

# Weekly Market Summary

09<sup>th</sup> of June 2017

**One Big Messy World !! Markets Hardly Seem to Care Anymore !**  
**Fadi Nasser - Head of Treasury Sales**

Early morning on June 5<sup>th</sup>, regional markets woke up to a new and shocking reality: Four Arab nations had just opted to cut diplomatic ties to Qatar over what they perceived as their neighbour's "*strong relations with Iran and support of various terrorist and sectarian groups aimed at destabilizing the region*", isolating the small energy rich country by cutting off its land, sea and air routes to the outside world. Saudi Arabia, the United Arab Emirates, Bahrain and Egypt also chose to start withdrawing their diplomatic staff, ordered their citizens out of Qatar and gave Qataris abroad 14 days to return home to their peninsular nation. The countries also said they would eject Qatar's diplomats from their territories as regional airlines quickly announced they would suspend service to its capital, Doha. Qatar, which will host the 2022 FIFA World Cup and is home to some 10,000 American troops at a major U.S. military base (Al-Udeid Air Base, home to the forward headquarters of the U.S. military's Central Command ), criticized the move as a "*violation of its sovereignty*". Whilst Qatar has long denied supporting militant groups, it described the latest crisis as being fueled by "*absolute fabrications*" stemming from the recent hack of its state-run news agency. The Qatar Stock Exchange fell immediately, at one point trading down 8% on the day (for the week, the Qatari QE All Share index closed down 7.20%, after staging a solid 3% rally yesterday).

Before Monday, Qatar had appeared unperturbed by the growing tensions. On May 27<sup>th</sup>, Qatar's ruling Emir, Tamim bin Hamad Al Thani, called Iranian President Hasan Rouhani to congratulate him on his re-election. The call was a clear public rebuttal of Saudi Arabia's efforts to force Qatar to fall in line against the Islamic Republic, which the Saudi Kingdom sees as its No. 1 enemy and a threat to regional stability (Qatar shares a massive offshore gas field with the Islamic Republic). Prior to that, on May 24<sup>th</sup>, Qatar suggested hackers took over the site of its state-run news agency and published what it called fake comments from its ruling Emir about Iran, the US and Israel (The quote criticised US "hostility" towards Iran and called the Islamic Republic a "big power in the stabilisation of the region"). Its Gulf Arab neighbors responded with anger, blocking Qatari-based media, including Al-Jazeera. In March 2014, Saudi Arabia, the United Arab Emirates and Bahrain recalled their ambassadors from Qatar over a rift relating to Qatar's support for Egypt's Muslim Brotherhood. Eight months later, they returned their ambassadors as Qatar forced some Brotherhood members to leave the country and quieted others. However, the 2014 crisis did not see a land, sea and air blockade.

The latest crisis comes after U.S. President Donald Trump's recent visit to Saudi Arabia for a summit with Arab leaders. Since the meeting, unrest in the region has grown. At that Saudi conference, Trump met with Qatar's ruling Emir. "*We are friends, we've been friends now for a long time, haven't we?*" Trump asked at the meeting. "*Our relationship is extremely good.*" Kuwait and Oman are so far mediating the crisis but Mr. Trump has also since intervened on all sides in support of Gulf unity, and most recently offered the services of Rex Tillerson, US secretary of state, as mediator (after initial comments on Twitter last Tuesday morning that appeared to praise the Saudis for initiating the split, when the US president said his recent trip to the Kingdom was "*already paying off*"). The risk now is whether Qatar's isolation quickly escalate into a regional crisis that threatens to draw in Turkey, Russia and Iran (so far, Turkey has offered troops while Iran offered boatloads of food in support of Qatar).

***Fast forward to Thursday 8<sup>th</sup> May late evening ... It is midnight and UK snap election exit polls show a “hung Parliament”!!***

Theresa May was battling for survival as Britain's prime minister after her gamble - on April 18<sup>th</sup> – to call for an early election backfired spectacularly, casting doubt over the government's make-up as well as the direction and timing of negotiations on leaving the European Union. May opted for a snap election to boost her parliamentary majority – expecting to win a landslide - and strengthen her hand in the Brexit talks due to begin in just 10 days. Instead, her Conservative Party was on course to win 319 seats, down from the 330 she held at the start of the campaign and short of the 326 seats she needs for an overall majority. Jeremy Corbyn's Labour Party will take 262 seats, a gain of 30 seats, according to BBC latest projections. The biggest surprise of the night came when the constituency of Canterbury, which has been held by the Conservatives for more than a century, fell to Labour. Another revelation of this latest campaign was the success of Corbyn, who had been dismissed as unelectable by some members of his own party at the start of the campaign. He rode out the criticism, holding open-air rallies at which thousands -- including many young people who had not voted before -- cheered his message of ending austerity and abolishing college tuition fees. *“Politics has changed and politics isn't going back into the box where it was before - because what's happened is people have said they've had quite enough of austerity politics,”* Corbyn said after retaining his seat in north London, and called on May to quit. *“The prime minister called the election because she wanted a mandate, the mandate she's got is lost Conservative seats, lost votes, lost support,”* the Labour leader said. *“That is enough to go.”*

