Weekly Market Summary

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A Lot of Sad Political Developments & Breaking Financial News ... Markets Far From Panic Mode!!
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As the auspicious month of Ramadan starts, I also wish our valuable readers Peace, Serenity and utmost Happiness!! Ramadan Kareem and "Kul 3Am Wa Entom Bi-Khair"!

Last December, US President Trump defied warnings from allies across the world and overturned decades of US foreign policy by announcing that he is recognising Jerusalem as the capital of Israel, and triggering plans to move the US embassy there, from Tel Aviv. The US president described the step as a long overdue move that would advance the peace process (back then, our riposte to such simplistic & misguided thinking was …*Yeah Sure!*). "*This is nothing more or less than a recognition of reality*," Mr. Trump also mentioned in that address. "*It is also the right thing to do*." Whilst Trump's decision demonstrated resolve on a hugely symbolic issue and redeemed a pledge to supporters and key donors that he first made during the presidential campaign, it was seen by many European and Arab allies as a step in the wrong direction, with serious negative implications in terms of prospects for peace in the Middle East.

In such predictable and tense context, last Monday's sad developments in the occupied territories should have come as no great surprise to anyone following regional developments closely! Israeli forces opened fire on demonstrators in Gaza, killing dozens (closer to 60) and injuring well in excess of 2,000 people protesting the Monday opening of the US embassy in Jerusalem. As bodies fell on the border on what became the bloodiest day in Gaza since the 2014 war, US and Israeli officials were busy celebrating the opening of the embassy, formally relocated to Jerusalem from Tel Aviv on the 70th anniversary of the formation of Israel. In a recorded video message played to some 800 people gathered at the new embassy, Mr. Trump said the United States "*remains fully committed to facilitating a lasting peace agreement*." (Trump also tweeted "*Big day for Israel. Congratulations*!"). In a speech at the ceremony, Jared Kushner, Mr. Trump's son-in-law, also spoke of a resolution to generations of conflict. "*When there is peace in this region, we will look back upon this day and will remember that the journey to peace started with a strong America recognizing the truth*," he said (*Yeah Sure!*). But Prime Minister Benjamin Netanyahu of Israel sounded more triumphant and defiant than conciliatory. "*What a glorious day*," Mr. Netanyahu exulted. "*Remember this moment! This is history! President Trump, by recognizing history, you have made history*….*We are in Jerusalem and we are here to stay*," he added. "*We are here in Jerusalem protected by the great soldiers of the army of Israel and our brave soldiers are protecting the border of Israel as we speak today*." Amnesty International and United Nations human rights experts were quick to accuse Israel – as in previous similar instances - of violating international law. There was also harsh criticism from countries including Saudi Arabia, France, Belgium and the U.K, whilst Turkey opted to expel Israel's ambassador and recalled its own from Israel and the U.S. The Palestinian Authority appealed to the Arab League and UN for international protection and urged the International Criminal Court to investigate Israeli officials.

Market reaction to Monday's bloody events has been muted (after all, for a US-led world community and greedy bankers - Palestinian lives hardly matter!☹). Still, there were major news out on the Rates/Commodities/FX fronts over the past few days, and those are summarized below:

- **Oil's Persistent Rally**: Brent oil rallied to $80 a barrel in London for the first time since late 2014, amid mounting signs that global stockpiles are shrinking. Brent crude futures have jumped in past week as OPEC's output curbs tightened surpluses around the world and the outlook for shipments from Venezuela and Iran worsened. The rally in New York fizzled, however, as record output from shale fields and a drilling ramp-up limited the scope for gains. The recent widening gap between the global benchmark and American prices (currently as wide as $ 8.20, versus a median of $ 4.0 in past year) has also encouraged unprecedented exports of U.S. oil. The worldwide glut has been eradicated and "*OPEC still hasn't said anything about ending the deal early, which is only good for markets*," said Ashley Petersen, lead oil analyst at Stratas Advisors in New York. As for the US, "*we've been having plenty of exports to kind of alleviate any sort of glut here. There seems to be just enough crude and it's all finding a home to go to*." Yet, money managers who are reducing bullish bets on oil are following a "*dangerous*" strategy, according to Goldman Sachs Group Inc, who sees demand for oil remaining strong and concerns over economic growth probably proving temporary.

