

Weekly Market Summary

December 13th, 2019

And the Big Winner For This Week is Risk-On Trading Again!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

That this was another big week for Donald Trump, Boris Johnson, international trade, the global economy and financial markets from Wall Street to the Saudi Tadawul is surely an understatement!

Indeed, what once seemed like an easy interim “*phase one*” deal between the U.S. and China to de-escalate their trade war was now facing a deadline in the form of new tariffs on almost \$160 billion of Chinese imports such as smartphones, laptops, video games and toys due to take effect Sunday, December 15th, unless an agreement could soon be agreed. On the other side of the Atlantic, the announced December 12th UK general election was also being widely described as the most significant in a generation, a moment with huge implications for Brexit and the future of the UK; Rarely had British voters been presented with such stark choices at the ballot box, ranging from Jeremy Corbyn’s hard left economic policies to Boris Johnson’s determination to drive through a hard Brexit, with the outcome still in doubt few days before the country heads to the polls (key question being whether Conservatives could maintain their large lead and win big, or otherwise risk a hung parliament vote in which neither the Tories or Labour enjoy a majority).

Meanwhile, regionally, Saudi oil giant ARAMCO had just completed pricing its initial public offering at 32 riyals (\$8.53) per share - making it the world’s most valuable listed company – with all attention quickly shifting to the December 11th start of trading (on the Saudi securities exchange Tadawul); Would the price of Aramco shares gap higher at the Wednesday open, possibly by the full 10% limit-up? Could Saudi Energy Minister Prince AbdulAziz bin Salman’s latest confident statement about ARAMCO achieving its long-held goal of scoring a \$2 trillion valuation prove to be misplaced given that most international asset managers had lately given the company an average valuation of no more than \$1.26 trillion?!

And if the above uncertainties were not enough, investors had to also prepare for a set of other - less critical - events that could sweep away the biggest hurdles to a full-blown race into riskier assets, subject to things lining up just right! Those included policy decisions from the U.S. and Eurozone central bankers that might offer fresh hints of whether easing is still in the cards, as well as key economic data (US CPI / PPI / Retail Sales, Japan’s Tankan Survey, UK GDP data and German ZEW survey) that would shape the macroeconomic backdrop heading into the new year, following a blowout U.S. jobs report released the week before.

Yet, strangely enough, trading started the first few days of the week on a very slow note and remained largely unaffected by developing breaking stories in relation to the US-China trade talks and UK election; But then in quick succession late Thursday and again this morning, investors got news that the guns will be holstered in the U.S.-China trade war (with US President Trump signing-off on a phase-one deal with China that requires the US to roll-back some of the current tariffs in return for China buying more US agricultural products), and that Britain has lifted itself out of the quagmire of a hung parliament with UK Prime Minister Boris Johnson cruising for a comfortable majority. Suddenly, all the worries about a global recession, yet another wave of tariff hikes between the world’s two largest economies and a messy U.K. breakup with the European Union were quickly fading! Surely Friday the 13th still equates to bad luck for some of our superstitious readers, but those who made an early start on JPMorgan Chase & Co.’s call for risk-on trades in 2020 can count themselves very lucky this afternoon - with the biggest winning trades in past days being the 15% jump in ARAMCO share prices since its debut trading (last closed at SAR 36.80 after reaching a high of SAR 38.70), and a 2.30% rally in both the UK FTSE 100 index and British pound against the US dollar (last trading at 1.3410, after a high of 1.3516 early in the day).

Below is a summary of Wednesday's Federal Open Market Committee (FOMC) and Thursday's European Central Bank (ECB) meetings:

- **FOMC Meeting:** US Fed officials met on December 11th and decided unanimously to keep the o/n fed funds rate unchanged at 1.50% - 1.75%, in line with market expectations. The released statement sounded more confident that downside risks had diminished. The Fed dot plot (future fed funds rate projections by the various members) confirmed little appetite to adjust interest rates until 2021. Last, but not least, the updated Summary of Economic Projections showed a lower unemployment rate trajectory, but no change to the outlook for growth and inflation.
- **ECB Meeting:** As widely expected, the ECB left monetary policy unchanged at yesterday's Governing Council monetary policy meeting, the first under Christine Lagarde's presidency. The introductory statement was largely unchanged from the last one, while highlighting first signs of stabilisation in the euro area economy and the slight improvement in underlying inflation. The ECB staff macroeconomic projections were only slightly revised from September, and the extension of the forecasts until 2022 shows further improvement, although at a very slow pace. A strong emphasis was placed on the upcoming strategic review, where the ECB may revisit the way it defines its objective of price stability, its instruments, how it will take into account the massive technological change that has been taking place recently, and how it can consider its role in fighting climate change and inequalities - two themes Mrs Lagarde particularly values.

We end up this week's economic update on a sad note! ☹️ Paul Volcker, the former Federal Reserve chairman who broke the back of U.S. inflation in the 1980s and three decades later led President Barack Obama's bid to rein in the investment risk-taking of commercial banks, has died. He was 92.

