

Weekly Market Summary

August 17th, 2018

A Shaky, Alarming & Fast-Changing Political Landscape... German Chancellor Angela Merkel & Chinese President Xi Jinping to the Rescue Please !

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Government bond and equity prices have rallied nicely over the past 48 hours, with the former benefiting from an overall deterioration in risk sentiment and the latter profiting from a late improvement in risk sentiment (Seriously?! How is that Possible?!). And if this wasn't confusing enough, Washington is in the midst of staging a full blown economic war against its long-standing NATO ally Turkey, whilst German Chancellor Angela Merkel hosts Russian President Vladimir Putin after years of criticism and confrontation. Add to the mix a short and surprising visit by Qatar Emir Sheikh Tamim (a close US ally) to the Turkish Capital on August 15th and his promise to provide a timely \$15 billion in aid (via a host of economic projects, investments and deposits) to the under-pressure Turkish economy, and you have the right ingredients for a world order that is starting to crack fast!

When Donald Trump was first elected U.S. president in late 2016, foreign observers hoped that he would moderate his more outrageous campaign positions as the practicalities of governing would necessitate him to adopt more conventional stances. However, to the contrary, Trump has been remarkably methodical in his efforts to destroy the liberal international order: His tearing of trans-Atlantic relations has been on full display in recent months, from his renunciation of the latest G-7 communiqué to his trade war against U.S. allies, his undermining of NATO, and his attacks on the European Union, not to forget his prostration before Russian President Vladimir Putin in Helsinki. In 18 short months, he has torn at the roots of Western solidarity that his predecessors carefully cultivated over seven decades.

In turn, stunned U.S. allies are now adapting to their new normal by taking steps previously unimaginable. They are hedging their bets in dawning recognition that the America of old may never return, regardless of who succeeds Trump (that is if "The Donald" doesn't get re-elected in 2020!!). They are pursuing strategic autonomy, seeking to decouple from an unpredictable United States; and they are considering how to restore some semblance of international cooperation in a world left directionless in the wake of the U.S. abdication of global leadership. All that implies that they will now proceed to working more closely with old "foes" such as China (who knows, maybe Russia too - as Turkey's recent improved ties with the Russian Federation show) to safeguard globalization (*on July 16th, the EU and China held their first summit in two years and declared their commitment to a "rules-based, transparent, non-discriminatory, open and inclusive multilateral trading system with the WTO as its core*), expanding their own strategic autonomy vis-à-vis Washington, and grasping to defend what remains of the former - more stable - World Order.

The Trump administration, by contrast, has vowed to ignore adverse findings by the WTO's dispute settlement understanding and is reportedly considering quitting the organization entirely, on the grounds that it restricts U.S. sovereignty and retaliatory options. This would be an extraordinary blunder for the nation that not only spearheaded the WTO's founding but has won a whopping 91% of the cases it has brought before the dispute resolution body. Additionally, in a recent interview with Fox News host Tucker Carlson, the US President has even questioned the very core of NATO's principle of collective defence, wondering why Americans should die to defend tiny Montenegro, which joined the alliance last year. And if Europeans still had any doubts about who the US president thinks calls the shots, those fears blew up in May when Trump unilaterally abandoned the Iran nuclear deal, despite pleas from the leaders of France, Germany, and the United Kingdom.

French President Emmanuel Macron, who had sought to win over Trump by cultivating a warm personal rapport, was denied - though not before Trump reportedly asked him, "*Why don't you leave the EU?*" promising a bilateral trade accord as a sweetener (worse still, UK Prime Minister Theresa May recently revealed that Donald Trump advised her to "sue the European Union" rather than negotiate with the 27-country bloc, in a private conversation that the US president had during his recent visit to the UK). Those new realities have sent tremors through the US – EU alliance and pushed the latter into China's arms. Similarly, a year back, when the US president repudiated the Paris climate accord, Brussels and Beijing also jointly reconfirmed their adherence. Whatever doubts those countries have about China's rise and current policies, European leaders are willing to partner with the country to prevent global economic fragmentation and preserve a fragile planet.

Pundits have variously suggested German Chancellor Angela Merkel, French President Emmanuel Macron and even Canadian Prime Minister Justin Trudeau could become potential new leaders of the free world. But none of these leaders commands anything close to the national power and diplomatic heft to assume that burden. If the rules-based international order is to survive, it will be a collective enterprise, spearheaded by the European Union, in close cooperation with other democratic partners both established (such as Japan, Canada and Australia) and emerging (such as BRICS). To lead the world - the EU will need to redouble its own internal reform efforts, hold the line against populist and nationalist forces, reaffirm its commitment to open trade, expand its autonomous military capabilities, ramp up its contributions to global public goods (on climate change and others), and find its voice as a consistent champion of human rights. This is surely a tall order and will require a lot more hard work going forward!

For now though, and as always, have a super weekend with family & friends, enjoy the long Eid break in the region and stay healthy!