- **Bond Traders Get a Glimpse of the Apocalypse:** Last year was all about the global synchronized economic recovery! This year may all be about the global synchronized bond slump. From Japan to Frankfurt, London and New York, the market for government debt securities was a sea of red in past few days, as U.S. central bankers up their plans to "*normalize*" monetary policy, which is code for raising interest rates and cutting back on their debt purchases. Although the U.S. Federal Reserve has been doing just that since late 2016, the global bond market has largely been able to absorb it, mostly because the European Central Bank and Bank of Japan pressed on with their extraordinary easy money policies. But last Monday's action shows what may be in store for bond traders after ECB policy maker Francois Villeroy de Galhau told Bloomberg News that he expects bond purchases to end this year and an interest-rate increase to possibly follow in a matter of *"some quarters, but not years."* "*I don't believe Villeroy's comments should be a surprise to anyone, but it seems to be a gentle reminder of what is to come*," Peter Boockvar, the chief investment officer at Bleakley Financial Group, noted in a research report. "*My worry about what is to come for European bonds has been made clear many times*" but even so yields on the continent remain "*mind boggling*" at such low levels (*brings to mind our repetitive warnings with regards to false market complacency and massive central bankers' bond manipulations*!). Additionally, what ought to be very worrying to investors/traders/central bankers is the fact that this week's Treasury market big bang (and most importantly the decisive upside break of 3.00% for US 10-year Treasury yields, last at 3.10%) came on a day (and week) that few traders could have seen coming. That should make traders wonder what might be in store next month, when US and European inflation and growth data starts again surprising on the upside (in the absence of weather-related drags on the latter, and weaker euro / higher oil prices for the former).

- **Market Participants At Odds re the US Dollar's Upcoming Trend:** Three hedge fund managers are going head-to-head with Wall Street's top strategists over the fate of the US dollar, wagering the currency's best run in three years is far from over. At a time various banks' analysts warned earlier this week that the short squeeze that sparked the US greenback's fastest rise in 18 months (4.5% jump in less than a month) was starting to fizzle out due to mounting bearish conditions for the currency (including low domestic inflation, economic resilience overseas, the potential escalation of trade tensions, as well as stretched technical indicators), traders at IPM Informed Portfolio Management, Millennium Global Investments and Rhicon Currency Management have stood at odds, arguing US dollar strength remains strongly in place. Whilst concerns over swelling budget and current account deficits cast a pall over the U.S. currency's longer-term prospects, an overemphasis on the big picture is already causing some investors to miss out on the latest leg of the rally, according to Peter Jacobson, managing director at Rhicon. "*People are probably focusing on the deterioration of the U.S. balance sheet as a whole and how the twin deficits blow out, looking forward 5, 10 years*," said Jacobson, who helps oversee $700 million from Singapore. "*The market is being too clever in looking that far down the line. The deficit in the U.S. is going to be problematic, but that's later on*." Jacobson sees the dollar's resurgent link with rate differentials fuelling gains in the months ahead as the Federal Reserve tightens policy to control inflation, while speculation mounts that slowing growth will delay hikes from the Bank of England and the European Central Bank. His long-dollar wager has helped the Rhicon Strategic Program return 8.8% year-to-date, the second-best performance among 24 foreign-exchange trading programs tracked by Citigroup. Richard Benson, head of portfolio investments at Millennium Global in London, is also on the currency's long-term prospects, wagering that record spreads between U.S. and European rates (US/GE 10-year interest rate differential at a staggering 249 bps, in favour of the US) will support the greenback in the coming months. "*The very slow and gradually widening interest-rate differentials against the euro have now reached a tipping point where that is very powerfully positive for the U.S. dollar*," said Benson, who helps manage $20 billion. "*In a relatively low-volatility macro environment, that becomes increasingly important*."

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