Weekly Market Summary

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Another Week Filled With Mind-Blowing Surprises!! I Wonder What's Still in Store for the Remainder of 2018!!

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Back in May 2015, we released a weekly market piece entitled "*The New Market Normal: Surreal Events That Keep Recurring!*", highlighting the spectacular moves that had rocked financial markets over previous weeks/months; Those included 1- The largest single-day fall in 10-year US Treasury bond yields since the Lehman bankruptcy in September 2008 (a 35 bps intraday move lower in mid-October 2014 that hasn't been rightly explained/justified till-date), 2- A one-day 30% appreciation in the value of the Swiss franc against the Euro on January 15th, 2015 - following a decision by the Swiss central bank to end its three-year old bid to hold down the value of its national currency, 3- A 25% drop in oil prices in early 2015, followed by a swift and complete reversal within weeks and 4- An epic and brutal move lower in fixed-income markets, with German bund prices getting destroyed (& 10-year German yields jumping from 6 bps to 80 bps over 5 working days – a 1,233% jump!).

My personal view back then remained that central bankers' extremely lose monetary policies and "*manipulation*" of markets had reached a new height - bringing large distortions to bond, credit, equity and fixed income markets - with the US Federal Reserve, Bank of Japan, European Central Bank and Bank of England drawing lines for policy triggers, and later on moving those lines back and forth to justify their ever-changing "market strategies" (to the point of redefining what constitutes a "line" in the first place!).

In fact, this week's developments weren't much different – a stark reminder to all our readers that they need to ensure at all times they are fully hedged against persisting market risks! Below is a summary of epic stories that have shocked financial markets over the past days:

- **Bitcoin Crashes:** Bitcoin turns 10 this year, but there was not much to celebrate this week! (except for a small won bet with a GIB's colleague ☺). Its price has tumbled to near $4,000, down 30% in a month, 50% in six months and almost 80% since December! Cryptocurrency experts, who clearly did not see this coming, are blaming all sorts of temporary culprits — from jittery markets to "*hard forks*" (blockchain jargon for radical technical changes in a digital currency). Bitcoin was meant to make all of its investors rich, something that held particular appeal to a millennial generation hungry for a financial boost in a world of crushing student debt, income inequality and low-quality jobs. It was meant to be free of Wall Street's corruption and the U.S. government's meddling technocrats. It was meant to be secure, with a price that would go ever higher. For the hardcore evangelists, it would reward its acolytes when the inevitable financial apocalypse arrived since the dollar was soon destined for scrap. "*So far*" none of that has come to pass. The Bitcoin bubble of 2017- mercifully short and economically contained - has enriched only insiders such as mining companies and crypto- exchanges, the early birds and tech elites who cashed in at the right time. In October, economist Nouriel Roubini, famous for foreseeing the 2008 financial crisis, told U.S. lawmakers that virtual currencies are "*the mother of all scams and bubbles*."

- **UK & EU Agree Brexit Deal Draft:** The U.K. and the European Union have agreed to the final bit of their Brexit deal, setting out a vision for close economic ties in a draft that hands Prime Minister Theresa May some key political wins. EU Council President Donald Tusk said the draft declaration on future ties had been agreed in principle, pending leaders' sign-off on Sunday. May briefed her Cabinet and announced the deal outside of her Downing Street residence. "*The British people want this to be settled. They want a good deal that sets us on course for a brighter future. That deal is within our grasp and I am determined to* *deliver it*," she said. The pound surged as investors saw the final stage of negotiations falling into place (a jump from $ 1.2780 to $1.2928 yesterday evening, lastly back lower at $1.2850). May's challenge now is to convince a sceptical Parliament to back it in a vote that will probably take place in early December (expectations are that May would probably lose that vote!) The UK prime minister is already hitting on her best argument to win over politicians: Voters want it done and they care little for the dramatic party politics that has dogged the Brexit debate since the historic referendum in 2016.

- **Ghosn's Era is Over:** Carlos Ghosn was dismissed this week as Nissan Motor Co. chairman three days after his arrest on allegations of financial misconduct, marking a stunning fall from grace for an executive who had gained a cult-like status leading a global car alliance. Ghosn, 64, is set to officially remain a director, since a shareholder vote is needed to remove him from the board completely. He may have under-reported his pay by about 8 billion yen ($71 million) during the eight years through March, the Nikkei reported, citing people familiar with the matter. He has yet to be charged with any crime.

- **Trump Support in Return for Lower Oil Prices & More Cash:** When President Trump talks about the U.S. alliance with Saudi Arabia, he mostly focuses on lower oil prices and how much money the Saudis are spending in the US. "*They give us a lot of jobs. They give us a lot of business*," Trump said in a recent interview; "*They have truly been a spectacular ally in terms of jobs and economic development*," Trump added, referring primarily to Saudi arms purchases. "*You know, I'm president; I have to take a lot of things into consideration*." In past days, the US President also thanked Saudi Arabia for lower oil prices, one day after announcing the U.S. won't let the murder of a journalist jeopardize relations with the Kingdom. "*Oil prices getting lower. Great!*" Trump said on Twitter Wednesday. "*Thank you to Saudi Arabia, but let's go lower!*" Oil prices have declined more than 30% in the past six weeks (Brent crude for February delivery last at $61.00 a barrel, after witnessing a high of $86.54 in early October), driven by worries about worldwide economic growth during a global stock selloff and escalating trade tensions as well as doubts about OPEC's commitment to restraining supplies. The Saudis boosted oil output this month (in excess of 10.7 million barrels a day), responding to demands from clients preparing for disruptions in Iranian supplies. It is unclear, though, if Riyadh plans to sustain that production, with OPEC and its allies set to meet in Vienna on December 6th to discuss their plans. In separate oil news, the US Department of Justice is formally reviewing antitrust legislation aimed at reining in OPEC's power over oil markets, according to a department official. Bipartisan, anti-OPEC bills have been introduced in both the House and Senate, though neither chamber has voted on the measures yet: The House Judiciary Committee in June approved the "*No Oil Producing and Exporting Cartels Act,*" or NOPEC bill, which would give the attorney general the authority to file a suit against OPEC for trying to control oil production or to affect crude prices.

I guess coverage of the fascinating story relating to Goldman Sachs' involvement – and that of its CEO Llyod Blankfein - in the Malaysian 1MDB scandal could wait for another day or week (surely not expected to disappear overnight!)

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