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# Weekly Market Summary

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

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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 15<sup>th</sup> 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 16<sup>th</sup>, 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!*

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