Weekly Market Summary

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US Officials in Desperate Need of Diplomacy Lessons .. Markets in Desperate Need of Better Guidance !!

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After years of saying he was going to do it (one of many election promises), he finally did it!! Last Tuesday, US President Trump announced that the US was withdrawing from the Iran nuclear deal. "*The United Sates no longer makes empty threats! When I make promises, I keep them*" Trump said at the White House (well, my lawyer keeps them on my behalf but I pay him back eventually … And what are you talking about? You literally backed down on an American promise - *extracts from the Late Show with Stephen Colbert*). The US President had long signalled his displeasure with the pact – calling it "*terrible*" & "*rotten at its core*" - and saying it offered relief to Iran without addressing the country's ballistic missile testing of the funding of terror groups. "*This was a horribly one sided deal that never, ever should have been made*," Trump always claimed. Earlier that same day, Vice President Pence briefed members of Congress about the decision, and Trump spoke with French President Emmanuel Macron, who has served as an emissary for European allies that want the United States to remain in the agreement. A congressional official said Pence had told lawmakers the United States will no longer participate in the deal, known formally as the Joint Comprehensive Plan of Action, or JCPOA, and proceed with restoring sanctions with 90- and 180-day wind-down periods for various aspects, the official said.

This latest US decision - whilst possibly being the biggest foreign policy pronouncement of Trump's presidential tenure thus far – was surely controversial and came under swift criticism across the foreign policy community (with the exception of Israel and several GCC countries, who see Iran as the number one enemy with its continuous support of Shi'a militias in the region as well as its direct intervention in Syria to support the Assad regime). Iran's state television labelled Trump's decision as "*illegal, illegitimate, and undermining international agreements*". Federica Mogherini, European Union foreign policy chief said "*the nuclear deal with Iran is crucial for the security of the region, of Europe and of the entire world. As long as Iran continues to implement its nuclear-related commitments - as it is doing so far - the European Union will remain committed to the continued, full and effective implementation of the nuclear deal. We fully trust the work, the competence and the autonomy of the International Atomic Energy Agency (IAEA) that has published 10 reports certifying that Iran has fully complied with its commitments. The lifting of nuclear-related sanctions is an essential part of the agreement*". In the US, Former US President Barack Obama suggested that "*the consistent flouting of agreements that our country is a party to risks eroding America's credibility, and puts us at odds with the world's major powers*," adding that the latest US announcement is so misguided and a "*serious mistake*", given all facts showing the Iran deal was working. That feeling is also shared by the average American on the street; According to a recent Reuters/Ipsos national opinion poll released earlier this week, less than one in three Americans agrees with U.S. President Donald Trump's decision to pull the United States out of the agreement, with only 29% of adults wanting to end the deal with Iran and five other world powers to ease sanctions and limit Iran's nuclear program, another 42% saying the United States should remain in the deal, and the remaining 28% suggesting they "*don't know*." Even among those who are registered as Republicans, less than half – 44% - advocated ending the U.S. involvement in the deal. Another 28% wanted to remain, and the remaining 28% said they did not know.

Market reaction has been muted so far, with Rate and FX markets remaining confined to very narrow ranges, whilst stocks rally on lower US inflation worries (as it implies a less aggressive/hawkish US Federal Reserve going forward). The major mover is oil, with prices rallying and poised for a second weekly gain as geopolitical tensions surrounding the world's biggest crude-producing region spark concerns over tightening global supplies. Futures in New York (WTI) are currently trading above $71 a barrel, near the highest level since November 2014, and up 2.5% percent on the week. Israel's claims that it conducted the biggest raid in at least three decades at Iran's military facilities inside Syria has had a larger toll on crude oil prices, at least for now, than Saudi Arabia's promise to work with other producers to mitigate any impact of a shortage following the US move. Goldman Sachs Group Inc. flagged the sanctions could push prices over its forecasts and Bank of America Corp. said crude may rise to $100 next year. "*The clash between Israel and Iran came immediately after the U.S. pulled out of the nuclear deal and this will continue to be an ongoing geopolitical risk*," said Kim Kwangrae, a commodities analyst at Samsung Futures Inc. "*Oil could soon touch $75 as there's a possibility of the U.S. imposing additional sanctions on Iran*." Kim also said there is uncertainty in OPEC member Venezuela, where output has slid amid political turmoil and an economic meltdown.

Elsewhere in the news, the US Treasury yield curve from 5 to 30 years flattened yesterday to the lowest level since August 2007, as a combination of weaker-than-expected U.S. inflation (both US PPI & CPI releases came out slightly weaker-than-expected earlier this week, with April year-on-year core CPI still up a healthy 2.1%), and solid demand for a record 30-year bond auction bolstered investor confidence in owning long-dated securities. The spread narrowed by more than 4 basis points, the most since February, dropping through a previous intraday low from April to 27.0 basis points. The gap between 2- and 10-year Treasuries also shrank in a bull flattening move, trading last at 41.5 bps (again the lowest level since August 2007). In the UK, investors hoping for a hawkish or a dovish steer from the Bank of England's MPC meeting and May Inflation Report were surely disappointed! As widely expected, the Bank of England ("BOE") maintained the UK benchmark base rate unchanged at 0.5%; The voting split stayed at 7-2 in favour of no change in interest rates. Again, Ian McCafferty and Michael Saunders advocated an immediate rate increase. There was a slight shift from a relatively hawkish to rather cautious wording (from "*earlier*" and "*a somewhat greater extent over the forecast period*" in February to "*gently rising path for the Bank Rate*" in May). However, the MPC's forecast for economic activity remained little changed. The Committee continued to expect the economy to grow at around 1.75% per year on average over the forecast horizon, despite very weak Q1 GDP data, but saw inflation falling back slightly faster than in February. The MPC noted that projections for GDP and inflation are conditioned on gentle rate rises, pointing to three rate increases over next three years.

With heightened geopolitical uncertainties and little market visibility weighing on investors' sentiment, Goldman Sachs has joined a group of major Wall Street firms that are warming up to cash amid of period of heavy ambiguity for both stocks and bonds. The investment bank upgraded the asset class ("cash") to overweight on a short-term basis of three months. The higher view toward cash is a move to reduce portfolio risk, wrote Christian Mueller-Glissmann, an equity strategist at Goldman Sachs. "*Despite volatility settling from its highs year-to-date, conviction levels are low near-term as the growth/inflation mix has worsened and policy uncertainty remains elevated*," the latest note read. "*Bonds have been under pressure in the U.S., while equities remain stuck in a 'fat and flat' range.*" Goldman isn't the first major Wall Street institution to take a more bullish view on cash, which is seen as offering little in the way of risk or rewards. In January, Morgan Stanley's Wealth Management's Global Investment Committee said it was "*focusing more on cash as a critical asset class for 2018*," citing "*this backdrop of an increasingly pricey U.S. equity market, and extremely rich credit market and rising global rates*." In late 2017, Vanguard wrote that its outlook "*for global stocks and bonds remains the most guarded it has been in ten years.*"

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