Weekly Market Summary

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When One Loses Trust in World's Leaders & Faith in Financial Markets!!
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A recurring theme / topic of discussion in my previous weekly updates has been the importance of trust in society and its leaders. As noted before, if there is one key value to maintain in life, trust it is! After all, relationships, arguments and even wars are fought over the aspect of trust; And if your word is not your bond then you have very little else to bargain with! Additionally, trust and respect become of more fundamental importance when a person is in a position of authority and dealing with people who are vulnerable and disadvantaged; Individuals need to trust their leaders and the decisions they make, as well as have full faith that their future is being steered along the right path. Lately, however, American and European politicians at the highest level (and to certain extent central bankers too) appear to have been engaged in a competition to see who can utter the most defiantly ill-informed, aggressively ignorant statements about precisely the issues that governments have traditionally regarded as life-and-death matters. Somehow, this bold inexperience - the shameless display of the failure to understand even the basic meanings of significant words – seems to be playing a major role in the latest markets' movements and bout of volatility and could soon help trigger or exacerbate a serious financial crisis.

When Donald Trump was first elected U.S. president in late 2016, foreign observers hoped that he would moderate his more outrageous campaign positions as the practicalities of governing would necessitate him to adopt more conventional stances. However, to the contrary, Trump has been remarkably methodical in his efforts to destroy the liberal international order: His tearing of trans-Atlantic relations has been on full display in recent months, from his trade war threats against U.S. allies to his undermining of NATO and constant attacks on the European Union. Effectively, he has torn at the roots of Western solidarity that his predecessors carefully cultivated over seven decades. In turn, stunned U.S. allies are slowly adapting to their new normal by taking steps previously unimaginable, hedging their bets in dawning recognition that the America of old may never return, regardless of who succeeds Trump (that is if "The Donald" doesn't get re-elected in 2020!!)

With consumers' confidence in world's leaders waning (confirmed by research from the World Economic Forum) and businesses' dissatisfaction with government's ability to deal with the current economic stalemate rising, we provide below a coverage of the main stories that have shaped markets this week:

- ***A Dovish Fed Testimony to Congress***: Jay Powell, Chairman of the Federal Reserve, confirmed the need for the US central bank to cut interest rates based on mounting risks to the US economic outlook, fuelling expectations that a rate cut at the end of this month (July 31st FOMC meeting) is a done deal! Despite stronger-than expected Non-Farm Payrolls and Consumer Price Inflation (CPI) in past days, and last month's new truce in the trade war between the US and China, Mr Powell said "*uncertainties about the outlook have increased in recent months*", particularly internationally. "*Economic momentum appears to have slowed in some major foreign economies, and that weakness could affect the US economy. Moreover, a number of government policy issues have yet to be resolved, including trade developments, the Federal debt ceiling, and Brexit. And there is a risk that weak inflation will be even more persistent than we currently anticipate*," Mr Powell said in his prepared remarks (***Seriously?! So why did you guys raise benchmark rates last December, at a time oil was trading at $47 and the S&P at 2,500 due to similar global economic concerns?***). As a result, the S&P 500 index jumped as much as 0.8% to 3,002.98, crossing the 3,000 thresholds for the first time, before easing back by the close. And whilst two-year Treasury notes - seen as particularly sensitive to monetary policy - did rally, the longer end of the yield curve saw 10-year and 30-year yields pushing firmly higher (10-year UST yield last at 2.14%).

The Fed has come under heavy pressure from US president Donald Trump, who has been openly pushing the US central banks to cut rates, but Mr Powell insisted that the it is fiercely protective of its autonomy. He also added that he has no intention of stepping down from the Fed, even if Mr Trump sought to fire him. "*The law gives me a four-year term and I fully expect to serve it*," Powell noted.

- ***Deutsche Bank's Announced Revamp***: Hours after unveiling its most radical overhaul in two decades, Deutsche Bank CEO Christian Sewing announced last Sunday that DB would shut its lossmaking equity trading business and shrink its bond and rates trading operations significantly. The job cuts, expected to total 18,000, "*have been the most difficult and painful part of our decision making*" as "*people and their fates are very important to us*", Sewing said, adding that the bank needs to be honest with itself and "*say where we are strong and where we are not*". Deutsche Bank did not disclose a regional breakdown of the job cuts, though the lender's offices in London and New York were expected to bear the brunt. When asked about the atmosphere in the office on Monday morning, a Singapore-based employee whose team had not been hit by the cuts said: "*The mood is always depressed in Deutsche. People know the bank is not doing well... It's not like a party*." Shares in Deutsche Bank were last trading at € 6.70, down roughly 7.0% on the week.

- ***Oil Prices on Fire:*** Oil extended its gains this morning with prices up 5.5% on the week. Rising geopolitical tensions in the region (Iran – UK growing spat), a larger-than-expected drop in US crude stocks (a fall of 8.1 million barrels in the week ending July 5th) and a US tropical storm (Barry) that has so far curbed about half the energy output in the Gulf of Mexico have all conspired to lift prices to a seven-week high. Even this morning's announcement by the International Energy Agency (IEA) that global oil stockpiles have increased surprisingly in the first half of 2019 despite production cuts by OPEC+ has done little to challenge the market's bullish sentiment. Brent oil was up 1.0% to $67.10 a barrel, whilst West Texas Intermediate (WTI) last traded at $60.50.

Last, but not least, good luck and farewell to Britain's ambassador to the U.S., Kim Darroch, who dramatically resigned earlier this week after leaked comments in which he criticized the Trump White House sparked a major diplomatic row between the transatlantic allies. Prior to that, President Donald Trump had opted to freeze out Mr. Darroch, saying he would no longer deal with the man who had called his administration "*inept*" and "*uniquely dysfunctional*" and describing the ambassador as a "*pompous fool*."

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