Weekly Market Summary

29th of May 2015

Who Said June Will Be All Fun & Games? - Fadi Nasser (SVP – Head of Treasury Sales)

The press coverage over the past 72 hours has overwhelmingly shifted to the growing scandal engulfing FIFA (the "*Federation Internationale de Football Association*"), with US authorities (the US Justice Department) charging FIFA officials with receipt of bribes and kickbacks that were meant to influence the awarding of media and marketing rights, along with the choice of the host country for the 2010 World Cup. The U.S. indictment - on Wednesday - outlined two decades of fraud, and Swiss officials say they are now investigating alleged money laundering related to the selection of the host countries for the next two World Cups, in Russia (2018) and Qatar (2022). World Cup sponsors have stepped in, putting pressure on FIFA to swiftly resolve the corruption scandal that could undermine the game integrity, whilst Russian President Vladimir Putin has accused the US of using the corruption probe to try blocking the re-election of FIFA chief Joseph "Sepp" Blatter (the latter is aiming to be re-elected to a fifth term in office at the FIFA Congress Friday when he takes on challenger Prince Ali Bin Al Hussein of Jordan) for resisting attempts to remove Russia's right to host the next World Cup. Qatar – the world's biggest exporter of liquefied natural gas – has seen its stocks decline the most since last December as the Swiss probe cast renewed scrutiny over the nation's bid to host the 2022 soccer World Cup. Qatar, a small GCC country sharing borders with Saudi Arabia to the south, is spending about US$200 billion on infrastructure before hosting the world's most-watched sporting event, about twice the size of its gross-domestic product in constant prices. The plan includes at least eight new stadiums, many additional highways and a $35 billion metro and rail system.

Elsewhere - and more concerning to financial markets - Greece's creditors have confirmed yesterday that a deal to unlock rescue aid is not imminent, with demands for the debt-ravaged nation to make stronger commitments to overhaul its economy. Whilst the Greek government announced the previous day that a solution had been reached and a final accord will soon be drafted, such optimism quickly faded as European officials gathered in the German city of Dresden for a Group of Seven meeting rebuffed such allegations and called for more efforts and commitments on the part of the Greek government. There is a "*substantial way to go*," European economic commissioner Pierre Moscovici said in a Bloomberg television interview earlier today. "*I wouldn't give a day for a deadline. There have been some deadlines in the past, and there we are today. But it is clear that we need to speed up, that time is running short*".

The IMF won't support a bailout accord with Greece unless the nation commits to a credible medium-term primary budget surplus and changes to its pension system, said a separate official involved in the G-7 talks. With time and patience running out, the Mediterranean nation has not confirmed yet if and how it will pay almost 1.6 billion Euros (US$1.74 billion) in International Monetary Fund (IMF) payments scheduled for next month - with the first transfer due June 5th – though under IMF policy, Greece can bundle all four payments due in June and make them all together on June 19th. International creditors said they need an agreement on an economic plan next week to be able to release funds before Greece's current loan arrangement expires at the end of June, according to a European Union official who spoke on condition of anonymity. Moscovici said that needs to be settled before any third bailout can be dealt with. In a sign of growing concern at the state of the negotiations, Greek PM Alexis Tsipras held a one-hour call with German Chancellor Angela Merkel and French President Francois Hollande, according to a Greek government official.

In the UK, Britain's Foreign Secretary Philip Hammond has warned in past days that Britons will vote for exit unless major concessions and treaty changes are soon made. In a warning shot ahead of David Cameron's trip to European capitals – where the Prime Minister is expected to hold meeting with the leaders of France, Germany, Poland and the Netherlands - the Foreign Secretary told EU leaders to stop "*obsessing*" about the principle of "*every closer union*". Hammond also became the most senior figure in the government to say the vote on Britain's EU membership could take place next year. The Prime Minister has been advised treaty change is needed to secure changes to immigration and access to welfare, but European Commission President Jean-Claude Juncker has said the issue is off the table. Such changes would need to be ratified by every one of the EU's 28 member states and could trigger a string of referendums across the Continent. Mr. Hammond also added in a separate interview that "w*e expect our European Union partners to engage with us in delivering a package that will enable the British people to decide that they think Britain's future is best delivered inside the European Union*."

Moving to the US, markets are eagerly awaiting the revised 1Q2015 US GDP data, out later this afternoon. The US economy is expected to shrink 0.9% in the first three months of 2015, compared with a prior initial estimate indicating subdued growth. Other releases may show an improving manufacturing outlook (Chicago Purchasing Manager Index) and higher consumer confidence (University of Michigan Survey). "*We really need to get a sense of the strength of the U.S. economy, or at least an assurance that we're not in for a more serious slowdown,*" said Teis Knuthsen, Chief Investment Officer at Saxo Bank A/S's private-banking unit in Denmark. "*It has been a bit tricky this month with a number of worries in the market -- everything from concerns about the Fed and the weakness in the U.S. economy, to problems in Greece*."

A number of Fed officials - in past week - have advocated gradual rate hikes starting in the second half of this year as growth is set to recover and labor markets continue tightening. Federal Reserve Bank of St. Louis President James Bullard has additionally warned that keeping interest rates near zero risks inflating asset-price bubbles. A prolonged accommodative stance is a "*recipe for asset-price bubbles and a lot of mischief to happen*," Bullard said Thursday in a Bloomberg Radio interview. "*Asset price bubbles have been a devastating feature for the U.S. economy in the last 15 years.*" Those comments echo remarks recently made by the Fed Chairwoman Janet Yellen, who in turn believes it will probably be appropriate for the Federal Reserve to raise interest rates this year based on current Fed projections for future growth/employment/inflation in the US.

Nevertheless, many market commentators were stunned by Yellen's honesty and simplicity when she added the following: "***I am describing the outlook that I see as most likely, but based on many years of making economic projections, I can assure you that any specific projection I write down will turn out to be wrong, perhaps markedly so. For many reasons, output and job growth over the next few years could prove to be stronger, and inflation higher, than I expect; correspondingly, employment could grow more slowly, and inflation could remain undesirably low"*** (Seriously?!? And to think markets closely follow Fed forecasts!).

In other words, the Fed Chair is saying something you almost never hear an economist say: I have no idea and my forecasts are possibly as good as a coin toss!!

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