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The economic recovery of the US shows signs of stalling

◆ The US created 661,000 jobs in September, less than the median forecast of 859,000.

◆ US companies announced 118,804 job cuts in September, bringing the year-to-date number to a record 2.08 million, according to Challenger, Gray & Christmas.

◆ Recovery in the western world as a whole could be stalling.

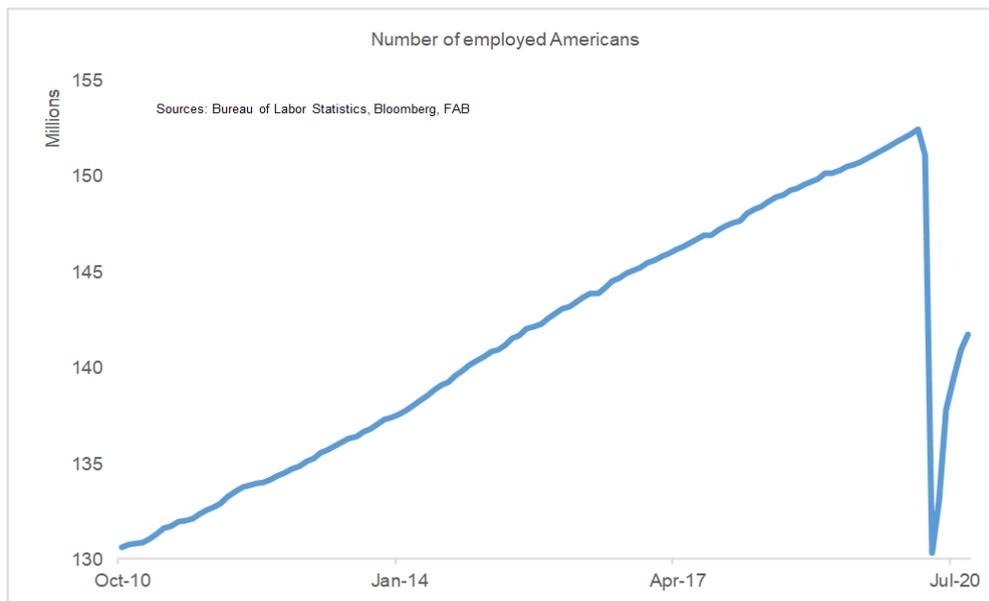
◆ The news suggests that any net recovery in jobs could take a turn for the worst in the coming months.

◆ The FAB AAC remains slightly underweight in equities, and overweight in IG bonds and gold.

The US jobs report on Friday confirmed what many economists expected: the recovery is probably faltering. After a shock in April, the Bureau of Labor Statistics data has consistently improved, recovering faster than most economists expected. That comeback in jobs has contributed to the stock market rally since late March.

The US added 661,000 jobs in September, less than the median forecast of economists surveyed by Bloomberg which had suggested expectations of 859,000. The addition still pushed the unemployment rate down to 7.9%, but a significant part of the 0.5 percentage point drop from 8.4% in August was because many people have given up looking for a job and hence have been excluded from the tally.

Since May, according to the US Bureau of Labor Statistics, half of the 21 million



people who left the workforce or lost their jobs in April have returned to work.

The problem is that, as Federal Reserve Chairman Jerome Powell said recently, further gains from here will be much harder to achieve. In fact, judging from the announcements this week, October could even see overall net job losses again.

Just last week, airlines American and United announced they were furloughing a total of 32,000 people. The companies are in negotiations with the government to get help and avoid the layoffs, but this remains a threat. Disney also said it is cutting 12.5% of its global workforce, or 28,000 people. Meanwhile, more companies announced they were filling for bankruptcy, including the iconic New York Sports Club, and more shale oil producers.

Altogether, US companies announced 118,804 job cuts in September, bringing the year-to-date number to 2.08 million,

The latest US jobs report saw labor market gains stalling and did not include many layoffs

the highest since at least 2001, according to Challenger, Gray & Christmas. Because of the timing of the survey, many of these cuts were not yet reflected in Friday's report.

Meanwhile, in Europe things are not looking much better, with tire maker Continental and oil major Royal Dutch Shell together announcing last week they were laying off 39,000 people. Even in the UAE the collapse of Arabtec could mean up to 42,000 redundancies. These examples are troubling, as they are from industries that were supposedly less affected by the shutdowns.

This suggests that the impact of the pandemic is spreading beyond the travel and leisure sector. The last US

employment report had already hinted at that, as many of the jobs lost in August were for 'white-collar' positions.

The next report in November will reflect this week's announcements. It will also include cuts likely to be unveiled in coming weeks, as companies assess their options now that most government employment support schemes have ceased. The UK is also set to see a particularly large spike in unemployment as the government's furlough program expires.

