Weekly Market Summary

June 28th, 2019

Big Meetings Ahead.... Small Undesirable Expectations!!
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The term *Déjà Vu* is French and means, literally, "*already seen*". Those who have experienced this sensation describe it as an overwhelming sense of familiarity with something that should not be familiar at all! Say, for example, that you are visiting a new place and touring an old monument with a local guide, and suddenly it strongly feels as if you have been in that very same spot before, with the same surroundings. This feeling of familiarity could be happening because you have actually had the same experience in the past but simply do not remember it!

Back in June 2016, markets and risk sentiment were being mostly driven by the fast approaching referendum on UK membership in the EU. Weeks before, polls had shown a notable momentum and lead (anywhere between 5% to 8%) for the "*Leave*" campaign, prompting the US Federal Reserve, UK Bank of England (BOE) and the IMF to step in and confirm that a UK vote for exit of the EU would "*precipitate a protracted period of heightened uncertainty, financial market volatility and slower growth as the U.K. negotiates its new relationship with the EU*" - whilst also adding that the "*severe damage could extend to global markets and the world economy*". Anxiety about the "*knife-edge*" referendum had already spread to all financial asset classes, with government bonds remaining in high demand and traders bidding up global sovereign debt even as yields fell to record lows and as over US$ 8 trillion of government securities were already yielding less than zero.

The rest is History!

On June 24th, the final count was made official! The U.K. had voted the previous night to quit the European Union after more than four decades, in a stunning rejection of the continent's post-war political and economic order (the "*angry*" vote that upsets the status quo!), prompting Prime Minister David Cameron to resign and sending shock waves around global markets. The outcome - voters backing "*Leave*" by 52% to 48%, a difference of slightly more than 1 million ballots - was a victory for Boris Johnson, the former mayor of London who broke with former schoolmate Cameron to help lead the "*Leave*" campaign and set himself up for a potential tilt at the premiership (still in the making, three years later!! Though latest polls continue to show Boris narrowly leading over Jeremy Hunt for the prime minister job). The immediate result was a historic plunge in the British pound to its weakest level since 1985 (down as low as 1.3228 before recovering back to 1.3850). European stocks followed Asian equities in tumbling (anywhere between 5% & 8%) and government bonds surged in one of the most dramatic 24 hours move in modern history (yields around 15-20 bps lower). Oil tumbled 4.5% and gold jumped 4.8%. The sell-off was compounded by the fact that markets had rallied the previous days on optimism that the U.K. would vote to stay! The panic market move also prompted "*firefighting*" talk from Finance officials and central banks, with the latter indicating they stand ready to support markets by providing liquidity, re-opening existing FX swap lines and cutting interest rates if deemed necessary.

Fast forward to late-June 2019!

The coming 72 hours will witness two decisive meetings (not to mention OPEC+ meeting on July 1st-2nd): Representatives of the G-20 countries are currently gathering in Osaka, whilst EU head of state and government meet in Brussels on Sunday. The world most powerful leaders' get-together in Japan is expected to set the direction for the global economy and possibly make the difference between war and peace in our region.

In that respect, focus will be on the Trump-Xi meeting tomorrow as well as Trump's side-line consultations with Russia President Vladimir Putin and German Chancellor Angela Merkel (in an effort to stem rising tensions between the Trump administration, Russia and Iran). The EU summit in Brussels, on the other hand, will focus on personnel issues - namely filling the bloc's top policy positions (including Mario Draghi's successor for the ECB presidency).

The US president has sounded an optimistic note on trade ahead of his highly anticipated meeting on Saturday with the Chinese president, but also noted that he has not promised to withhold new tariffs on China. "*I think we have a very good chance*" of doing "*something*" with China tomorrow on trade, Trump told reporters in a meeting with Brazilian President Jair Bolsonaro. Asked if he had pledged not to impose additional tariffs on China for six months, Trump replied: "*No I haven't promised, no*." On Wednesday, Trump suggested substantial additional U.S. tariffs would be placed on goods from China if there is no progress on a trade deal after his meeting with Xi. "*My Plan B with China is to take in billions and billions of dollars a month and we'll do less and less business with them*," Trump said in an interview with Fox Business Network. From his side, China's President Xi Jinping condemned protectionism and "*bullying practices*" in a meeting with African leaders ahead of the summit. "*Any attempt to put one's own interests first and undermine others' will not win any popularity*," Xi was quoted saying. A WSJ article also stated that China had prepared a set of pre-conditions for the trade agreement which includes a lift in restrictions on sales on US technology to Huawei as part of the bargain. Insofar, US officials have tried to keep Huawei out of the trade negotiations because Huawei is treated as a national security risk which should not be used as a bargaining chip.

On the Iran standoff, President Donald Trump has said there was "*absolutely no time pressure*" in dealing with Iran as European nations push to salvage what remains of the 2015 nuclear accord and avert a slide toward war. "*We have a lot of time*," Trump told reporters at the G-20 summit, after he was asked about his message on Iran. "*There's no rush. They can take their time. There's absolutely no time pressure*." Iran on Thursday appeared to have at least temporarily backed away from its ultimatum on breaching the 2015 nuclear deal, with no word late yesterday that it had exceeded the cap on stockpiles of low-grade uranium. Iran has pushed back against crippling U.S. economic sanctions imposed after the Trump administration unilaterally exited the agreement more than a year ago.

With U.S. equities trading near record highs, oil and gold heading for their biggest monthly gains in years and bond yields at multi-year lows, one has to wonder whether investors & traders remain too optimistic and largely positioned for a positive outcome that would help bridge the seemingly widening gap between the world's big powers. Whilst it is unlikely that any trade deal will be settled at the summit, market players could still focus on emerging signs of an eventual agreement. However, should trade and geopolitical talks take a more worrisome path that leads to a further escalation in tensions and drive the US and global economy into recession over the next 6-12 months, then better brace oneself for a major market correction and a strong sense of "*déjà vu"!*

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