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# Equity rally stumbles despite economic data

As the Trump rally lost some steam, attention shifted towards waves being created elsewhere; it was a heavy weak for economic data, while oil prices soared on news of a cut in production. For the most part the economic data was positive, with the Organisation for Economic Cooperation and Development (OECD) upping its global growth forecast in 2017 to 3.3%, and predicting expansion of 3.6% in 2018 – that will be the fastest pace of growth since 2011. The OECD cited Trump's planned fiscal stimulus as a factor boosting major economies.

Friday brought the piece of data that shouts loudest every month: the US non-farm payroll. And the US economy created 178,000 jobs in November, the jobless rate fell to a 9-year low of 4.6% and wages grew by 2.5% on an annual basis.

In Europe, an additional focus on Sunday's presidential election in Austria and the Italian referendum on political reform unsettled markets towards the end of the week. Nonetheless, Italy's stock market was the strongest performer in the region and among the few developed markets around the world to post a positive return.

**OPEC strikes a deal**

The oil price has been largely directed in recent months by fluctuating prospects of an OPEC (Organisation of Petroleum Exporting Countries) agreement. Saudi Arabia led the call for a production cut having previously driven the price lower through excessive pumping to increase market share and push producers with higher costs off the dancefloor. Iran threatened to scupper a deal before it agreed to freeze production at about 3.8 million barrels a day – Iran currently pumps about 3.7 million barrels daily. Overall, OPEC said it will reduce output by 1.2 million barrels – its first agreed cuts in eight years – including a commitment from Russia to cut by 300,000 barrels. Saudi Arabia will cut by about 500,000.

The Brent crude oil price climbed sharply on the news to end the week comfortably above $50 a barrel. Much will depend on how strictly the deal is policed. Higher oil prices will, however, encourage higher cost producers back into the market. Oil company shares climbed as price increases tend to drop straight to the bottom line, increasing profits.

**In Ireland…**

The data was generally positive. Ireland's unemployment rate fell to 7.3% as job creation continues to be strong. Since hitting a high of 15.1% in 2012, employment has consistently grown and the total number of people out of work in November dropped to 160,700 from 164,100 a month earlier. There was also encouraging data for the euro area as a whole with the unemployment rate falling to 9.8% in September, its lowest level since 2009.

The OECD did trim its projected growth forecast for Ireland in 2017 back to 3.2% (from a previous estimate of 3.4%), and predicted growth would slow to 2.3% in 2018. The euro area is expected to grow by 1.6% in 2017 and 1.7% in 2018.

**Stars aligning in Trumpland**

President-elect Trump has a favourable wind at his back as he prepares to take charge. Economic growth in the third quarter was revised up to 3.2% (from 2.9%), the strongest quarterly number in two years. As noted, the payroll report was strong and this was bolstered by positive reports on personal income and spending. Consumer confidence hit a nine-year high, and while the survey group stated that a lot of the survey was conducted prior to the election, it noted that there was little difference in consumer optimism surveyed either side of the vote.

The Institute of Supply Managers (ISM) Index showed that US manufacturing expanded at a stronger pace than expected in November as producers appeared more confident about prospects. While recent US dollar strength may dampen export potential, a more resilient domestic economy may be ready to pick up any slack. The index reading of 53.2 – readings above 50 are indicative of growth.

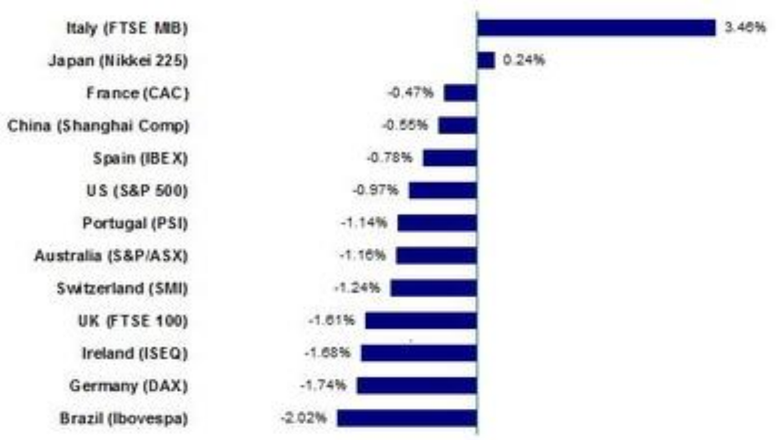
**The Indian Note Trick**

Three weeks into a policy decision by the Reserve Bank of India to withdraw about 85% of the bank notes in circulation and the chaos is still evident. The bank withdrew the 500 and 1000 rupee note in an effort to tackle counterfeiting and tax avoidance, but did so without notice and caused long queues at banks and ATMs as people looked to exchange notes and/or withdraw cash. Another purpose of this is to reduce the cash economy and widen the potential tax base. The process should also increase bank deposits and theoretically encourage more lending. But the abruptness of the move, the lack of bank accessibility in rural areas and the importance of cash in daily transactions could potentially hit consumer spending in the near term. The stock market has fallen about 5% and the rupee is down about 3% versus the US dollar since the 8th November move.

Meanwhile, ever wondered how much currency is eaten? Of course you have. Thankfully there is someone in the Bank of England keeping tabs, and apparently there were claims for damaged notes amounting to £128,000 in the Chewed/Eaten category in 2015. Notes going through the spin cycle surprisingly only added up to about half the value of the eaten notes. 'Contaminated' notes amounted to more than £8 million with torn notes making up almost £2 million.

Source: All information is from Bloomberg Finance LP as at 2 December 2016 unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

**A Week on the Markets**




Source: Bloomberg Finance LP. Capital returns in local currency for the week to Friday 2 December 2016

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