With the prospect of a so-called hung Parliament where no one party can rule alone, May signalled that she will try to form a government to ensure some stability. The BBC also reported that May intends to try and stay on as prime minister, and the most obvious route to continued Conservative Party rule would be to form an alliance with Northern Ireland's pro-Brexit Democratic Unionist Party. Yet with calls for her resignation already coming from her Tory party, it is far from clear whether she will be able to hold on and lead the U.K. into talks with the EU that will determine the country's future prosperity. *“At this time, more than anything else, this country needs a period of stability,”* May said in her electoral district of Maidenhead, west of London, her voice at times shaking. *“If, as the indications have shown, the Conservative Party has won the most votes and the most seats, it will be incumbent on us to ensure that period of stability and that is what we will do.”*

The pound tumbled the most since October – dropping overnight as much as 2.3% to 1.2635 (last \$ 1.2750) - as investors were confronted with another seizure of political turmoil less than a year after Britain voted to quit the EU, its biggest trading partner. The election throws up major questions about Brexit and the form of Brexit voters want. Talks with EU leaders are due to start in less than two weeks and those meetings may now need to be delayed because May or her successor will first need to build a new government and perhaps even a fresh negotiating strategy, further eroding the time that Britain has to clinch a deal before it leaves the bloc in March 2019. A second election this year is also now a possibility, applying a further squeeze and increasing the chance that the split will prove disorderly. Whilst May campaigned to remove the U.K. from the single market so she could regain control of immigration and law-making, she will now struggle to find majority support for that stance in the new House of Commons. *“I think hard Brexit went in the rubbish bin tonight,”* said George Osborne, the former chancellor of the exchequer whom May sacked after he played a leading role in the campaign to remain in the EU. The EU is unlikely to extend the March 2019 deadline for fear of Brexit conflicting with regional elections later that year.

Below are other main market stories for the week of June 5<sup>th</sup> – 9<sup>th</sup>:

- **European Central Bank Monetary Meeting, June 8<sup>th</sup>** : The ECB kept policy unchanged yesterday - holding its benchmark refinancing rate at a historic low of zero and its bond-buying programme at the existing 60 billion euros monthly pace - and chose to revise up its growth outlook for the Eurozone economy. The 19-member currency bloc *"is projected to expand at a somewhat faster pace than previously expected,"* ECB chief Mario Draghi told a press conference in Tallinn. Whilst it dropped any plans for interest-rate cuts, the governing council also ruled out any rapid end to its ultra-loose monetary policy and Draghi went on to say that the rate-setting council did not discuss any moves aimed at exiting its monetary stimulus plan or making an announcement following its next meeting in September about policies for pulling back from its current easy-money policy. Draghi added that the Bank's move to omit the so-called easing bias reflected its belief that deflationary pressures - or what he described as "tail risk" - had diminished. But while the ECB raised its growth forecasts for the Eurozone, saying it now expects the region's economy to expand by 1.9% this year and 1.8% in 2018 - up from the 1.8% and 1.7% respective forecasts in March - the Bank trimmed its inflation outlook. Instead of the 1.7% the ECB forecast in March, the Bank now expects annual consumer prices will grow by 1.5% this year. It then expects consumer prices to dip back to 1.3% next year before rising to 1.6% in 2019, which is still well short of the annual target. This in turn led to the euro weakening versus all of its G-10 peers, with EUR/USD falling below 1.1200, its lowest reading for this month (last at 1.1178).
  
- **Comey's Testimony to the Senate Intelligence Committee, June 8<sup>th</sup>**: Ousted FBI chief James Comey and President Donald Trump accused each other of lying about their private encounters in the wake of a dramatic Senate testimony that focused on whether the president sought to suppress part of a Federal probe into Russian meddling in the 2016 election. During a 2-1/2 hours of testimony Thursday before the Senate Intelligence Committee, Comey said Trump's shifting explanations for dismissing him were *"lies, plain and simple"*. He said he wrote detailed memos of their conversations because he feared the President - who ultimately fired him on May 9<sup>th</sup> - would paint a false picture of their encounters. Trump's personal lawyer, Marc Kasowitz, fired back hours later: He disputed Comey's claim that Trump demanded loyalty from the FBI chief or directed him to back off a probe of former National Security Adviser Michael Flynn, which was part of the broader inquiry into Moscow's role in the presidential campaign. But he also said the former FBI chief's testimony proved Trump was innocent of wrongdoing. *"These important facts for the country to know are virtually the only facts that have not leaked during the long course of these events,"* Kasowitz told reporters in Washington. *"The president feels completely vindicated."* Senators at the hearing pressed Comey for more details about his encounters with Trump, particularly whether he thought that the president sought to obstruct justice. Comey declined to answer the question directly, saying he would leave that to Robert Mueller, another former FBI chief who is now special counsel leading the Russia probe and is in possession of Comey's memos. In a lighter moment, Comey referred to Trump's apparent warning on Twitter that there could be recordings of their conversations that would undercut the former FBI chief's account of events. *"Lordy, I hope there are tapes,"* Comey said. He later said Trump's comment prompted him to ask an acquaintance to leak portions of the memos he prepared on his conversations with the president in an effort to spur the appointment of a special counsel.

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