The Weekly Market View

October 11 2020

ASSET MANAGEMENT LIMITED

Markets rally, yields and commodities surge amidst continuing speculation about fiscal stimulus

Last week, the US equity market had its biggest weekly gain since early July and US yields reached a four month high. The US dollar came again under pressure, giving a boost to commodities and emerging markets. In what had the hallmark of an anticipation of a strong global cyclical rebound, emerging equity markets outperformed developed markets. In the commodity space, energy outperformed industrial metals, helped perhaps also by comments from OPEC Secretary General Mohammed Barkindo who claimed that "the worst is over" for producers. Energy stocks and utilities gained from the rise in oil prices. Precious metals did well too, although gold gained more moderately. Interestingly, after having started the week strongly, the US equity market corrected sharply on Tuesday after President Trump had tweeted his intention to halt the negotiations with the Democrats over a comprehensive stimulus package. The rally resumed however on Wednesday when the President seemed to backtrack on his decision to stop stimulus negotiations. The Republicans have now raised their offer for the total stimulus package from 1.6 Trillion to 1.8 Trillion, but the Democrats are still insisting for a total sum of 2.2. Trillion and refusing to sign off on any stand-alone measure such as for instance additional support to the airline industry. Parallel to the stimulus talks continues of course to run an election campaign which is characterized by a degree of polarization and division that has few precedents. President Trump has now refused to take part in next week's virtual debate, all whilst engaging in campaign rallies, in the midst of continuing uncertainty not only about his own health, but more importantly about his personal contagiousness. Elsewhere concerns are mounting over the increase in infection cases across virtually all European countries. The prospect of more lockdowns in Europe did not seem however to raise market concerns of an impending economic growth slowdown. On Friday the Renminbi staged its biggest one day rally in 15 years, adding to speculation about a global cyclical rebound. Chinese economic data remains strong.

Uncertainty and volatility is here to stay

To many it looked as if markets last week were playing with the idea that not only a Biden win was inevitable, but that the Democratic Party was also bound to win the Senate (in addition to the House of Representatives which few think the Democrats risk losing). The narrative then runs along two dimensions. First, there is in fact bipartisan support for fiscal stimulus to less wealthy Americans and small businesses. As such, disagreements about the more detailed measures to implement such stimulus are the temporary result of the fact that we are in the midst of an extremely bitter election campaign. Second, a Blue Wave (Democrats taking both the White House and full control of the Congress) is likely to lead to additional fiscal stimulus in 2021.

We also think that fiscal stimulus is more an issue of "when" than of "if". Having said so, the month prior to US elections has on average always delivered more volatility than returns. There are plenty of reasons to think that also this October pre-election month will remain very volatile. Indeed, in today's very polarized US society the final result seems to hinge on a small number of so-called swing states. A contested election would be a negative for the market as was the case in 2000. In the event of a Biden victory, the prospect of corporate tax hikes would have to be carefully weighted against any fiscal stimulus package. In the event of a Trump victory, all the cards would be off the table in terms of the trade tariffs not only on Chinese goods and services, but also European imports. Having said so, in general the US markets have done well *after* the election, and this would certainly play into the narrative of fiscal stimulus being ultimately supported by both parties. Yet, the fact that the market has mostly done well after an election must simply be linked to the fact that an election ultimately removes uncertainty. And that would – as simply – not be the case for a contested election. All in all, it seems reasonable to expect continuing volatility as the election date approaches and the campaign heats up. Option prices remain elevated confirming a scenario of uncertainty, at least until the election date.

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Global markets' performance snapshot

Index Snapshot (World Indices)

Index	Latest	Weekly %	YTD %
S&P 500	3,477	3.8	7.6
Dow Jones	28,587	3.3	0.2
Nasdaq	11,580	4.6	29.1
DAX	13,051	2.9	-1.5
Nikkei 225	23,423	2.6	-0.2
FTSE 100	6,017	1.9	-20.2
Sensex	40,509	4.7	-1.8
Hang Seng	24,119	2.8	-14.4
Regional Markets (Sunday to Thursday)			
ADX	4,513	0.5	-11.1
DFM	2,214	-2.3	-19.9
Tadawul	8,413	1.4	0.3
DSM	10,032	0.3	-3.8
MSM30	3,604	-0.3	-9.5
BHSE	1,458	1.8	-9.4
KWSE	5,725	5.1	-8.9
MSCI			
MSCI World	2,427	3.6	3.8
MSCI EM	1,117	3.8	0.7

Global Commodities, Currencies and Rates

Commodity	Latest	Weekly %	YTD %
ICE Brent USD/bbl	42.9	9.1	-35.1
Nymex WTI USD/bbl	40.6	9.6	-33.5
Gold USD/t oz	1,930.4	1.6	27.2
Silver USD/t oz	25.2	6.0	40.9
Platinum USD/t oz	892.8	1.3	-7.6
Copper USD/MT	6,611.5	5.2	9.5
Alluminium	1,789.8	5.0	2.2
Currencies			
EUR USD	1.18	0.9	5.5
GBP USD	1.30	0.8	-1.7
USD JPY	105.62	0.3	-2.8
CHF USD	0.91	-1.1	6.1
Rates			
USD Libor 3m	0.22	-5.6	-88.4
USD Libor 12m	0.35	-2.2	-82.5
UAE Eibor 3m	0.45	-4.1	-79.6
UAE Eibor 12m	0.80	0.9	-65.1
US 3m Bills	0.09	8.5	-93.9
US 10yr Treasury	0.77	10.4	-59.7

