Weekly Market Summary

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The Million Dollar Question & the Billion Dollar Mistake!!

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Latest Update on Coronavirus: Confirmed cases last at 22.89 million, with the death toll from the pandemic at 797,599. Europe is grappling with a resurgence of coronavirus infections, with little appetite among top officials to resort to stringent restrictions that helped control the spread earlier this year (Merkel warning yesterday against new virus lockdowns in Europe "*at any cost*"). Hong Kong is kicking off a campaign to test its entire population for the coronavirus on September 1st, in the first such effort attempted outside of mainland China. Infections in southern US states are slowing and deaths should start to fall next week, the head of the Centers for Disease Control (CDC) and Prevention said. And UK Transport Secretary Grant Shapps said Covid-19 testing at UK airports will not remove the need for travelers to self-isolate because of the long incubation period of the disease.

The phrase "*The Million Dollar Question*" is an expression emphasizing that the question being asked is a crucial one with no straight-forward answers. It is usually used when a speaker wants to signal that this particular query is the one that needs an answer to resolve a make-or-break situation. The phrase has its origins in TV quiz game shows, where contestants have the chance to win a huge amount of money if they answer questions correctly (it all started with the US CBS "*Take it or Leave it*" show in the 1940s, later changed to "*The Sixty Four Thousand Dollar Question*" in 1950 to reflect the increased amount of money on offer, and last popularized with the British ITV show "*Who Wants to Be a Millionaire*" in 1998).The "*Billion Dollar Mistake*", on the other hand, is simply the blunder of a lifetime that could make you lose both your mind and job!

Take for example this week's events; The million dollar question would have been whether the US Federal Reserve's transcript (for the July 28-29th FOMC meeting), released on Wednesday, will show the central bank's willingness to set a clearer bar for raising interest rates in the future – a step that would also underscore their commitment to an extended period of ultra-loose monetary policy. The answer – as we know it now - is a sure NO! "*With regard to the outlook for monetary policy beyond this meeting, a number of participants noted that providing greater clarity regarding the likely path of the target range for the Federal funds rate would be appropriate at some point,*" according to the minutes. That was an elusive change from the previous set of minutes indicating policy makers were keen to sharpen their so-called forward guidance *"at upcoming meetings*," with a commitment to hold rates near zero dependent on reaching a final agreement with regards to specific thresholds for inflation and unemployment. "*Members agreed that the ongoing public health crisis would weigh heavily on economic activity, employment and inflation in the near-term and was posing considerable risks to the economic outlook over the medium term,*" the minutes noted. At the same time, officials sounded unenthusiastic about capping Treasury yields – a strategy known as yield curve control – an impression that hurt equities and Treasuries, lifting yields to session-highs and providing some needed support the ailing US dollar. "*Many participants judged that yield caps and targets were not warranted in the current environment but should remain an option*."

As to the billion-dollar mistake, it's essentially a $900MM payments blunder by Citigroup Inc.! Mistakes involved in electronic transfers are common practice, though rarely on the scale of last week's $900MM erroneous transfer by Citi, which paid debt investors roughly 100 times more than it was supposed to! And now, a history of bad will between Citi and some of the recipient funds is making it hard to undo the lapse (pushing the Bank to reach for the lawyers and courts). How Citi made the ill-fated payments remains unclear?! According to its court filing, they were meant to be interest on loans issued by cosmetics group Revlon Inc., for which the US bank says it was the "*administrative agent*." Instead, it paid out amounts that had add up to the full principal amount of the loan. This colossal excess came out of Citi's own funds. It's not as if Revlon, struggling with the pandemic, had suddenly decided to repay its debt early. Meanwhile, a wider group of creditors represented by UMB Bank is now suing Revlon and Citi, arguing the cosmetics group is in default due to the way it conducted debt restructurings earlier this year. Citi says this is just a pretext not to return funds erroneously transferred, whilst Revlon has dismissed the suit as baseless.

Below, we leave our readers with a coverage of major stories that have shaped our world/markets this week:

- ***Joe Biden Accepts the Democratic Party's Nomination***: Joe Biden challenged Americans to embrace the "*path of hope and light*", as he accepted yesterday his party's nomination, in an emotive and emphatic speech that cast November's election as not merely the choice of a president but a fundamental referendum on the nation's character. "*May history be able to say that the end of this chapter of American darkness began here tonight,"* Biden said in offering the closing argument of the Democrats' virtual convention. "*I will be an ally of the light, not the darkness,*" Biden said! (apparently Masonic initiation symbolically takes the new initiate from darkness to light! 😊)

- ***Apple Hits $2 Trillion Market Valuation After a 59% Gain This Year:*** Apple reached a $2.0 trillion market valuation on Wednesday for the first time after a 59% surge in the shares of the iPhone maker this year, and that despite the fact that the company has seen limited growth lately. After all, revenues rose less than 5% for most of the last eight quarters, the exceptions being the 9% growth posted in Q1 FY'20 due to favorable year-on-year comparison and 11% in Q3 FY'20 when demand saw a Covid-19 related bump. Whether the latest rally is a result of the pending launch of the 5G iPhone, expectations for strong services growth ahead or simply the possibility that Apple is being viewed as a "safe-haven" stock through the current economic turmoil remains to be seen (I am assuming that the design of the App Store logo in a way similar to the logo of the Freemasonry has nothing to do with it 😊)

- ***Another US Bond Auction Flops in Less than 2-Weeks***: The US Treasury's record auction of new 20-year bonds Wednesday drew a higher-than-expected yield, once again stirring concern about the rapidly growing supply of long-maturity Treasuries. The bonds were awarded at 1.185%, with the offering size raised to $25 billion, up from $20 billion for the previous new-issue sale in May. Whilst all note and bond offering sizes have climbed to record levels to finance spending related to the pandemic, the latest Treasury's increases to the 10-, 20- and 30-year maturities were at the high end of dealer expectations and eventually led to soft results - with buyers requiring a higher yield while overall demand and foreign participation remain weak. But sell-offs in Treasury are for now still proving limited, a reminder of the persistent appetite for buying the debt on price declines amid lingering worries about the economic outlook (as if the US sovereign credit outlook is all rosy and bright! 😊)

- ***Is Time Truly Running Out for Dollar Bulls?*** The clock continues to tick on the dollar's long-enduring bull cycle. After nine years of strength, the currency is being assaulted from all sides. Ballooning debt and deficits, a result of the Corona pandemic and regular cash injection by authorities, have eroded foreign investments in the US. Now, a bleaker growth outlook for the remainder of the year, coupled with a heated/uncertain presidential election in roughly 75 days, is pushing the greenback to a two-year low, following its worst month in a decade. Traders in turn are shorting the US currency on a net basis for the first time in years. And whilst the greenback still accounts for more than 60% of global reserves and remains the most widely mean for international transactions by far, many prominent investors/funds now forecast "*massive currency debasement*" that would favor exiting the US dollar and seeking the safety of gold (in the absence of solid alternative currencies, such as the Euro or Yuan). History suggests that once triggered, dollar strength could quickly unravel (a previous weekly summary on the future of the US dollar, titled "*Turning Bearish on America and the US Dollar? Better Wait to See if Kanye Runs for President"* can be found on GIB's website (www.gib.com) – under the Treasury / Market Update section).

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