

Market Commentary – 30 November 2016

Most global indices advanced

Oil prices surge on OPEC agreement to cut production

Equity Markets

European stock markets advanced in a choppy trading session. Energy stocks rallied on reports that OPEC reached an agreement to cut production. Bank stocks also gained. The FTSE and DAX added 0.2 percent, the CAC gained 0.8 percent and the SMI was up 0.4 percent. For the month of November, the FTSE retreated 2.5 percent and the DAX was 0.2 percent lower. However, the CAC and SMI added 1.5 percent and 0.6 percent respectively.

Aided by the European Central Bank's monetary stimulus measures and other efforts, inflation in the euro area is expected to return to the bank's objective of below but close to 2 percent by 2018 to 2019 according to European Central Bank president Mario Draghi. The ECB president said that the bank is firmly committed to preserve the very substantial degree of monetary accommodation to secure its inflationary target. He also said that the Governing Council would decide upon changing the size of asset purchases and extension of purchases at its December 8 meeting.

The outlook for US financial stability remains challenging according to the Bank of England's half-yearly Financial Stability Report. The BoE said the economy has entered a period of adjustment following the Brexit referendum.

Linde soared after the US industrial gas group Praxair resumed discussions with its German rival concerning a potential merger of equals. BMW, Daimler and Volkswagen dropped. Media reports suggest that the South Korean government plans to ban sales of certain cars made by BMW, Porsche and Nissan Motor for alleged fabrication of environmental certification documents. Royal Dutch Shell, BP and Tullow Oil surged.

Commerzbank, Deutsche Bank, Société Générale and BNP Paribas were higher.

Airbus slipped after announcing it would cut 1,164 jobs and transfer another 325 positions under the restructuring plan announced in September. Both Technip and Total climbed. In London, Royal Bank of Scotland retreated after it failed the latest Bank of England stress tests on the UK banking system. Barclays, Standard Chartered, Lloyds Banking Group and HSBC all gained despite Barclays and Standard Chartered failing some parts of the BoE's stress test.

In the **US**, both the S&P and Nasdaq retreated while the Dow Jones industrials were virtually unchanged. The S&P was down 0.3 percent while the Nasdaq sagged 1.0 percent. The Dow added 1.98 points. In November, the Dow was up 5.4 percent, the S&P gained 3.4 percent and the Nasdaq added 2.6 percent. Gains in energy stocks were offset by losses for technology and health care shares. Oil stocks gained after OPEC, which collectively produces more than one-third of the world's oil, agreed to trim production for the first time in eight years. Bank stocks also rose sharply as bond yields and interest rates increased.

Higher oil prices mean more revenue for companies that extract oil, and oil stocks got a big lift from the OPEC agreement. Exxon Mobil, Chevron,

Marathon Oil and Devon Energy rallied. Banks advanced as members of President-elect Donald Trump's economic team discussed ways to make it easier for banks to lend more money, which could lead to larger profits for financial institutions. Losses for medical device companies pulled health care companies lower. Celgene and Becton Dickinson both retreated.

Crude oil prices soared Wednesday after the Organization of the Petroleum Exporting Countries (OPEC) reached its first agreement to cut oil output since 2008. After months of wrangling in an effort to raise prices and reassert the cartel's influence over a market increasingly dominated by the US, Russia and others, OPEC members agreed to cut production by 1.2 million barrels per day from the current 33.6 million barrels. This represents about 1 percent of global production. Other oil producers from outside the cartel are expected to cut an additional 600,000 barrels a day — half from Russia. OPEC members said they are targeting prices as high as \$55 to \$60 per barrel. That would boost petroleum dependent economies that have been badly damaged by two years of prices that often sagged below \$50 per barrel.

The Federal Reserve published its Beige Book in preparation for its FOMC meeting on December 13 and 14. In its overview, the Fed notes that growth remains moderate to modest with employment continuing to expand at a moderate pace and with inflation, including wages, showing no more than slight upward pressure. The report cites the strong dollar as a headwind for the factory sector and warns of a shift to used cars and possible softness for new vehicle sales, the latter offering a hint of weakness for tomorrow's unit vehicle sales for November. But sales of apparel and furniture are cited for their strength. The report says both single-family construction and non-residential construction are up while multifamily construction was only mixed. Farmers were pleased with this year's harvest though low commodity prices continue to weigh on farm income. Investment in oil and gas drilling increased slightly during the period.

