

Weekly Market Summary

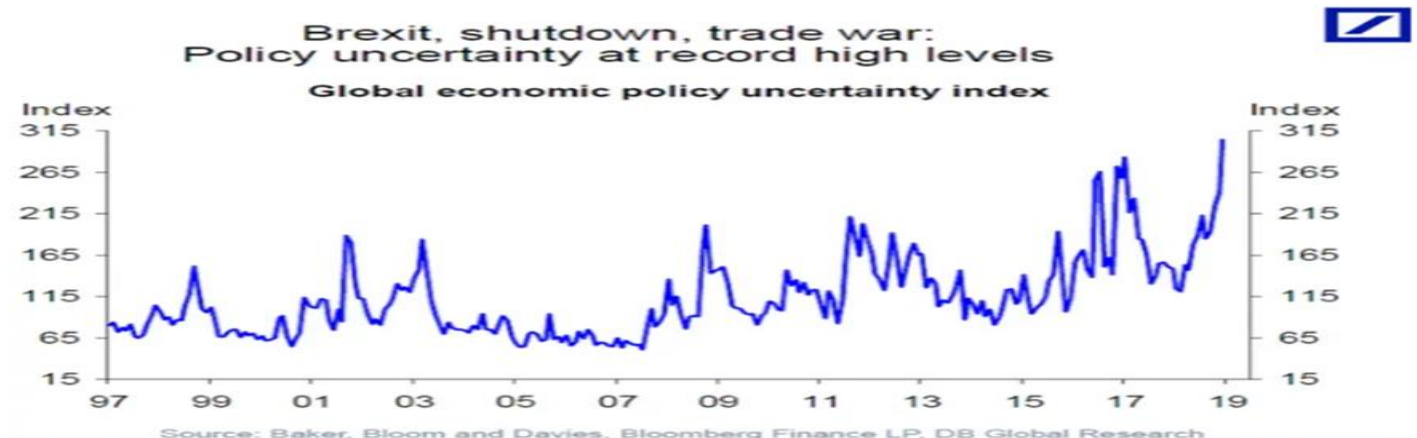
January 18th, 2019

No End in Sight for Current Low Market Visibility! Time to Plan a Short Trip Abroad if You're Still Allowed to Fly!!

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In their latest *Global Weekly Rates* market piece, the team at Barclays refers to the current financial environment as “*the waiting game*” - where investors are faced with the prospect of playing a wait-and-see game until they can better gauge the extent of the US & global economic slowdown, UK domestic uncertainties and US messy politics!

Similarly, according to Deutsche Bank, a gauge of global policy uncertainty is “*flashing red*” amid mounting anxiety worldwide. The global economic policy uncertainty index is at record high levels at a time of deepening unrest in British politics ahead of the country’s scheduled exit from the EU on March 29th, the trade war between the US and China and a government shutdown in the US that has entered its fourth week.



Starting in Europe, UK Prime Minister Theresa May on Tuesday faced a defeating vote on her Brexit deal (her blueprint for exiting the EU was resoundingly rejected by 230 votes - the worst parliamentary defeat for a government in modern British history!), though she did manage to survive an attempt to oust her government and immediately opened talks with rival political parties in order to break the Brexit deadlock, as time runs out to reach a deal. “*The government approaches these meetings in a constructive spirit, and I urge others to do the same,*” May told lawmakers. “*We must find solutions that are negotiable and command sufficient support in this House.*” The Prime Minister fought off the threat of a national election and won the right to continue running the country when the House of Commons voted 325 to 306 against a motion of “*no confidence*” in her administration. But Jeremy Corbyn, the leader of the main opposition Labour party, said May must rule out a no-deal Brexit as a precondition for any future discussions. After a spokesman for the Prime Minister later told reporters she was not doing so, Corbyn’s camp said “no deal” was being used as “*blackmail.*” Should the UK Parliament fail to approve a Brexit deal, the country will fall out of the EU on March 29th without any new agreement in place. British authorities warn that this could trigger a recession, with the pound falling as much as 25% and house prices taking as much as a 30% hit!

For now, British and EU officials are increasingly convinced the U.K. will need to delay Brexit day, though May has so far refused publicly to consider that option. Prime Minister Theresa May's Plan B (assuming she has one!) could involve cross-party efforts to pave the way towards a 'softer' Brexit and may even include a proposal to delay Article 50 till June and avert an accidental no-deal Brexit. Whilst the British pound did rally nicely in past days (low of 1.2668, high of 1.3003 – last trading at 1.2950), the near-term outlook for the GBP/USD pair has become even more uncertain!