Summary market outlook

Global Yields	With US Yields rising, yields on other major government paper rose marginally too. We recommend increasing duration on US treasuries with long-term rates likely to remain pressed low on Fed's QE and low growth and inflation environment.
Stress and Risk Indicators	During the past week, the VIX index came down, but remained at levels that are still substantially higher than the ones we had before the COVID-19 crisis became global. We believe that volatility will likely stay elevated given the range of risks on the horizon. This entire episode of the coronavirus would be a part of our 'high volatility' narrative for 2020 and our risk-barbell positioning.
Equity Markets	
Local Equity Markets	GCC equity markets delivered mixed returns last week. The sharp rise in oil prices did help. We remain neutral on GCC equities given stable to higher oil prices and potential for revival in credit growth following the interest rate cuts.
Global Equity Markets	Equity markets surged like they had not since early July. Developed markets underperformed emerging markets. Whilst we are cautious near-term, we are constructive on equities over a 12 month time frame. We remain neutral on equities with an overweight on US and underweight EU and EM outside Asia. By sector we prefer IT and Communication services. Our preference is for large cap non-cyclical growth with focus of quality.
Commodities	
Precious Metals	Precious metal prices registered gains last week. US dollar weakness due to hopes for a global cyclical rebound played a role. The strong performance of the Renminbi on Friday contributed too. We remain overweight gold as a risk hedge against ongoing political risks.
Energy	Oil prices rose also strongly on hopes for a global cyclical rebound as well as supportive words by the Secretary General of OPEC. Both Brent and WTI benchmarks ended the week again above the USD40/bbl mark. Overall, we believe that oil prices are likely to remain sustained as the market is roughly balanced.
Industrial Metals	Industrial metal prices rose also on hopes for a global cyclical rebound. Copper and Allumium did particularly well. However, we do not recommend industrial metals exposure as China reigns in demand.
Currencies	
EURUSD	EUR gained against the USD last week, especially on Friday. We expect the euro to remain stable.
Critical levels	R2 1.1879 · R1 1.1853 · S1 1.1778 · S2 1.1729
GBPUSD	Cable continues to recover against the US dollar following its low a couple of weeks ago. We expect the cable to be stable with Pound sterling likely to follow the euro rather than USD.
Critical levels	R2 1.3130 · R1 1.3083 · S1 1.2956 · S2 1.2876
USDJPY	JPY depreciated against the USD as the risk-on mood improved across the globe. BoJ yield curve targeting should put continuing downward pressure on the yen.
Critical levels	R2 106.21 · R1 105.91 · S1 105.51 · S2 105.29

Note: R2, R1, S2 and S1 refer to Bloomberg calculated weekly technical resistance and support levels.

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Forthcoming important economic data/events

United States

	Indicator	Period	Expected	Prior	Comments
10/13/2020	NFIB Small Business Optimism	Sep	101.2	100.2	Inflation data will be watched to assess effectiveness of Fed policy and further USD prospects. Retail Sales, Industrial Production and Consumer Sentiment will be of interest too.
10/13/2020	CPI YoY	Sep	1.40%	1.30%	
10/14/2020	PPI Final Demand YoY	Sep	0.20%	-0.20%	
10/15/2020	Initial Jobless Claims	10-Oct	--	--	
10/15/2020	Empire Manufacturing	Oct	12	17	
10/15/2020	Continuing Claims	3-Oct	--	--	
10/15/2020	Philadelphia Fed Business Outlook	Oct	15	15	
10/16/2020	Retail Sales Advance MoM	Sep	0.70%	0.60%	
10/16/2020	Industrial Production MoM	Sep	0.70%	0.40%	
10/16/2020	Capacity Utilization	Sep	72.10%	71.40%	
10/16/2020	U. of Mich. Sentiment	Oct P	80.5	80.4	

Japan

	Indicator	Period	Expected	Prior	Comments
10/12/2020	PPI YoY	Sep	-0.50%	-0.50%	Industrial Production will be most watched.
10/12/2020	Machine Tool Orders YoY	Sep P	--	-23.20%	
10/13/2020	Money Stock M2 YoY	Sep	9.00%	8.60%	
10/14/2020	Industrial Production YoY	Aug F	--	-13.30%	

Eurozone

	Indicator	Period	Expected	Prior	Comments
10/13/2020	ZEW Survey Expectations	Oct	--	73.9	Inflation and Industrial Production will be most watched.
10/14/2020	Industrial Production WDA YoY	Aug	--	-7.70%	
10/16/2020	EU27 New Car Registrations	Sep	--	-18.90%	
10/16/2020	CPI YoY	Sep F	--	-0.30%	

United Kingdom

	Indicator	Period	Expected	Prior	Comments
10/13/2020	Jobless Claims Change	Sep	--	73.7k	Jobless claims will be most watched
10/13/2020	Average Weekly Earnings 3M/YoY	Aug	--	-1.00%	
10/13/2020	ILO Unemployment Rate 3Mths	Aug	--	4.10%	

China and India

	Indicator	Period	Expected	Prior	Comments
10/12/2020	IN CPI YoY	Sep	6.90%	6.69%	Chinese exports and imports will be most watched.
10/12/2020	IN Industrial Production YoY	Aug	-7.30%	-10.40%	
10/13/2020	CN Exports YoY	Sep	10.00%	9.50%	
10/13/2020	CN Imports YoY	Sep	-0.30%	-2.10%	
10/14/2020	IN Wholesale Prices YoY	Sep	0.93%	0.16%	
10/15/2020	CN PPI YoY	Sep	-1.80%	-2.00%	
10/15/2020	CN CPI YoY	Sep	2.00%	2.40%	
10/15/2020	IN Exports YoY	Sep	--	-12.70%	
10/15/2020	IN Imports YoY	Sep	--	-26.00%	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTT News
4. Reuters
5. Gulfbase
6. Zawya

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