Most **Asian** stock indices advanced Wednesday thanks to upwardly revised US third quarter gross domestic product and a weak yen. They

helped to offset investor scepticism over whether OPEC would deliver a production cut at its meeting in Vienna later in the global market day.

The Shanghai Composite retreated 1.0 percent on worries about liquidity and increased regulation as Beijing steps up efforts to support a sliding yuan. The Hang Seng index was up 0.2 percent. In November, the Shanghai Composite jumped 4.8 percent but the Hang Seng declined 1.6 percent.

The Nikkei was virtually unchanged (up 1.44 points) while the Topix inched 0.1 percent higher as investors waited for the outcome of the OPEC meeting and the weekend's Italian constitution referendum results. In November, the former added 5.1 percent while the latter was 5.5 percent higher. October industrial production edged up 0.1 percent on the month and was 0.3 percent higher on the year. Nissan Motor declined after reports suggested today that the South Korean government plans to ban sales of certain cars made by BMW AG, Porsche AG and Nissan Motor for alleged fabrication of environmental certification documents.

Both the S&P/ASX and All Ordinaries were 0.3 percent lower on the day. In November, the former added 2.3 percent and the latter, 1.9 percent. Miners BHP Billiton, Rio Tinto and Fortescue Metals Group declined after China steel futures plunged. Energy companies Woodside Petroleum, Oil Search and Santos were also lower. However, the four big banks advanced. Collins Foods jumped after releasing its half-year results. Amaysim Australia tumbled after issuing a trading update at its annual general meeting.

The Kospi was up 0.2 percent Wednesday as foreign investors continued to buy. In November, the Kospi was 1.2 percent lower. The Sensex rallied 1.0 percent. However, Indian shares posted their worst month since February, as New Delhi's shock recall of high-value banknotes raised concerns of a slowdown at home, while the spectre of rate increases by the Federal Reserve took a toll on risk appetite. The Sensex tumbled 4.6 percent in November.

The Longer-Term Perspective

Markets historically fall from time to time in the course of their longer-term upward progress. Investors who are willing to accept periods of market volatility and stay invested for the long term are often well positioned to grow their wealth as markets subsequently recover.

We view the market reaction to them as a normal part of the investment cycle that, in itself, creates attractive opportunities for long-term investors.

Looking forward

November manufacturing PMIs will be posted for China and Japan.

China will also release its CFLP PMI.

In Europe, November manufacturing PMIs will be released for France, Germany, the Eurozone and the UK.

Italy will report revised third quarter gross domestic product.

The Eurozone will also post its October unemployment rate.

In the US, November manufacturing PMI, ISM manufacturing index and construction spending will be released along with the weekly jobless claims, money supply and Fed balance sheet.

	Index	2016 Nov 30	Daily Change	% Change Daily
North America				
United States	Dow	19123.58	2.0	0.0
	NASDAQ	5323.68	-56.2	-1.0
	S&P 500	2198.81	-5.8	-0.3
Canada	S&P/TSX Comp	15082.85	83.0	0.6
Europe				
UK	FTSE 100	6783.79	11.8	0.2
France	CAC	4578.34	26.9	0.6
Germany	XETRA DAX	10640.30	19.8	0.2
Italy	MIB	16930.41	368.5	2.2
Spain	Ibex 35	8688.20	21.2	0.2
	OMX Stockholm 30	1481.14	14.0	1.0
Switzerland	SMI	7875.19	30.2	0.4
Asia/Pacific				
Australia	All Ordinaries	5502.38	-18.1	-0.3
Japan	Nikkei 225	18308.48	1.4	0.0
	Topix	1469.43	0.9	0.1
Hong Kong	Hang Seng	22789.77	52.7	0.2
S. Korea	Kospi	1983.48	5.1	0.3
Singapore	STI	2904.02	24.9	0.9
China	Shanghai Comp	3250.03	-32.9	-1.0
Taiwan	TAIEX	9240.71	48.3	0.5
India	Sensex 30	26652.81	258.8	1.0
Data Source — Haver Analytics				