TheFinancialEngineer®

Daily Observations

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Summary

- Global stock higher on back US records
- U.S. President-Elect is pledged to kill Trans-Pacific Partnership
- Fed rate hike priced at 100% by Bond Investors
- Sharp remainder of Stanley Fisher – 21 Nov 2016
- Oil price near 1 month high on OPEC
- Dollar holds near 14 year high, gold maintains buyer interest

Important calendar events

- US – Existing Home sales (Oct) : Actual, 2% / Forcast, -0.5% / Previous, 3.6%
- CAD – Core retail sales MoM (Sep) : Actual, 0% / Forcast, 0.5% / Previous, 0.2%

Today's important calendar events

- French - Manufacturing PMI
- German - Manufacturing PMI
- US – Core Durable Goods Orders
- US – Initial jobless Claims
- US – New Home Sales
- US – Crude oil inventories

U.S. President-Elect is pledged to kill Trans-Pacific Partnership

The TPP reduces thousands of tariffs among the United States, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. The aim of the agreement is to maintain high standards on labour, environment and intellectual property.

The trade agreement is also a way for participating members to offset China's economic and trading power. It made possible for U.S. to balance the global economy against China.

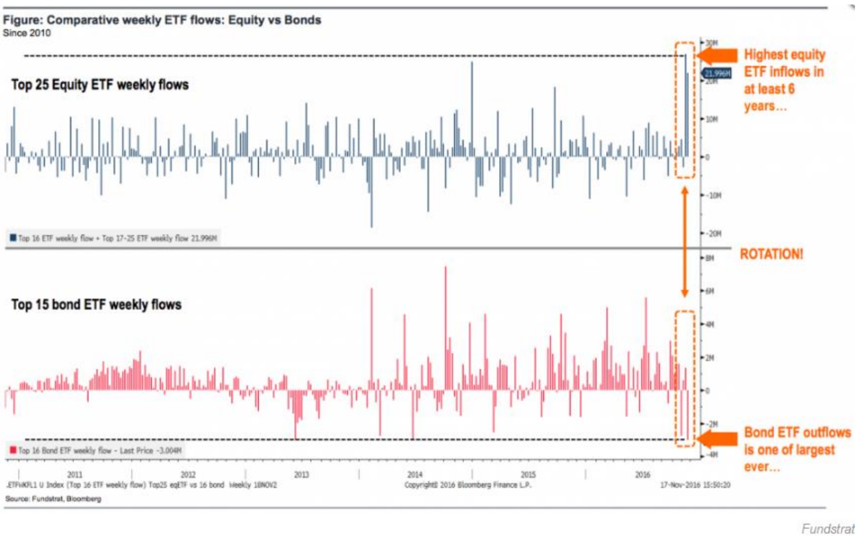
President-elect Donald Trump thinks that Trans-Pacific Partnership, trade agreement is going to be specifically beneficial for other 11 countries and could hurt the U.S. labour markets, result in jobs leaving U.S. and being sent to countries with lower wages and less strict labour laws. If Trump pull US out of the TPP, following Asian economies could be hurt as result of this: Singapore was hoping to benefit from an increase in service such as shipping and trade financing. Vietnam could have been seen a 10% boost to its economy by 2025 as it could profit from tariff-free access for all goods from the other markets. Malaysia could have access to the US for its palm oil exports and grow its economy by 5.5%.

China could be seen the only nation that is well placed if the U.S. pulled back from TPP agreement, China has its regional trade deal alternative, the regional comprehensive economic partnership deal, and it's massive One Belt One Road (OBOR) initiative, which focuses on connectivity and cooperation among countries primarily between the China and the rest of Eurasia. China had already some concerns about TPP, as it could be positioned as an anti-China agreement.

Trump plan to renegotiate the North American Free Trade Agreement (NAFTA) with reports suggesting that Canada and Mexico were already preparing their own list of demands that could require difficult U.S. concessions.

Fed rate hike priced at 100% by Bond Investors

First of all, we know that Fed has continually delayed a second increase in rates since their first timid move a year ago. On election night, stock market futures went into freefall as President-Elect trumps victory began to approach. By morning, investors had reconsidered and stock market have been increasing since.



