

November in Review – By Juan Pablo Fukushi, CFA

November brought with it a remarkable series of market moving events ranging from the election of a new U.S. President to a landmark OPEC production cut. We began the period with a meeting of the Governors of the United States Federal Reserve.

The meeting concluded in an expected no-change Federal Open Market Committee (FOMC) announcement where the federal funds target remained where it has been since December last year, when the Fed first raised the range to between 0.25 percent and 0.50 percent. Changes in the language were sparse and did not include any specific hints for a rate hike at the next FOMC meeting in December, which is widely expected. Policy makers continue to see job gains as solid and in fact see a little more inflation than before.

In direct contrast to the Fed's boilerplate lingo, there is a bit more conviction in the 93% probability of a December hike as signaled by its 30-Day Fed Fund futures contract. Listed on the Chicago board of trade, these derivatives have long been used to express the market's odds of a change in U.S. monetary policy.

Friday of that same first week brought another solid employment report for October. The headline Nonfarm payroll growth came in at a respectable 161,000 with upward revisions adding a net total 44,000 to September (191,000) and August (156,000). The unemployment rate was down 1 tenth to 4.9 percent and, for some, finally signaled full employment for the labor market.

The 58th quadrennial American presidential election was held on November 8th. Republicans maintained their control over both the House of Representatives and the Senate. Renewed prospects of near term fiscal stimulus kicked off a positive month for risk oriented assets. This risk-on appetite has been best evidenced by American indices S&P500 and Dow Jones Industrial advancing by a respective 3% and 5% since election day.

The organization of Petroleum Exporting Countries (OPEC), a cartel consisting of 12 of the world's major oil-exporting nations, concluded its bi-annual meeting in Vienna on November 30th. The syndicate achieved its first output cut since 2008 by way of a cooperative deal with non-members. Russian president Vladimir Putin was a crucial mediator between Saudi and Iranian interests clinching a headline deal to cut production by 1.2 million barrels per day (bpd) in January.

The group managed to surpass market expectations by announcing that non-OPEC producers had also agreed to cut output by a further 0.6m bpd, including a 0.3m bpd reduction from Russia. There is however, reason be skeptical of both OPEC and Russia's track record of adhering to self-imposed quotas. Furthermore, even if the group manages to trim output and raise prices, U.S. shale producers are likely to crank up production, offsetting much of any OPEC cut.

Lastly, the United States Dollar index has had another great month printing 13-year highs about two weeks ago. The greenback's firming came largely at the expense of lower yielding currencies which in turn brought U.S. Treasury yields along for the ride. Treasury yields rose sharply over the month of November, causing bond prices to fall across the curve on concerns about faster growth, higher inflation and large amounts of new government debt being issued if Trump is able to implement his massive fiscal stimulus and tax cutting plans.

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Looking ahead, December markets should be heavily influenced by events in Europe as well as the highly anticipated increase to the Fed funds rate this month. Italians went the polls last Sunday (Dec 4th) to vote on a far-reaching package of constitutional reforms that could, potentially, have significant consequences for the euro and Eurozone financial markets. There is an announcement from the European Central Bank (ECB) on the 12th where polls show a likely extension of Quantitative Easing for a further six months. We finally wrap up our trading calendars on the 14th with the last Federal Open Market Committee (FOMC) meeting of the year. While the probability of a rate increase is priced into markets, all eyes will be on the 2017 glide path for further rate hikes known as the dot plot.

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Stock Market Performance

	12/2/16	W-o-W	M-o-M	Y-o-Y
DJIA	19,170	0.4%	7.2%	7.4%
S&P 500	2,192	-0.4%	5.1%	4.8%
MSCI World	1,709	-0.2%	2.9%	0.8%
S&P/TSX	15,053	0.2%	3.7%	12.7%
BSX	1,783	1.0%	8.8%	40.3%
FTSE100	6,742	-0.9%	0.7%	8.1%
DAX	10,646	0.6%	3.8%	-1.0%
CAC	4,558	1.1%	4.1%	-3.3%
Nikkei	18,275	-0.4%	8.1%	-6.3%
Hang Seng	22,506	-1.4%	-0.6%	1.2%
Shanghai	3,205	-2.2%	2.5%	-9.1%

Key Rates and Prices

Currencies	12/2/16	Month ago	Year ago
EUR	\$1.07	\$1.11	\$1.09
GBP	\$1.27	\$1.25	\$1.51
JPY	¥114.34	¥103.12	¥123.11
CAD	\$0.75	\$0.75	\$0.75
CHF	\$0.99	\$1.03	\$1.00
AUD	\$0.74	\$0.77	\$0.73

Fixed Income

3M LIBOR	0.95	0.88	0.46
3M Treasury Bill	0.48	0.37	0.22
2Yr Treasury Note	1.13	0.79	0.94
10Yr Treasury Note	2.43	1.78	2.27
Fed Funds Rate	0.50	0.50	0.25

Commodities

Gold/oz.	1,166.05	1,304.60	1,086.84
Silver/oz.	16.61	18.43	14.56
Copper/lb.	2.61	2.26	2.09
Oil	52.21	44.07	39.97

Global Economic Calendar (December 5th—December 9th)

Mon: CIPS/PMI Services Index (GB), ISM Non-Mfg Index (US), Retail Sales, PMI Composite (EMU)

Tue: Manufacturers' Order (GER), Consumer Price Index (SWISS), GDP (EMU), International Trade, Productivity & Costs, Factory Orders (US), Merchandise Trade, Ivey Purchasing Managers' Index (CAD)

Wed: Merchandise Trade Balance (CH), Industrial Production (GER), Halifax HPI, Industrial Production (GB), JOLTS, EIA Petroleum Status Report (US), GDP (JAP)

Thurs: ECB Announcement (EMU), Housing Starts (CAD), Jobless Claims (US), Consumer Price Index, Producer Price Index (CH)

Fri: Merchandise Trade (GER), Merchandise Trade (GB), Consumer Sentiment (US)

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