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MARKET COMMENTARY

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KEY CENTRAL BANKS SEND DOVISH SIGNALS

This week we saw more central bank action, as the world's major monetary policy makers try to cope with a slowing global economy. In the US the Federal Reserve cut rates by a quarter per cent, following the lead set by the European Central bank last week. The move wasn't enough to please the president, who has been a vocal supporter of more aggressive action, but still enough to split opinion in the bank. While there is a real fear that a slowdown is coming, the US economy is stubbornly showing few signs of actually slowing down. Policy makers are wary of fighting a phantom recession but delaying might mean the slowdown coincides with the election, hence the tweets.

Elsewhere the Bank of England declined to join the party this time round, but rather set the scene for a rate cut in the near future. The bank is as clueless to how Brexit might turn out as the rest of us but is clearly getting ready with a range of policy actions just in case.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
+0.43%	+0.09%	+1.47%	-0.02%	-3.35%	+0.12%	+0.11%	+6.88%	+0.85%	+0.57%	+0.35%

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OIL: WHO ATTACKED SAUDI ARABIA'S SUPPLY?

Tensions within the Middle East dialled up a notch this week as Saudi oil facilities were attacked over the weekend. The strategic drone and cruise missile attack hit Saudi Aramco's processing facilities at Abqaiq, whose key role is to stabilise crude oil for transportation. In turn, oil prices jumped as high as 20 per cent the day trading reopened. Yemeni rebels claimed credit for the attack, but the US and Saudi Arabia are keen to pin the blame on Iran. Iran have threatened "all-out war" if the sovereign state is attacked.

Saudi Arabia quickly moved to reassure the market that it can recover quickly. Saudi's energy minister Prince Salman confirmed that they would be able to fully restore production by the end of this month. Energy company stocks benefitted from the supply disruption while airline company shares took a hit with the likes of United Airlines and American Airlines down 2.5 and 7.0 per cent the day after the attack.

GLOBAL: GROWTH FIGURES REVISED DOWNWARDS BY OECD

The Organisation for Economic Co-operation and Development (OECD) revised down global growth figures this week. Rising trade tensions and policy uncertainty continues to plague growth for both developed and emerging economies. Global GDP growth is expected to slow to 2.9 per cent in 2019 and 3.0 per cent in 2020 – the weakest levels since the 2008 financial crisis. The Paris based think tank also believes growth could continue to remain in the doldrums unless "firm policy" action is taken by governments.

For the UK, the OECD predicts that losing unfettered access to Europe in the event of a NoDeal will shave close to three per cent off UK growth over the next three years (compared to continued EU membership). They also predict that crashing out of Europe would see living standards affected by what will effectively be a permanent "Brexit tax" that would be an economic deadweight for generations.

CENTRAL BANKS: FED CONTINUES DOWN DOVISH PATH

This week, in a widely expected move, the Federal Reserve (Fed) announced an interest rate cut by a quarter of a percentage point. The consecutive rate cut now sees the key interest rate fall to 1.75 per cent. One person who wasn't happy with the Fed move is President Donald Trump. Trump would have liked to have seen a steeper cut to a level below or more aligned with interest rates seen across other developed countries.

However, the all-important rate news was partially drowned out by market confusion as to why the Fed had to pump money into the markets over three consecutive days. The spike in overnight rates lending and the Fed's subsequent firefighting wasn't a signal of an impending financial collapse like in 2008. It appears the mismatch in the demand for funding and availability of cash was caused by American companies dashing to withdraw from money market funds (a key component in the repurchasing market) in order to pay tax bills.