



Update November 23th 2015

Are we at the dawn of new alliances – Easing of Russian sanctions, shall boost to Euro Zone be outweighed by increased oil supply?

Are we starting to see divergence between the US and the rest of the world?

We are seeing some signs of divergence between the US and the Old World, with US stock futures slightly up while Europe has opened weaker. Across the Atlantic the principal drivers are the ongoing security anxiety – with Brussels still on top alert - and the continued weakness in commodity prices. We see as significant that Europe is slightly lower despite PMI indexes indicating a continuing – albeit fragile recovery.

We reiterate our view that the US economy is still poised to outperform the rest of the world, with Europe still brittle and EM unlikely to scale record heights anytime soon.

Federal Reserve shall continue to be the odd one out

With regard to US monetary policy – statements by the head of the San Francisco Federal Reserve over the weekend have rekindled expectations of an interest rate increase in December. The Federal Reserve shall continue to be the odd one out, with other central banks likely to ease rather than tighten. We expect this to continue to underpin the US Dollar.

What is in store? Are we at the dawn of new alliances? – US monetary policy to stay on course, wading through a lot of US data – not all shall march to the same beat!

This week anti-terrorism political alliances and US monetary policy

We see this week dominated by the dual currents of the forging of new political alliances as terrorism escalates and clues as to the direction of US monetary policy. Will Russia now be deemed acceptable and shall sanctions be relaxed – what shall be the impact on oil prices?

Wading our way through US economic data – if no external shocks and acceptable economic data, Federal Reserve shall raise rates

We shall be wading our way through a flood of US economic data. This shall include inflation, durable goods, incomes, consumption and revised third quarter GDP. The expectation is that unless there is a substantial and unexpected worsening of the macro picture, the Federal Reserve shall raise interest rates. The shortened week shall however simply be the opening act for the employment report on December 4th.

ECB meeting start of December seen as crucial event

On the other side of the Atlantic – the ECB meeting is seen as the critical event. While a further easing of monetary conditions is foreseen, doubts still attach to the scale and type of intervention. The focus - consistent with the ECB's mandate – remains the struggle against deflation.

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Expect position squaring by US investors ahead of holiday

We see barring major non-economic shocks, US market activity as subdued as investors square positions ahead of the long holiday weekend. With the markets apparently comfortable as to the US central bank's orientation data confirming US economic improvement shall be received favorably.

Turkey sandwiches may be interspersed with speculation as to "Black Friday" sales and the "state of the nation" of the US consumer – 15 per cent of global GDP.

All major markets may not be marching to the same beat

We do not exclude that all major markets may not be marching to the same beat. Security issues will continue to be a focus in Europe, with investors starting to weigh the possible economic consequences of the terrorist attacks.

Short term impact Europe on already weak domestic demand, longer term may reduce capital investment

While we expect that the short term impact may be on consumer spending, in the light of the already subdued level of consumption, there is limited space for a fall. Further pull backs on capital investment – long term support for economic growth – are a greater concern.

Emerging markets shall march to the US rhythm

Emerging markets shall be moving to the US rhythm, with the focus on the Federal Reserve. As concerns the downside potential we see further commodity weakness as a major risk. A major economic revival of the EM space without a major commodity recovery – as the British might say – is not on!

Commodities – do not see a near term bottom – More Iranian production on its way - Possible easing of Russian sanctions, oil supply shall be plentiful.

With regard to commodities – we see downward pressure as not abating in the short term. The demand drop is rapidly overshadowing the oversupply issue. As regards supply, several producers have the bulk of their costs in local currency. The depreciation of their currency against the US Dollar is mitigating the impact of the collapse in raw material prices. We see commodity prices continuing to add to deflationary pressures.

A further spur to maintaining production comes from the need to adhere to long term economic development plans and the consequent need for FX cash flow.

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