Since the Election Day, a great rotation of funds from bonds to stock is taking place. Bond funds recorded outflows of $9 billion while stock funds saw new investments of $25 billon. As we already explained in our last report, the improvement in the stock market surely explains some of the move in interest rate but this is not the only factor.

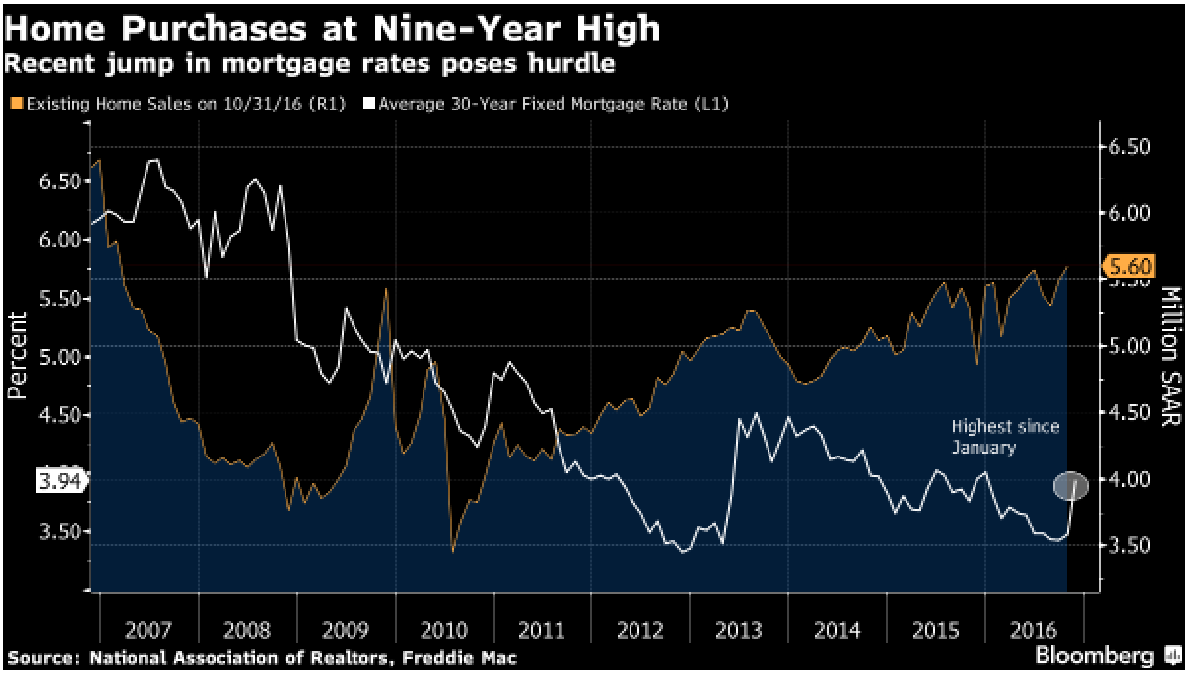
Factors that made investors to price a December rate hike at 100%:

- Fed has continually delayed a second increase in rates increased the implied probability of a rate hike. Rebalancing and correction was inevitable as the U.S. bond market has been in bull mode for so long.
- Expectation of future inflation appeared respond to the President-elect trump's fiscal policy stimulus.
- Janet Yellen gave an important signal by saying that holding the federal rate at its current level could undermine financial stability.

<u>Americans will buy more houses in 2017?</u>

U.S. Existing Home Sales climb to highest since early 2007. This is a sign of a momentum in housing market a month before a jump in borrowing costs. Home buyers took advantage of still low mortgage rates and improved labour market.

Home sales contact closing rose 2% to a 5.60 million annual rate (forcast was 5.44 million)



If the job creation in the labour market compensate the impact of a mortgage rate hike in the future, we can expect a "robust" housing market in 2017.

Sharp remainder of Stanley Fisher – 21 Nov 2016

Stanley Fischer, vice chairman of the Federal Reserve supported Trump's fiscal policy but did not make a comment on Fed's accommodative monetary policy. He confirmed that new regulatory applications and infrastructural spending can be a pushing factor for the U.S. Economy. In addition to that, he sent a sharp reminder to the incoming Trump administration by saying that America needs the fed to be independent of political pressure.

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