In a career that spanned more than half a century, Volcker became a one-man economic clean-up crew, called on to devise a successor to the gold standard, a cure for runaway inflation and, in 2008, a response to the housing-market collapse that exposed Americans as perilously leveraged and their banks as highly prone to risk. That last effort led to the Volcker Rule, widely loathed by bankers and subsequently a top priority for overhaul by the Trump administration. *"Paul was as stubborn as he was tall, and although some of his policies as Fed chairman were politically costly, they were the right thing to do,"* said former President Jimmy Carter, who appointed Volcker as Fed chief in 1979. *"We are grateful for his service to our country."* *"I'll remember Paul for his consummate wisdom, untethered honesty, and a level of dignity that matched his towering stature,"* Obama issued in a statement. *"To me, he was the very definition of integrity, and I'm proud to have called him not just an adviser, but a friend."*

More importantly, the legendary Fed Chair had a final warning for an American public that is fast losing trust in their government and one another. According to the Financial Times, the document was written back in September this year and included a condemnation of President Trump's efforts to pressure the Federal Reserve to lower interest rates to juice economic growth, already undergoing its longest expansion. Volcker also painted a very bleak portrait of the nation's political environment, saying "nihilistic forces" were forcefully rolling back protections considered emblematic of American democracy! To which Donald Trump replied: *"Kim Jong Un is too smart and has far too much to lose, everything actually, if he acts in a hostile way. He signed a strong Denuclearization Agreement with me in Singapore. He does not want to void his special relationship with the President of the United States or interfere.... with the U.S. Presidential Election in November. North Korea, under the leadership of Kim Jong Un, has tremendous economic potential, but it must denuclearize as promised. NATO, China, Russia, Japan, and the entire world is unified on this issue!"* 😊😊 (I am guessing it isn't too late to convert some of your US Dollars savings!)

Disclaimer

It is important that you only use this report if you are the intended recipient of this report and you have satisfied yourself that you are eligible to receive such information. This report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The Treasury and Investment Management department of Gulf International Bank B.S.C. ("GIB") have compiled the information in this report. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report is intended for the accredited investors, as defined in the Investment Business Code of Conduct published by the CBB. This information has not been reviewed by the CBB or any other regulatory authority in any jurisdiction and neither CBB nor any other regulatory takes any responsibility for the correctness or accuracy for the information contained in this report.

The information contained herein is not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses or authorizations by the relevant branch, subsidiary or affiliate office of GIB and such licenses or authorizations have not been obtained. The recipient of such information is responsible for ensuring that this information has not been received by it in breach of laws and regulations of any jurisdiction.

This report contains publicly available information only, which has only been compiled by GIB. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind. GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. The information here is, and must be construed solely as, compilation of information (unless expressly stated otherwise) and not statements of fact as to credit worthiness or recommendations or opinions of GIB.

This report does not provide individually tailored investment advice. Any materials contained herein have no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The document is provided for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. GIB makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the materials, nor are they a complete statement of the securities, markets or developments referred to herein. Recipients should not regard the materials as a substitute for the exercise of their own judgement. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GIB as a result of using different assumptions and criteria. GIB is not under any obligation to update or keep current the information contained herein.

The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

The information contained in this report is just for informational purposes. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. GIB does not intend to provide investment, legal or tax advice through this report and does not represent that any securities or services discussed are suitable for any investor. When making a decision about your investments and business, you should seek the advice of professional advisors.

The report may contain statements that constitute "forward looking statements". While these forward looking statements may represent GIB's judgment and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from GIB's expectations. GIB is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The historical information is provided for information purposes only. Performance figures are calculated before tax (if any) and after deducting ongoing fees and expenses. The performance figures are historical and past performance is not necessarily an indication of future results. Certain amounts (including %ages) included in this document may have been subject to rounding adjustments. Accordingly, figures may not be an exact arithmetic aggregation of the figures to which they relate. The values and forecasts shown represent our current indicative valuations and forecasts of the relevant transactions, currencies, interest rates, commodities or securities as at the date shown. Any value or forecast shown herein is not an indicative price quotation. We expressly disclaim any responsibility for the accuracy of the values or forecasts shown, any errors or omissions in the report

With the exception of information regarding GIB and save as otherwise specifically indicated, the information set out in this report is based on public information. We have, where possible, indicated the primary source of information. We strongly recommend the recipients consult the primary source of information. Facts and views in this report have not been reviewed by, and may not reflect information known to, professionals in other GIB business areas.

This Report, and the information contained herein (save to the extent that such information is publicly available) is confidential and may not be disclosed by you to any other person outside of your organization without our consent.

GIB retains all right, title and interest (including copyrights, trademarks, patents, as well as any other intellectual property or other right) in all information and content (including all text, data, graphics and logos) in this document. All recipients must not, without limitation, modify, copy, transmit, distribute, display, perform, reproduce, publish, license, frame, create derivative works from, transfer or otherwise use in any other way for commercial or public purposes in whole or in part any information, text, graphics, images from this document (excluding publicly available information) without the prior written permission of GIB.