Investors are still convinced that the worst is behind, however, and that liquidity and stimulus will push asset prices higher. Still, such bad job numbers can be traumatic.

On the local front, at least investors in the Middle East had some good news out of Saudi Arabia. The Kingdom cut its rate of VAT on property transactions to 5%, from 15%. That could increase the number of property deals and help prices recover. Home prices in Saudi Arabia have fallen about 17.2% since they peaked in December, 2014, according to data from the Bank for International Settlements.

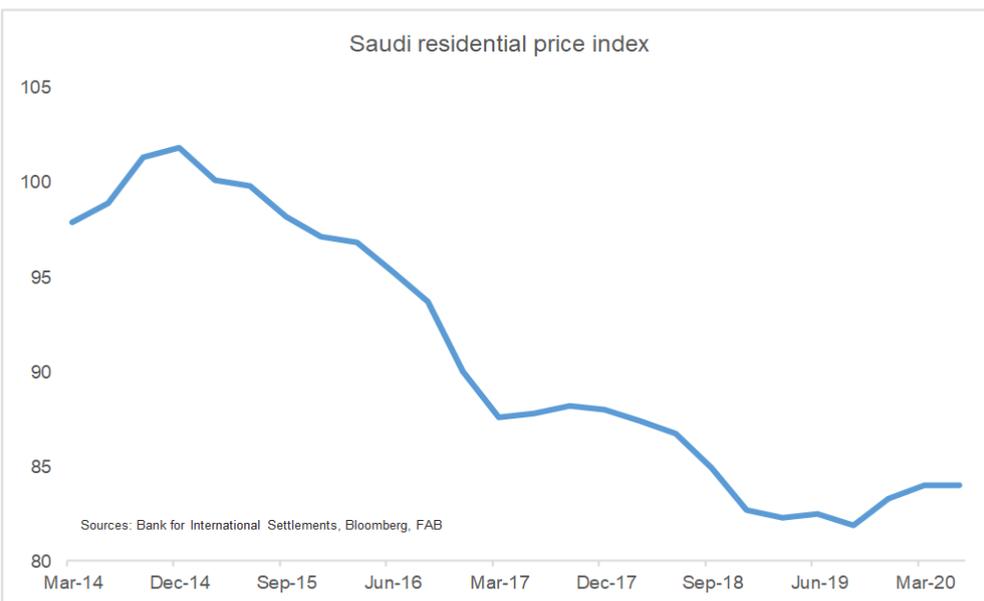
Helping KSA property prices recover could spur more lending, as its banks use property as collateral for many of their loans. That would be welcome. The tax cut also signals that the Kingdom is reviewing

its previously conservative approach to fiscal balances, which prompted it to increase taxes earlier this year even as the rest of the world was cutting them. Higher average oil prices and its higher output may also be giving the Kingdom more leeway to reduce the fiscal burden.

Saudi Arabia reportedly increased its oil production in September, more than offsetting cuts enacted by the UAE to compensate for its own additional output in August. Saudi shipments increased by 480,000 barrels/day last month, and the nation, together with the UAE, Kuwait and Iraq, shipped an average of 13.6 million barrels/day according to Bloomberg. That was a 164,000 barrel/day increase over August, Bloomberg data shows.

The news added pressure to oil prices, and the value of a barrel of Brent crude fell 6.32% last week. Still, the volatility of oil prices has dropped since Saudi Arabia said it would ensure that the members of OPEC+ adhered to the agreed cuts. Despite the drop, Brent crude prices remain near US\$40/barrel, in line with the budgets of many MENA oil producers.

Saudi Arabia has cut the VAT on property transactions, which could help home prices recover



Aside from the Kingdom's commitment to stability, last week more shale oil companies in the US went out of business, reinforcing the idea that one of the main threats to lower prices is being moderated.

Futures positions have been reflecting the changes for oil. According to the Commodities & Futures Trading Commission, the net position of traders was 515,909 short as of 29 September. That is about 100,000 contracts better than what was reported in mid-June.

These reports are important indicators of positioning and can sometimes give investors advance notice of a price move. When there are very large positions in either direction, that may signal a move in the opposite direction instead. Such an instance occurred less than two weeks ago in NASDAQ index futures, when a record net-short position may have helped spur last week's rally in technology stocks.

