FINANCIAL PARTNERS

Weekly Digest

Week ending **02 October 2016**

Politics: the only show in town

Contrary to a very quiet period towards the end of summer, recently markets have moved a bit more freely. Macro surprises are in short supply, however, and it seems that the political environment, dominated as it is by the US election, Brexit and OPEC, is creating bountiful news flow and moving markets of late. Other political events have also been noteworthy such as the German government's intervention, or lack thereof, to take the pressure off Deutsche Bank and the US House Financial Services Committee's grilling of Wells Fargo CEO John Stumpf following a false account scandal at the bank, but the focus this week is on the US, the UK and OPEC.

The inaugural Clinton / Trump debate took place last week. For those expecting an explosive show, the apparent attempts of Donald Trump to come across as 'statesmanlike' may have made the event something of a damp squib, but it was still a lively spectacle that drew in a record audience of 83 million in the US. What the event did highlight starkly is the gulf between the candidates in terms of their approach, outlook and style; however it did little to highlight the nuanced differences in policies between the two. Polling post the debate suggests that Hilary Clinton won the day, but in this topsy turvy world where Donald Trump confounded expectations to be the republican nominee, it still seems a little naïve to write him off completely. It has been obvious for some time that these are very polarising candidates and as a result it is unsurprising to hear that approximately 10% of voters are still undecided. As a result, there is still a chance that the bombastic showman can play to his strengths in the coming two debates and throw Hilary off balance but on the evidence of the first debate, as long as Hilary sticks to her game plan she will be OK, whether that ends up being reflected in the voting is of course another matter.

Meanwhile in the UK, Prime Minister Theresa May confirmed over the weekend at the Conservative Party conference that the invocation of Article 50, which sets into motion the two year process for the UK to extricate itself from the EU, will take place next year, by "no later than the end of March". In early trading on Monday 3 October following the speech, sterling has come under some pressure, but the moves are relatively modest. Positives that can be drawn from the weekend's speeches include the fact that, while the 1972 European Communities Act (which gives direct effect to EU law in Britain) will be repealed, concurrently all existing European laws will be incorporated into UK legislation. This should provide a degree of certainty to businesses over the interim period as the UK works to leave the Union. Mrs May believes that this will set the UK on the path to being a "fully independent, sovereign" nation.

Last week's OPEC meeting in Algiers ended with a surprise agreement between members to cut output to between 32.5 million barrels per day (bpd) and 33.0 million bpd from current levels of circa 33.5 million bpd, with details to be finalised at a policy meeting in November. This led to oil temporarily moving above $50, still below half of the levels of June 2014. Questions remain over whether the production limit is enforceable but regardless it shows a willingness of member countries, and Iran and Saudi Arabia in particular, to agree to a concerted effort to support oil prices, which is a big step. This change of tack for OPEC suggests that the cartel's members, most notably Saudi Arabia, are struggling to keep their economy on an even keel with oil prices at these levels. The organisation had kept pumping oil at low levels to preserve market share apparently in a bid to hurt higher cost producers, but as Saudi's budget deficit ballooned to 16 percent of Gross Domestic Product last year (the highest amongst the world's 20 largest countries) it is clear that boosting oil revenues is becoming a necessity for the country and its policymakers.

Source: Bloomberg. Returns in US dollars unless otherwise stated.

The **Marketplace**

- Oil prices rise as OPEC agrees to curb production
- US Q2 GDP revised upwards
- UK PM announces deadline for triggering Article 50
- Eurozone see encouraging economic data releases
- Japanese markets fall as deflation continues

Market **Focus**

Commodities

- The Organisation of Petroleum Exporting Countries (OPEC), which is responsible for around 40% of total global crude oil production, reached a preliminary agreement to cut oil production for the first time in eight years at their meeting in Algeria on Wednesday.
- Analysts predict a targeted decrease of between 240,000 and 740,000 barrels per day, although there are still doubts as to whether the agreement will endure.
- Brent crude oil rose 5.9% on Wednesday and 6.9% for the week – to USD 49.06 per barrel

US

- Second quarter real GDP was revised up by 0.1 percentage points to +1.4%, higher than the previous quarter's 1.1% growth. Gains were led by consumer spending as real disposable income rose by 2.1% over the period.
- US equities gained 0.2% over the week.

Europe

- In her first major speech on Brexit, Prime Minister Theresa May announced that the UK would invoke Article 50, the official legal application to leave the EU, "no later than the end of March". May emphasised the desire for the UK to take full control of immigration and refuse to accept the jurisdiction of the European Court of Justice.
- Sterling was flat versus the dollar for the week, but is down 0.8% on Monday at time of writing.
- Euro area inflation served as another subdued sign of recovering economic activity by rising to +0.4% year-on-year in September, its highest level since late 2014, whilst the business and consumer sentiment index rose to 104.9 from 103.5 in August.
- The positive data came during a poor weak for European equities which fell 0.8%. Losses were led by banks amidst concerns over Deutsche Bank's shrinking profits and tumbling share price, with the Euro Stoxx Banks index falling 1.5% for the week, despite a 1.1% rally on Friday.

