# Weekly Market Summary

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## Nowhere Left to Hide!! A Mini-Rehearsal for the 2020 Global Market Crash??!

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In past months, we have repeatedly outlined the various threats to financial markets – ranging from geopolitical developments in our region to Italy's debt crisis, UK's Brexit uncertainties, US political madness, faltering global equity markets, increasingly restrictive financial conditions and most importantly ongoing brutal trade wars between the world's biggest economies - and accordingly warned against current investors' complacency (both misplaced and unjustified!). Then in late October, we observed that economic data continue holding up and therefore fears of a swift hard landing in the US - and elsewhere – still appear overblown, as monetary policy in Europe and Japan stays accommodative whilst China unveils more measures to boost economic growth (looser monetary policy and cash injections). Nevertheless, we made sure to end our analysis with this cautious note: "*What happens in coming weeks remains at best a wild guess!"*

For BlackRock's Chairman & CEO Larry Fink, it is simple: If President Donald Trump pushes through the next round of tariffs on China early next year, "*all bets are off*" on the outlook for growth (Former Federal Reserve Chairman Alan Greenspan recently called Trump's tariff policies "*insane*" and said "*why we're doing it probably is very deep in the psyche of somebody*"). Protectionism and Fed hikes are already roiling many markets, and a fast compromise on trade/political and geopolitical matters between big powers has now developed into a desperate necessity to avoid financial markets' slide into outright chaos (my dear friend Jamie Dimon – JP Morgan Chase & Co's CEO - can't rule out the prospect of a recession as soon as 2020!)

In other words, whilst it is clear now that we are heading into (or already in the midst of) difficult times, one would hope that enough will soon be done by undecided governments, amateur politicians and manipulating central bankers to prevent another financial crisis before it is too late!

Below is a summary of major stories that have shaped markets over the past few days (and will continue impacting prices over coming weeks):

- **A Timely (?) & Optimistic IMF Report for the Region**: Economic growth is expected to accelerate in Gulf Arab nations because rising oil prices have allowed regional government to spend more on development projects, but the outlook appears "*challenging*" and reforms are essential, the International Monetary Fund ("IMF") said in a report released earlier this week. The Washington-based lender expects the economies of the six-member Gulf Cooperation Council to grow 2.4% this year and 3% in 2019, slightly higher than a May forecast and a reversal from a 0.4% contraction last year. At the same time, it expects non-oil gross domestic product expansion to remain at 2.7% this year. Higher oil prices, the IMF urged, should not deflect GCC nations - Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar and Bahrain - from pushing ahead with reforms meant to diversify their economies and boost the private sector. Oil is expected to peak this year, then decline gradually to about $60 a barrel by 2023, the IMF said. The IMF's warning comes as Gulf Arab nations move slowly on implementing structural and fiscal reforms. Government spending has remained a mainstay of the region's economy, which for decades has relied on oil, and this year's climb in oil prices has made it easy for GCC leaders to fall back on an old habit.

- **An Epic Plunge in Oil Prices:** Last Tuesday (the same day that IMF report was being released), oil suffered its biggest one-day slump in three years, plunging 7.1% (December WTI oil future down from $59.93 to $55.69 a barrel, with an intraday low of $54.75 and a high of $76.72 just 10 days back! Just Surreal!) and leaving Wall Street's abuzz about - and confused by - this latest severe price meltdown.

A number of theories were flying around, but analysts at Goldman Sachs Group (again the same gurus that saw oil prices remaining above $80 a barrel going into year-end ☺) think they have uncovered one of the actual main culprits: A rush by Wall Street banks to cover their exposure to oil producers' hedges (a combination of momentum trading strategies and delta hedging against large out-of-the money option puts). But the reason behind the selloff is much simpler: According to a CNBC report published over the past 48 hours, entitled "*Duped, Tricked and Snookered: Trump Fooled Saudis into Tanking Crude Prices*", US President Trump fooled his close ally Saudi Arabia and other OPEC members into pushing the oil market into oversupply to compensate for Iran's oil exports going into freefall after the implementation of sanctions on the Islamic Republic; But when the US administration's deadline for oil buyers to quit Iranian oil arrived on November 4th, Trump instead granted 6-months exemptions to many of the country's biggest customers (8 in total!).

- **A Tough Week for the UK Prime Minister and the British Pound**: Theresa May has so far survived the most tumultuous day of her premiership, holding to her job yesterday, after Eurosceptic Tory MPs called on her to "*stand aside*" and her Government was rocked by a series of resignations over her Brexit deal. Thursday began with good news for May when European Council President Donald Tusk announced plans for a special summit on November 25th for leaders to sign off the Brexit deal. It was exactly what May needed to hear, with her government estimating that unilaterally ending more than four decades of EU membership could cost the U.K. as much as 10% in lost economic output in the long term. But over the three hours that followed, four ministers, including her chief Brexit negotiator, resigned from her government because they regarded her plan to keep close to EU rules as a betrayal of the promises made to voters. Facing a revolt over her proposed exit agreement with the European Union, May said she would stay in office because the public expects her to see through their 2016 vote to leave the bloc in an orderly way. Still, a "*no confidence*" vote in Theresa May could be held as early as next week putting more pressure on the UK prime minister as she battles to keep control of her fractious government long enough to deliver a Brexit deal. If that happens and May is forced out, the U.K. will be just four months away from leaving the EU with no sign of an agreement on the terms of a split, a deepening political crisis and the prospect of financial markets and the economy going into a tailspin. "*Leadership is about taking the right decisions, not the easy ones*," May said at a packed press conference in her offices at 10 Downing Street, London. "*Am I going to see this through? Yes." [GBP/USD was last trading at 1.2800, with a 1.2719 – 1.3073 range in the past 48 hours alone!]*