N.B.: In this week's economic summary, I should have covered the latest sharp drop in oil, gold and other commodity prices, the zigzagging in equity values as well as the relentless rally in bond prices (lower yields). I could have also touched upon those latest solid retail sales releases in the US and UK, the high uncertainties surrounding upcoming Italian budget talks (10-year Italian government yield last at 3.13%, up from 1.70% just 4-months back!), the turbulent Turkish situation and the imminent resumption of low level trade talks between the US and China. I could have also sarcastically referred to Trump's recent idiotic tweets and his reference to a former White House official as that "crazed, crying lowlife" and "that dog", not to forget White House press secretary Sarah Sanders' inability to guarantee that no recordings exist of the US president using the "N-word"; But the matter of the fact is that none of that really matters much anymore, as our world continues its fast descend into outright chaos!

Disclaimer

It is important that you only use this report if you are the intended recipient of this report and you have satisfied yourself that you are eligible to receive such information. This report is provided to you because you are one of our esteemed customers and have previously shown interest in receiving the type of information contained in this report.

The Treasury and Investment Management department of Gulf International Bank B.S.C. ("GIB") have compiled the information in this report. GIB is incorporated in the Kingdom of Bahrain and is licensed by the Central Bank of Bahrain (the "CBB") as a conventional wholesale bank. GIB's head office is located at Al-Dowali Building, P.O. Box 1017, 3 Palace Avenue, Manama, Kingdom of Bahrain.

This report is intended for the accredited investors, as defined in the Investment Business Code of Conduct published by the CBB. This information has not been reviewed by the CBB or any other regulatory authority in any jurisdiction and neither CBB nor any other regulatory takes any responsibility for the correctness or accuracy for the information contained in this report.

The information contained herein is not directed at or intended for use by any person resident or located in any jurisdiction where (1) the distribution of such information is contrary to the laws of such jurisdiction or (2) such distribution is prohibited without obtaining the necessary licenses or authorizations by the relevant branch, subsidiary or affiliate office of GIB and such licenses or authorizations have not been obtained. The recipient of such information is responsible for ensuring that this information has not been received by it in breach of laws and regulations of any jurisdiction.

This report contains publicly available information only, which has only been compiled by GIB. The information provided herein is on "as is" and "as available" basis and without representation or warranty of any kind. GIB hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall GIB or its subsidiaries, affiliates, shareholders or their directors, officers, employees, independent contractors, agents and representatives (collectively, "GIB Representatives") be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting there from, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of information or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of GIB or any GIB Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. The information here is, and must be construed solely as, compilation of information (unless expressly stated otherwise) and not statements of fact as to credit worthiness or recommendations or opinions of GIB.

This report does not provide individually tailored investment advice. Any materials contained herein have no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The document is provided for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. GIB makes every effort to use reliable, comprehensive information, but we do not represent that it is accurate or complete. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the materials, nor are they a complete statement of the securities, markets or developments referred to herein. Recipients should not regard the materials as a substitute for the exercise of their own judgement. Any opinions are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GIB as a result of using different assumptions and criteria. GIB is not under any obligation to update or keep current the information contained herein.

The value of, and income from, your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

The information contained in this report is just for informational purposes. Information does not constitute a solicitation, an offer, or a recommendation to buy or sell any investment instruments, to effect any transactions, or to conclude any legal act of any kind whatsoever. GIB does not intend to provide investment, legal or tax advice through this report and does not represent that any securities or services discussed are suitable for any investor. When making a decision about your investments and business, you should seek the advice of professional advisors.

The report may contain statements that constitute "forward looking statements". While these forward looking statements may represent GIB's judgment and future expectations, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from GIB's expectations. GIB is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The historical information is provided for information purposes only. Performance figures are calculated before tax (if any) and after deducting ongoing fees and expenses. The performance figures are historical and past performance is not necessarily an indication of future results. Certain amounts (including %ages) included in this document may have been subject to rounding adjustments. Accordingly, figures may not be an exact arithmetic aggregation of the figures to which they relate. The values and forecasts shown represent our current indicative valuations and forecasts of the relevant transactions, currencies, interest rates, commodities or securities as at the date shown. Any value or forecast shown herein is not an indicative price quotation. We expressly disclaim any responsibility for the accuracy of the values or forecasts shown, any errors or omissions in the report.

With the exception of information regarding GIB and save as otherwise specifically indicated, the information set out in this report is based on public information. We have, where possible, indicated the primary source of information. We strongly recommend the recipients consult the primary source of information. Facts and views in this report have not been reviewed by, and may not reflect information known to, professionals in other GIB business areas.

This Report, and the information contained herein (save to the extent that such information is publicly available) is confidential and may not be disclosed by you to any other person outside of your organization without our consent.

GIB retains all right, title and interest (including copyrights, trademarks, patents, as well as any other intellectual property or other right) in all information and content (including all text, data, graphics and logos) in this document. All recipients must not, without limitation, modify, copy, transmit, distribute, display, perform, reproduce, publish, license, frame, create derivative works from, transfer or otherwise use in any other way for commercial or public purposes in whole or in part any information, text, graphics, images from this document (excluding publicly available information) without the prior written permission of GIB.