
Weekly Market Summary

14th of October 2016

Worried About a US Rate Hike in December?! How About Getting Concerned With World War III in January?! Fadi Nasser - Head of Treasury Sales

Minutes of the September 21st meeting of the Federal Reserve's Open Market Committee ("FOMC") - released on Wednesday evening - explain why three Fed board members had dissented from the majority's "close call" decision to keep rates unchanged. The highly anticipated transcript also provide insights into internal and external developments - illustrating the "unusual uncertainty" that policy makers must contend with, and providing a clear reminder of how difficult it has become to maintain a high level of conviction about the correct policy in a time of such fluidity in the economic, financial, political and institutional environment.

Overall, Fed officials agreed that "the labor market has continued to strengthen" and that this is highly likely to remain the case in the period ahead. As a result, economic activity would be expected to continue to expand "at a moderate rate." Policy makers also agreed that external economic conditions, including the aftershocks of the BREXIT referendum, were less threatening. In addition, they stated that "global financial conditions had improved somewhat in recent months." This anchored the view that "near-term risks to the economic outlook are roughly balanced." The central bankers also seemed united in acknowledging a phenomenon that is now attracting greater analytical attention in many quarters: "The apparent fall over recent years in the neutral real rate of interest r^* ", a reference to the "equilibrium" rate -- the Federal funds rate that neither stimulates nor restrains growth and stable inflation.

However, there was clear disagreement amongst members about the overall looseness remaining in the labor force. Some "judged that the labor market had little or no remaining slack," while a larger number felt there was more room. The September jobs report, which came out after their meeting, does not help to resolve this difference. The gaps in perception reflect difficulties in making judgments about the potential for an increase in the labor participation rate that, disappointingly, is still too close to multi-decade lows (last at 62.9%), as well as genuine uncertainties about today's process for setting wages - especially in the context of the evolving influence of technology.

Given these differences, it should come as no surprise that "the decision at this meeting was a close call." After all, the economic considerations are rather balanced even if a majority of Fed officials did not see sufficient economic evidence to warrant an increase right away. Still, if the US economy continues to advance at a reasonable pace (this afternoon's retail sales and consumer confidence data should confirm the strength witnessed in recent ISM Manufacturing and non-Manufacturing data releases), the Federal Reserve would be expected to increase its benchmark interest rate at its final meeting of the year, on December 14th (The Fed's next meeting is on November 2nd, but it is viewed as unlikely to act at that meeting as it comes just a few days before the presidential election).

Elsewhere, and whilst mind control media is keeping everyone busy/wondering whether reality TV star Kim Kardashian was indeed robbed in a Paris hotel on October 3rd or if Donald Trump's recently released 2005 off-camera repulsive comments ought to be treated as "macho locker-room talk", months off disquieting escalation between the United States and Russia over Syria and the Asia-Pacific theater have quickened feverishly to near outright hostility over the past few days, suggesting it is past time to pay closer attention to this worrying development and factor it in all future investment plans and policies.

Indeed, it now seems the U.S. has backed its incessant finger-pointing towards Russia with the subtle language necessary to undertake what could best, if ironically, be termed a "defensive first strike" (reference here is to US accusations that the Russian government is attempting to influence the US presidential election by hacking and leaking documents from the Democratic National Committee servers, as well as to a recent firing speech by the US Army Chief of Staff General Mark Milley, who threatened to go to war with Russia and other "defiant" countries (such as China, Iran, Syria and North Korea) – "*we will beat you harder than ever before, anywhere and anytime. Make no mistake about that!*"). And while full-scale nuclear war might still be an outside possibility at this early date, the specter of complete military engagement is quickly materializing on several fronts.

In the same context, Russian state officials and government workers were advised last Tuesday to immediately pull family members from study abroad programs - or any other endeavors - in Europe to return to the motherland. Translated by Zero Hedge and cited by ZNAK, political analyst Stanislav Belkovsky said, in part, "*this is all part of a package of measures to prepare the elites for some 'big war' even if it is rather conditional*". Russia also issued two altogether unambiguous warnings a week back, stating continued U.S. interventions in Syria could lead to all-out war. "*I would like to caution Washington's colleagues to carefully consider the possible consequences of such plans,*" said Russian Major General Igor Konashenkov in a statement, adding, "*I remind U.S. strategists that air cover for the Russian military bases in Tartus and Hmeymim includes S-400 and S-300 anti-aircraft missile systems, the range of which may come as a surprise to any unidentified flying objects.*" Observers rightly focused on the latter portion of the previous statement as a warning to the United States that Russia would not hesitate to strike first, ask no questions later — since it would be justified in defending ally Syrian President Bashar al-Assad's troops in a sovereign nation by request.

China, which had originally intimated support for Russia over the U.S. quest to oust Assad, has fomented its alliance in recent weeks. According to one analyst, there "*is no question that there is correlation, coherence and coordination between Russia and China on the Syrian issue.*" Russia has similarly indicated it would back China over the intricate territorial dispute in the South and East China Seas, particularly in defense against meddling by the United States and its ally South Korea - who will shortly deploy the U.S.' Terminal High Altitude Area Defense (THAAD) amid contention from both rival nations, as well as its citizenry. Although THAAD ostensibly could only be deployed in a defensive capacity, China and Russia criticize its proximity to the Chinese border as an act of direct aggression. On Tuesday the two nations announced plans to hold their second joint anti-missiles drill in 2017.

To end this week's tormenting outlook on a happy note, I must refer to an eye catching Bloomberg story/headline from yesterday evening: "*Deutsche Bank Sees Chinese Yuan Falling 17% as Outflows Accelerate!*"! For some reason, it made me wonder whether Chinese officials foresaw the 55% drop in Deutsche Bank shares over the past year!!

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