

Weekly Market Summary

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Sooner Than You Think!! Beautiful Trade Agreement with China or Majestic US Presidential Impeachment??

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On Wednesday afternoon, stock markets rallied nicely whilst US bonds tanked (lower prices / higher yields). For investors trying hard to navigate uncertain and volatile markets, the big question remained “*What Just Happened?*” Not much really ☺! Minutes earlier, “*depressingly unpredictable*” Donald Trump had suggested that a deal to end a nearly 15-month trade war with China could happen sooner than people think. “*They want to make a deal very badly .. It could happen sooner than you think,*” the US president had told reporters in New York. Trump’s comments followed a stinging rebuke to China’s trade practices just a day earlier, when he accused Beijing of the theft of trade secrets “*on a grand scale*” and added he would not accept a “*bad deal.*” “*Not only has China declined to adopt promised reforms, it has embraced an economic model dependent on massive market barriers, heavy state subsidies, currency manipulation, product dumping, forced technology transfers and the theft of intellectual property and also trade secrets on a grand scale,*” Trump said at the United Nations General Assembly in NY.

And if that criticism was not enough to strain ties further between Washington and Beijing - as the two superpowers clash over trade, security and a host of other topics - the Trump administration followed on Wednesday evening with the blacklisting of several state-owned Chinese companies for allegedly shipping Iranian oil in violation of U.S. sanctions, attempting to cut off the last vestiges of Iran's crude exports. The action signalled the administration's commitment to its “*maximum pressure*” campaign as European allies and other nations push Washington to ease sanctions and cool rising tensions between the U.S. and Iran; “*We're telling China and all nations: Know that we will sanction every violation of sanctionable activity,*” Secretary of State Mike Pompeo said in announcing the measures on the side-lines of the United Nations summit. China, the biggest remaining buyer of Iran's crude, has so far resisted U.S. attempts to cut its consumption of the Mideast country's supply to zero, whilst Mr. Pompeo, Treasury Secretary Steven Mnuchin and other top Trump administration officials have continuously cautioned Beijing and other nations that the U.S. would punish those it found facilitating Iranian crude sales. “*The latest move pits Washington squarely against Beijing, representing a potential economic and political flashpoint for the two nations*”, said Jeffrey Schott, a former U.S. Treasury official now at the Peterson Institute for International Economics; “*Hitting major Chinese companies would escalate the U.S. – China economic conflict to another level.*”

Yes Jeffrey, you guessed it right!! Risk-off trading was back in vogue yesterday, with stocks ending a tumultuous session lower and Treasury bond prices rising! US-China friction headlines had provided the needed support for those moves, but something bigger was also unfolding and reinforcing this latest market trend: Political turmoil associated with the release of a whistle-blower complaint central to the latest US impeachment drama; The newly revealed document by an intelligence community whistle-blower alleges that multiple government officials were surprised and alarmed about President Donald Trump’s “*beautiful and perfect*” conversation with Ukraine’s leader, in which Trump pushed Volodymyr Zelenski to investigate former Vice-President Joe Biden (at that time the Democratic frontrunner for the 2020 Presidential election) and his son Hunter in return for US frozen security aid (implicit), resulting in efforts at the White House to “*lock down*” records of the call (i.e. isolate the call transcript by placing it in a system normally used for sensitive classified information). The complaint and Thursday’s testimony by acting intelligence chief Joseph Maguire opened new avenues for an impeachment inquiry by Congressional Democrats that is likely to draw more White House and national security officials into the investigation. House Speaker Nancy Pelosi quickly raised the spectre of a White House “*cover-up.*” “*The complaint gives us a pretty good road map of allegations we need to investigate,*” House Intelligence Chairman Adam Schiff said after the panel’s hearing where Maguire testified. “*There is a whole host of people, apparently, who have knowledge of these events*” who the Committee will want to talk to, he added, including Trump’s personal attorney Rudy Giuliani and Attorney General William Barr.

"Markets still appear to be more focused on President Trump's foreign trade policy than his risk of impeachment," Mike Ryan, Americas Chief Investment Officer at UBS Global Wealth Management, said in a note. "The wild card here is how this may impact White House decisions on trade negotiations... In addition, we will need to monitor for whether further polarization in Washington could have a knock-on effect on bipartisan cooperation over budget issues or infrastructure spending."

In other fascinating news, Bitcoin extended this morning its five-day losing streak and dropped below \$ 8,000 for the first time since June, after trading close to \$11,000 just 3 weeks back. The reason? More sellers than buyers (☹) as a growing list of concerns weigh on crypto assets (bearish technical outlook after failure to regain the near \$14,000 highs reached over the summer, lacklustre reception to the first Bitcoin futures contracts that were offered by the Intercontinental Exchange Inc's Bakkt platform, delayed decision by the US SEC on a Bitcoin exchange-traded product, ...). More mesmerizing though is the Swiss drama that has stunned Zurich financial circles since it emerged that Credit Suisse had hired a private investigation firm to shadow its former wealth management head Iqbal Khan because of fears he would poach former colleagues after deciding to move to UBS Group AG. How that came to light? A confrontation in downtown Zurich last week between Khan and investigators, that is now risking the reputation and perhaps the job of Credit Suisse's CEO Tidjane Thiam!

With current madness grabbing the developed world, my guess is that it still makes absolute sense to hold to my "solid" Lebanese passport!! ☺

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