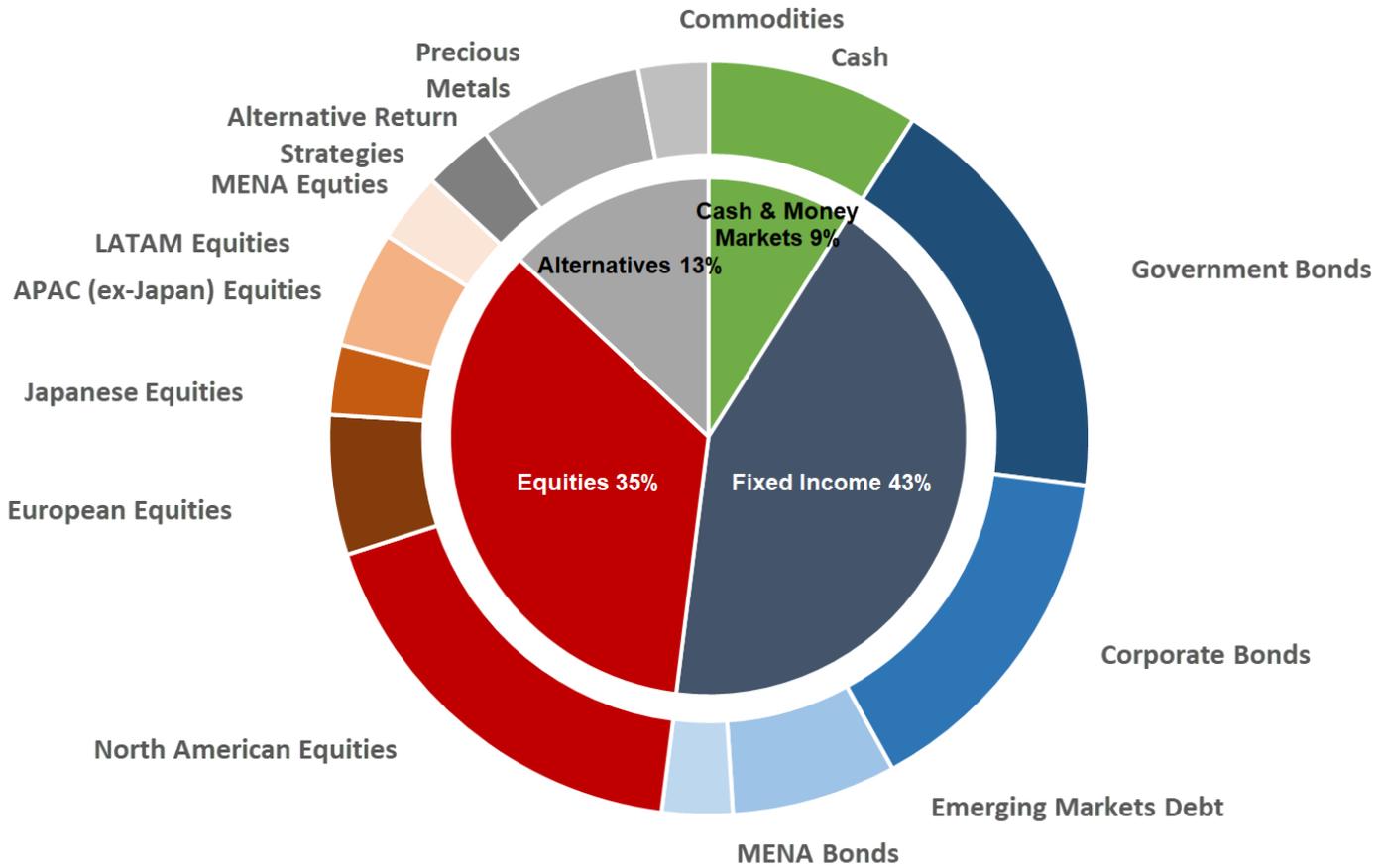
Right now, the other large position worth mentioning is in the US dollar. The 5,588 net-short position in NYCE US dollar futures reported on 29 September is one of the biggest of its kind during the past decade. The position was larger a week earlier, but a 1.98% gain in the Dollar index in the week ended 25 September may have prompted some covering.

Finally, there were large net-short speculative positions in US long Treasury futures. Some were reduced as the Treasury curve steepened last week, but the position is still at historical highs.

While markets have generally priced-in low rates until at least 2024, Eurodollar contracts have more recently started to reflect a higher probability of a lift-off in rates as early as 2023. The change has coincided with more signs of a potential Democratic sweep in the US elections, which could boost stimulus further and prompt earlier-than-expected inflation.

Add to this the unexpected illness of President Trump and investors should ready themselves for an interesting week.

Current Tactical Asset Allocation



Asset Class	Positioning	Detail
Cash	Overweight	After taking profits on some equity positions.
Fixed Income	Overweight	Keeping slightly overweight focused on EM dollar debt and corporate investment grade bonds
Equities	Underweight	After taking profits on part of the US and European equity exposures
Alternatives	Underweight	However, overweight on precious metals specifically

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