- **Political/Economic Impasse Between Italy & the European Commission:** The European Commission is expected to take its next step toward financial sanctions for Italy next week and announce that the country's budget deficit is in breach of EU fiscal rules when it issues its opinions on Euro area draft budgets on November 21st. The escalation follows the Italian government's decision to stick with its 2.4% budget deficit target and 1.5% growth forecast for next year. Rome defied warnings by the European Commission, which had demanded changes to ease concerns about excessive spending and overly optimistic growth estimates. The publication of the report, which has to be endorsed by EU governments, would trigger a so-called excessive deficit procedure, the first step in a process that could lead to disciplinary actions, including financial sanctions. Under the procedure, which likely wouldn't officially kick- start until January, Italy will be given three to six months to bring its deficit down to a prescribed level or face fines. Market reaction has so far been muted, with yields on 10-year Italian notes hovering around 3.50% and EUR/USD around 1.1325 (after briefly dipping to 1.1215 on the news last Tuesday).

- **An Upbeat (though Cautious) Message from the US Fed Chairman**: Federal Reserve Chairman Jerome Powell said the U.S. economy is strong but could face headwinds next year as policy makers weigh how far and fast to raise interest rates. "*We have to be thinking about how much further to raise rates, and the pace at which we will raise rates*," Powell said during a question and answers session last Wednesday. The goal is to "*extend the recovery, expansion, and to keep unemployment low, to keep inflation low*." Whilst generally upbeat about the U.S. economic outlook, Powell listed potential challenges including slowing demand abroad, fading fiscal stimulus and the lagged effect on the economy of the Fed's eight rate increases since late 2015. "*These are things we are well aware of though. We know that when we're making policy and we think about those and kind of have a sense of what they might be*," Powell added, though he still played down recent turbulence in the

stock market – saying equity price moves were only one of many factors that the Fed takes into account. Following his remarks, the short end of the US yield curve is now pricing a 3 in 4 chance that the US central bank raises the overnight Fed fund rate by 25 bps at its upcoming December 19th meeting (from current 2% - 2.25% range).

- **Japan, German Contractions Open Cracks in Global Economy:** The world economy took a temporary blow in the third quarter with Japan and Germany both contracting by 1.2% and 0.2% on a quarterly basis respectively (although both are set to rebound nicely in the 4th quarter). One-off factors were largely to blame - weather in Japan and cars in Germany. But the data from the third and fourth- largest economies are a setback when the outlook for global growth is already fraying amid jittery financial markets and mounting trade wars. Markets were already in "worry" mode with stocks and oil prices both sliding sharply. The MSCI index of global stocks dropped more than 7% in October, its worst month since 2012. Oil is witnessing a record losing streak and OPEC is warning demand for crude is falling faster than expected. In that respect, the timing for this closely monitored data release is bad, with contractions in two major economies likely making investors and companies more cautious about the outlook for the global economy.

To end this grim summary on a happy note, I reproduce below some of President Trump's fun tweets for the week (quite depressing you may add if the world is counting on The Donald to save the day!! ☹)

- *Emmanuel Macron suggests building its own army to protect Europe against the U.S., China and Russia. But it was Germany in World Wars One & Two. How did that work out for France? They were starting to learn German in Paris before the U.S. came along. Pay for NATO or not!*
- *On Trade, France makes excellent wine, but so does the U.S. The problem is that France makes it very hard for the U.S. to sell its wines into France, and charges big Tariffs, whereas the U.S. makes it easy for French wines, and charges very small Tariffs. Not fair, must change!*
- *The problem is that Emmanuel suffers from a very low Approval Rating in France, 26%, and an unemployment rate of almost 10%. He was just trying to get onto another subject. By the way, there is no country more Nationalist than France, very proud people-and rightfully so!...*
- *By the way, when the helicopter couldn't fly to the first cemetery in France because of almost zero visibility, I suggested driving. Secret Service said NO, too far from airport & big Paris shutdown. Speech next day at American Cemetery in pouring rain! Little reported-Fake News!*
- *Universities will someday study what highly conflicted (and NOT Senate approved) Bob Mueller and his gang of Democrat thugs have done to destroy people. Why is he protecting Crooked Hillary, Comey, McCabe, Lisa Page & her lover, Peter S, and all of his friends on the other side?*

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