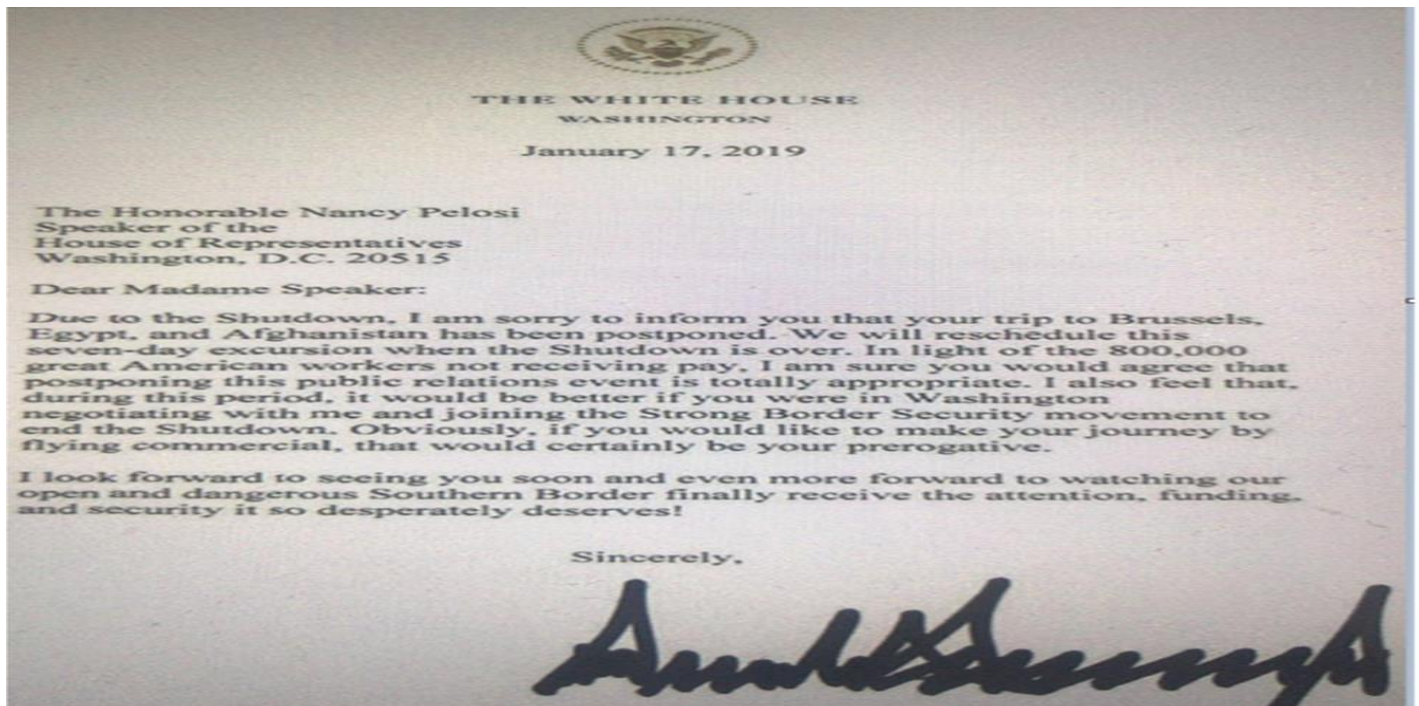
In the US, a government shutdown has entered its fourth week, making it the longest in the country's history. It is soon expected to start taking a toll on corporate profits, with companies struggling to get decisions on everything from licences to new regulations. Some economists expect the shutdown could even stifle growth (Oxford Economics estimates a modest 0.05% dent in economic activity for every week the shutdown drags on, whilst JP Morgan has already trimmed its annualized growth estimate for the first quarter of 2019 from 2.25% down to 2.0%!). Yesterday, the US House passed (237-187 vote) the latest in a series of bills to end the partial government shutdown with little Republican support. The measure, H.R. 268, would provide \$12.1 billion in disaster aid and reopen the nine shuttered Federal departments and dozens of agencies through February 8th. But it does not include the \$ 5.0+ billions Trump seeks for a border wall, and the administration opposes the measure. Only six Republicans voted with majority Democrats for the bill. So far bipartisan efforts to urge President Donald Trump to open the government for several weeks to clear the way for talks on border security have all failed. *"You know when that's going to happen? When you look outside your window and see donkeys fly,"* said GOP Senator John Kennedy of Louisiana. *"It's not going to happen."* *"You can have your own opinions about President Trump, but I think most fair-minded people would have to agree he a smart man (I DO ☺)."* *"And he's not going to agree to open it back up and then have Speaker Pelosi say, 'Thank you very much, you get nothing.'"*

