glut, in contrast to earlier fears over a crude crunch due to shrinking exports from Iran. Previous pledges by other producers such as Saudi Arabia and Russia to pump more and record American supply as well as rising stockpiles also weighed on prices. West Texas Intermediate (WTI) for December delivery traded last at $60.00 a barrel on the New York Mercantile Exchange. Brent futures for January settlement was last at $70.00 a barrel on the London-based ICE Futures Europe exchange. A potential decision to return to output cuts by OPEC would mark the second production U-turn this year for the group, some members of which are said to be concerned that inventories are rising. In the U.S., crude production increased to 11.6 million barrels per day last week, the highest level on record, according to Energy Information Administration data.

- **The $ 4.3 Trillion Wipeout in Asian Stocks Gets Deeper:** Asia's equity benchmark have erased weekly gains this morning and are now heading for a sixth slide in seven weeks, only worsening the wipe-out that has already erased $4.3 trillion of market value this year! Softer Chinese Services PMI (a 13-month low!), weaker producer-price gains and car sales, and a disappointing outlook from a top online travel company have combined to reignite lingering concerns about the health of the world's second-biggest economy. That is capturing investor attention after a Federal Reserve rate meeting yesterday offered few surprises, with US policymakers repeating their outlook for "*further gradual*" increases. Meanwhile, the offshore yuan held this week's drop, amid little sign of an end to the U.S.-China trade war in the wake of the split midterm elections.

This morning, People's Bank of China (PBoC) Governor Yi Gang confirmed that policy normalization of major central banks – combined with elevated trade tensions – constitute major economic threats to global economic outlook (those comments were echoed by former Federal Reserve Chair Janet Yellen who warned the world economy faces risks ranging from surging non-financial corporate debt to U.S. fights with creditors and the potential for a new global dividing line, whilst former Treasury Secretary Hank Paulson said an "*economic iron curtain*" could emerge as the U.S. and China throw up trade walls). China's currency has recently weakened to its lowest level in a decade against this backdrop of weak economic data, mounting geopolitical tensions and uncertainty over the country's trade impasse with the US (the renminbi or Chinese yuan last trading at 6.95 against the US dollar). The Shanghai Shenzhen CSI 300 index, a free-float weighted index that consists of 300 A-share stocks listed on the Shanghai Stock Exchange, was last down 21.42% YTD (-26.40% YTD in $ terms, when recent Yuan weakness is taken into consideration!).

- **US Federal Reserve Leaves Rates Unchanged, Notes Further Rate Hikes Coming:** The Federal Reserve left interest rates unchanged (in a target range of 2% -- 2.25%) and stayed on course to hike in December as strong economic growth, higher tariffs and rising wages look set to spur inflation. The US central bank said "*economic activity has been rising at a strong rate*" and job gains "*have been strong*," whilst repeating its outlook for "*further gradual*" rate increases in its statement Thursday following a two-day meeting in Washington. Risks to the outlook appear "*roughly balanced*," the Federal Open Market Committee (FOMC) said, leaving that language unchanged from the prior meeting in late September. Inflation expectations, which have slipped slightly in recent weeks according to some measures, were described as "*little changed, on balance*," the same as in the last statement. By keeping the door open to a fourth 2018 hike in December, officials are sticking to their gradual upward path, trying to prolong the second-longest U.S. expansion on record without making an error: Leaving monetary policy too loose risks stoking excess inflation and asset bubbles, while tightening too fast could cause a recession. In one of the few tweaks to the statement, the FOMC said growth in business fixed investment has "*moderated from its rapid pace earlier in the year*," compared with the previous assessment that it has "*grown strongly.*" Third-quarter data showed non-residential investment increased at the slowest pace in almost two years. Markets hardly moved, with 10-year US treasury yield hovering around the 3.20% level (slightly below a 7-1/2 year high of 3.25%, and markedly above the 1.85% level prevailing in early 2016). The Dow Jones Industrial Average Index (DJIA) stayed also little changed at 26,191 (versus 16,500 in early 2016, a staggering 58% jump!!).

And Yet Investors and Traders Seem Little Concerned! (add to the above mix Italy's worsening crisis, US Democrats' House gains in past days which will have major implications for America's political, economic and foreign policies and business and investor's malaise in relation to uncertainties over the terms of Brexit – and one would have the perfect recipe for a pending market disaster!)

Our basic message is quite simple: We have been here before! No matter how different the latest financial frenzy or crisis always appears, there are usually remarkable similarities with past experiences. Recognizing these analogies and precedents is an essential step towards improving our understanding of financial markets, both to reduce the risk of future inappropriate investments and to better handle catastrophes when they happen. In that regard, recent volatile markets should be a strong reminder to investors that, whilst running with the equity bulls may be exciting, it can and will be dangerous over the coming few months. A sharp correction lower in stocks would surely provide support to fixed-income markets and put added pressure on the US Federal Reserve to refrain from raising rates at its December 19th FOMC (surely at odds with Goldman Sachs' gurus who increased yesterday the subjected probability of a December hike to 95%, from 90% previously. The same GS chaps that suggested few weeks back that oil prices above $80 a barrel may be here to stay until the end of the year!).

Are markets about to stabilize or is the worst yet to come?! Given current low market visibility and numerous surrounding uncertainties, and to please our readers that only made it to our mailing list in the past 2 years, we reproduce the story of the Red Indian Chief's wisdom from early-2016:

"*It was autumn, and the Red Indians asked their New Chief if the winter was going to be cold or mild. Since he was a Red Indian chief in a modern society, he couldn't tell what the weather was going to be. Nevertheless, to be on the safe side, he replied to his Tribe that the winter was indeed going to be cold and that the members of the village should collect wood to be prepared.*
But also being a practical leader, after several days he got an idea. He went to the phone booth, called the National Weather Service and asked 'Is the coming winter going to be cold?' 'It looks like this winter is going to be quite cold indeed,' the weather man responded. So the Chief went back to his people and told them to collect even more wood. A week later, he called the National Weather Service again. 'Is it going to be a very cold winter?' 'Yes,' the man at National Weather Service again replied, 'It's definitely going to be a very cold winter.' The Chief again went back to his people and ordered them to collect every scrap of wood they could find.

Two weeks later, he called the National Weather Service again. 'Are you absolutely sure that the winter is going to be very cold?' 'Absolutely,' The man replied. 'It's going to be one of the coldest winters ever.' 'How can you be so sure?' the Chief asked. The weatherman replied, 'The Red Indians are collecting wood like crazy".

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