

Friday, 1st December 2017

Morning Round Up

OPEC Agree Cut Extension

After days of talks in Vienna, OPEC announced an extension to production cuts out to December 2019. Confounding market worries, Russia agreed to the extension, despite reluctance from Russian oil companies. The deal was even better than markets expected as Libya and Nigeria, who were previously exempt, have now been included. Since the pact started a year ago, global inventories have fallen and prices rose by more than \$20 a barrel. This extension with the inclusion of Libya and Nigeria should lead to oil appreciating in the short term. The critical thing now is how US producers respond. Data out this week showed that US domestic production increased to 9.48m barrels a day, the 4th highest monthly level since the 1970s. The big increase was driven by Texas and New Mexico, the home of the Permian shale basin. It should also be noted that the US rig count, which had been declining since July, has ticked up from an early November low of 729 to 747.

US Senate Tax Reform Vote Delayed Again

Yesterday was a roller coaster day for tax reform in Washington. Equity markets finished higher as Senator John McCain, who had remained silent up until the, voiced his support for the tax reform bill. He carries significant weight in the Republican Party so his support was rightly a positive for the bill. However after US markets closed, the bill ran into trouble. Several Republican senators appear to have tied their vote to a fiscal trigger (which would mean automatic tax increases if the bill adds to the deficit) being included in the bill. Other Republicans are implacably opposed to this notion. Several other Republican senators have expressed misgivings for other reasons. The vote, which was meant to happen last night, has been pushed back till today. US equity markets have rallied substantially as tax reform has gotten closer. Any policy disappointment is likely to result in a sell-off.

DUP Puts a Fly in the Ointment

There has been some Brexit positive news for the UK recently. Firstly, it would appear it has settled the matter of the divorce bill with the EU. Secondly, a Times report yesterday said it had managed to find a solution to the Border issue, which the EU has said is a necessary condition to kicking off trade talks. Someone forgot to tell the DUP who yesterday stated that any solution would have to ensure that the North remains firmly ensconced within the UK. They have threatened to pull their support of May's government.

EURGBP - 5 Day Price Chart



Source: Bloomberg, CF Research December 2017

Key Upcoming Events

- 08/12/2017 US Debt Ceiling Deadline
- 12/12/2017 Federal Reserve Board Meeting
- 14/12/2017 ECB Council Meeting
- 21/12/2017 US Quarterly GDP

Market View

Asian markets were negative overnight as investors digested news of possible delays in US tax reform. The Republicans have been pushing to get a joint House and Senate bill passed before the end of the year but this timeline is becoming increasingly difficult. EURUSD got down to \$1.182 yesterday as European headline inflation came in below expectations and core inflation stayed at 0.9%. However, investors rapidly bought the dip and the euro strengthened to \$1.19. Market focus today will be on Washington and any tax reform developments emanating from the Senate.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24272	331.67	1.39%	22.82%
S&P	2648	21.51	0.82%	18.26%
Nasdaq	6874	49.58	0.73%	27.70%

Nikkei	22,819	94.07	0.41%	19.38%
Hang Seng	29,074	-103.11	-0.35%	32.15%

Brent Oil	62.96	0.33	0.53%	10.81%
WTI Oil	57.69	0.29	0.51%	7.39%
Gold	1278	3.13	0.25%	11.38%

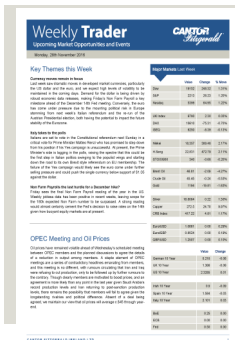
€/\$	1.1923	0.0019	0.16%	13.37%
€/£	0.8839	0.0037	0.42%	3.56%
£/\$	1.3489	-0.0036	-0.27%	9.31%

	Yield	Change
German 10 Year	0.34%	-0.026%
UK 10 Year	1.30%	-0.031%
US 10 Year	2.38%	-0.027%

Irish 10 Year	0.56%	-0.026%
Spain 10 Year	1.43%	-0.012%
Italy 10 Year	1.73%	-0.014%

Source: Bloomberg, CF Research December 2017

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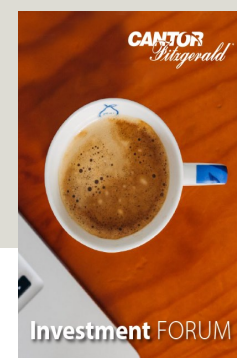
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