Japan

- Headline Consumer Price Inflation (CPI) headed further into deflationary territory, falling to -0.5% in September from -0.4% the previous month, its lowest reading since April 2013.
- This was accompanied by continuing signs of weak domestic demand, with household spending and retail sales falling by 4.6% and 2.1%, respectively, year-on-year in August.
- Positive data however came from industrial production, which rose 1.5% for the month, beating expectations.
- Equities lost 1.1% over the week, whilst the yen depreciated by 0.3% against the dollar.

James Klempster (CFA) & Oliver Bickley

Source: Bloomberg. Returns in US dollars unless otherwise stated.

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Asset Class/Region	Currency	Currency returns			
		Week ending 30 September 2016	Month to date	YTD 2016	12 months
Developed Market Equities					
United States	USD	0.2%	0.0%	7.3%	14.7%
United Kingdom	GBP	-0.1%	1.8%	14.4%	18.4%
Continental Europe	EUR	-0.8%	-0.1%	-3.7%	2.2%
Japan	JPY	-1.1%	0.3%	-12.7%	-4.2%
Asia Pacific (ex Japan)	USD	-1.0%	1.8%	12.3%	18.1%
Australia	AUD	0.1%	0.5%	6.3%	13.2%
Global	USD	-0.1%	0.5%	5.6%	11.4%
Emerging Market Equities					
Emerging Europe	USD	-2.2%	1.4%	14.7%	8.8%
Emerging Asia	USD	-1.6%	1.3%	13.0%	16.9%
Emerging Latin America	USD	-0.8%	-0.8%	32.2%	28.6%
BRICs	USD	-2.0%	1.6%	16.5%	18.1%
MENA countries	USD	-2.1%	-3.3%	-3.5%	-10.1%
South Africa	USD	-1.4%	5.8%	22.9%	9.9%
India	USD	-2.4%	-1.5%	9.0%	8.0%
Global Emerging Markets	USD	-1.5%	1.3%	16.0%	16.8%
Bonds					
US Treasuries	USD	0.1%	-0.1%	5.4%	4.5%
US Treasuries (inflation protected)	USD	0.0%	0.5%	7.7%	7.0%
US Corporate (investment grade)	USD	0.1%	-0.2%	9.2%	8.6%
US High Yield	USD	0.4%	0.7%	15.1%	12.7%
UK Gilts	GBP	-0.7%	-2.5%	14.7%	13.2%
UK Corporate (investment grade)	GBP	-0.2%	-1.2%	13.7%	14.3%
Euro Government Bonds	EUR	0.2%	0.2%	6.4%	6.9%
Euro Corporate (investment grade)	EUR	0.0%	-0.1%	6.0%	7.4%
Euro High Yield	EUR	-0.2%	-0.6%	7.0%	8.5%
Japanese Government	JPY	0.3%	0.0%	5.4%	6.7%
Australian Government	AUD	0.7%	-0.4%	7.0%	6.4%
Global Government Bonds	USD	0.1%	0.5%	10.8%	9.5%
Global Bonds	USD	0.1%	0.5%	9.2%	8.0%
Global Convertible Bonds	USD	0.1%	0.8%	3.1%	5.2%
Emerging Market Bonds	USD	-0.1%	0.5%	15.8%	17.8%

Source: Bloomberg

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Asset Class/Region	Currency	Currency returns			
		Week ending 30 September 2016	Month to date	YTD 2016	12 months
Property					
US Property Securities	USD	-2.0%	-2.0%	10.8%	18.2%
Australian Property Securities	AUD	0.7%	-4.4%	10.5%	15.3%
Asia Property Securities	USD	-0.9%	2.6%	9.8%	13.4%
Global Property Securities	USD	-1.2%	-0.6%	10.9%	16.3%
Currencies					
Euro	USD	0.1%	0.7%	3.5%	0.6%
UK Pound Sterling	USD	0.0%	-1.2%	-11.9%	-14.2%
Japanese Yen	USD	-0.3%	2.1%	18.7%	18.3%
Australian Dollar	USD	0.5%	1.9%	5.1%	9.1%
South African Rand	USD	-0.1%	7.3%	12.7%	0.9%
Swiss Franc	USD	-0.1%	1.3%	3.2%	0.2%
Chinese Yuan	USD	0.0%	0.2%	-2.6%	-4.6%
Commodities & Alternatives					
Commodities	USD	2.3%	4.0%	9.2%	-3.0%
Agricultural Commodities	USD	-1.0%	2.7%	-0.3%	-2.1%
Oil	USD	6.9%	4.3%	31.6%	1.4%
Gold	USD	-1.6%	0.5%	24.0%	18.0%
Hedge funds	USD	0.2%	0.4%	1.0%	0.5%

Source: Bloomberg

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