WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

Economics

The Fed Takes A Step Back

The US dollar experienced choppy market conditions over the last couple of days after Fed officials started to express some reservations about a December rate hike. In fact, the Fed has not put an end to the current rate hike cycle, they are just slowly moving away from well-telegraphed moves. Indeed, after eight rate hikes over the last three years, the Fed is at an inflection point against the backdrop of slowing global growth and weaker inflationary pressures. October's core personal consumption expenditure – the Fed's favourite gauge of inflation – eased to 1.8%y/y versus 1.9% expected and a downwardly revised figure of 1.9% in the previous month. However, it's not just on the inflation side that data has been disappointing. Last week, the economic surprise index has moved into negative territory for the time since October 2017 amid persistent disappointing economic data, especially from the housing and real estate market, retail, wholesale and industrial sectors. Only consumer confidence and purchasing manager indices, as well as data from the job market, have on average surprise to the upside.

Investors have become increasingly negative about the inflationary outlook. The 2-year breakeven inflation rate eased more than 50bps to 1.285% in less than two months. The Fed's decision to switch from well-telegraphed monetary decision to a more data dependant, on the go decision scheme, suggests that Fed members will adopt a more cautious approach in the future. Indeed, starting next year, Jerome Powell will be holding eights press conferences in 2019, compared to only four so far. He will therefore has more opportunity to defend the institution's point of view. It also means that the Fed will have more freedom to adjust its policy – eight times per year compared to only four today.

Against such a backdrop, investors are switching attention towards other central banks and more particularly towards the ECB, which is expected to end its QE program by the end of the year. On Thursday, EUR/USD rose more than 1% and stabilised around 1.14 amid bearish comments from Fed officials. However, the currency pair erased gradually those gains during Friday's session as the possibility of a positive outcome on the US/China trade deal at the G-20 slowly fades out. In the long-term, we maintain our bullish EUR/USD view. However, one should keep an eye on short-term developments, such as the ongoing Brexit negotiations and Italy/EU clash that could dampen the risk sentiment towards the single currency.

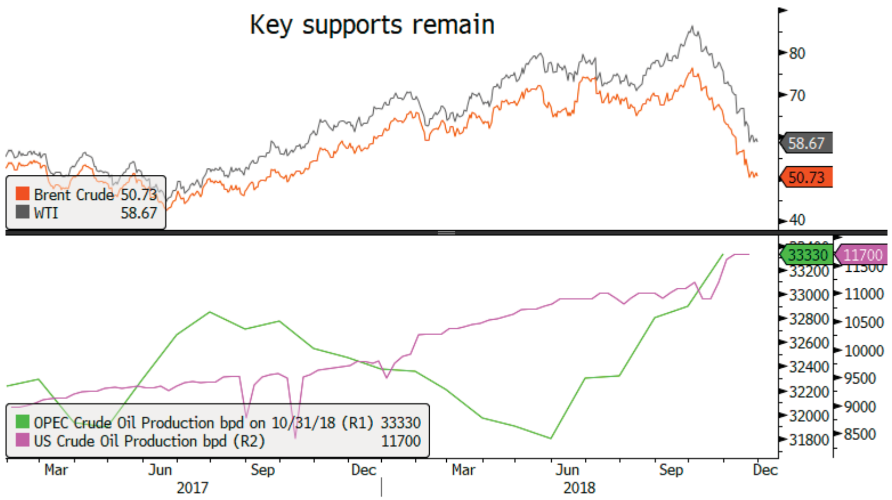
Economics

Oil Prices Lower Despite OPEC Meeting Approaching

Facing the highest monthly drop in more than 10 years, above -22%, both Brent Crude and West Texas Intermediate (WTI) are facing a tumultuous period after having reached four-year high two months ago. Next week OPEC oil ministers meeting from 6. December 2018 might be the solution that traders are waiting for. However, despite the global consensus, OPEC's ally, Russia, could finally stand in the opposite way, with a completely different stance with respect to current oil prices.

Indeed, as WTI reached its lowest intraday price in more than a year, expectations of a recovery in oil prices is becoming more and more doubtful. Experts are diverging on the question, since worries over increasing US oil production, which became the largest oil producer in the world two months ago, surpassing Saudi Arabia, continues weighing on the global oil supply. US EIA inventory data published last week continue pointing positive numbers, given at 3.58 million bpd and growing for the past two months while US weekly output production remained stable at 11.7 million bpd, the highest pace in history. Additionally, despite expectations of a reduction in OPEC production output of 1 million bpd, recent statement from Russian Energy Minister Alexander Novak that Russian oil output should hold steady by year-end since oil prices remain at a comfortable range, prompts cautiousness towards the outlook of oil prices. Finally, the recent development in the Khashoggi affair could also play an important role in the question of Saudi Arabia's production cut, since Trump's loyalty to the kingdom could quickly turn if the Saudis would not stay still.

Accordingly, current oil prices should remain under pressure by next OPEC meeting, although a rebound is to be favored looking forward. Key supports remain at 58 and 50 for Brent Crude and WTI respectively.



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