Elsewhere, although Beijing and Washington have struck more optimistic notes on trade, there has been little by way of concrete announcements as the March deadline for a deal fast approaches. According to breaking news yesterday evening, Trump administration officials are considering measures to roll back tariffs on Chinese products in order to calm financial markets, a report the Treasury Department quickly denied (that has resulted in a short-lived pop-up for US equities prior to market close. "Beautiful" short-lived moves that keep recurring!). Treasury Secretary Steven Mnuchin is a proponent of easing up on tariffs, while U.S. Trade Representative Robert Lighthizer has reservations about the idea, the Wall Street Journal reported, citing unnamed people close to the discussions. Neither Mnuchin nor Lighthizer have made any recommendations with respect to tariffs or other parts of the negotiations with China, according to a Treasury spokesperson working with the administration's trade team who characterized the talks as an ongoing process. The report comes straight after China confirmed that Vice Premier Liu He will travel to Washington at month-end for a new round of trade talks. President Donald Trump has pledged to hike tariffs on Chinese goods if the two sides cannot negotiate a sweeping trade deal by March 1st.

All those political deadlocks have resulted in a more uncertain environment and would surely mean *"more dovishness from global central banks"* lies ahead, according to Torsten Slok, Deutsche Bank's chief economist. Economists at Deutsche argue in a separate note that *"the depth and persistence of the tightening of financial conditions cannot be ignored, particularly when coupled with heightened uncertainty about trade policy and slowing growth momentum abroad."* They add: *"Fed officials have also emphasised a greater sense of patience and flexibility in raising rates in response to these cross currents"*. Indeed - as noted last week - after having raised rates four times in 2018, officials at the Federal Reserve including chair Jay Powell are now signalling greater patience in raising rates.

Whilst the Fed signalled two quarter-point increases in short-term rates in 2019, the minutes of the December monetary policy meeting showed volatile financial markets and muted US inflation have bolstered arguments for the central bank to take more time before raising rates.

With Washington these days resembling the political chaos in my home country Lebanon (where a clueless Finance minister indifferently suggested in recent days that he is working on a plan to restructure the country's government debt, a project his fellow minister colleagues didn't know anything about .. though credit is given to that same Finance minister for correcting himself the next day and noting that he didn't mean restructuring, just rescheduling!! The difference being?? ☹), and as the US government shutdown enters its 27th day, septuagenarian politicians are squabbling like 7-year-olds to score points over each other! Nancy Pelosi, the speaker of the House of Representatives, wrote earlier this week to Donald Trump to ask him to delay his State of the Union address given the federal government shutdown. The Democratic party representative cited security concerns for the proposed postponement, pointing out that the US Secret Service and Department of Homeland Security were being impacted by the funding shortfalls. As an alternative to finding another date, Ms Pelosi suggested that Mr Trump could deliver his speech to Congress in writing. Her letter said: "*Sadly, given the security concerns and unless government re-opens this week, I suggest that we work together to determine another suitable date after government has re-opened for this address or for you to consider delivering your State of the Union address in writing to the Congress on January 29th.*" President Trump's reply was quick to follow; Yesterday, he informed Nancy Pelosi that she couldn't use military planes to visit U.S. troops in Afghanistan this weekend because of the partial government shutdown, telling her barely an hour before her departure that she should stay in Washington to negotiate (full letter displayed below if you no longer trust my words!). "*We believe this is completely inappropriate by the President,*" said House Intelligence Chairman Adam Schiff, who intended to accompany Pelosi. "*As far as we can tell this hasn't happened in the annals of congressional history.... All too often in the past two years the President has acted like he's in the fifth grade,*" Schiff added. "*To have someone who has that kind of character running the country is an enormous problem in every way.*" (*Childish, Immature, Babyish, ... You name it!* ☺)



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