# Weekly Report and Outlook on Global Markets

1st May 2020

***Leveraged ETFs bearish on Equities***


**Figure 1: The chart depicts Fund flows into ProShares ETF that gives inverse returns to S&P 500 Index**

Stock bears rushed into leveraged ETFs this month, with inflows heading toward a record.

Exchange-traded funds that use leverage to short equities have lured $5.6 billion so far in April, according to data compiled by Bloomberg. The influx is already the biggest since at least 2013, and defies a surge in equities in the span.

ProShares Short S&P 500 ETF, or SH, which seeks results that correspond to the opposite of the performance of the U.S. stock benchmark, is on pace for record monthly inflows. Similar funds ProShares UltraPro Short S&P 500 ETF, or SPXU, and Direxion Daily S&P 500 Bear 3X Shares ETF, ticker SPXS, are also heading toward their best month ever. “Some investors believe the recent recovery in equity prices in the middle of a bear market will be short-lived, and they want to benefit when declines occur,” said Todd Rosenbluth, the New York-based head of ETF and mutual fund research at CFRA. “While some parts of the economy are starting to open up, there are likely to be many bumps in the road before things return to normal.”

***Stampede to buy Euros at the end of the month fix rattles FX Trading***

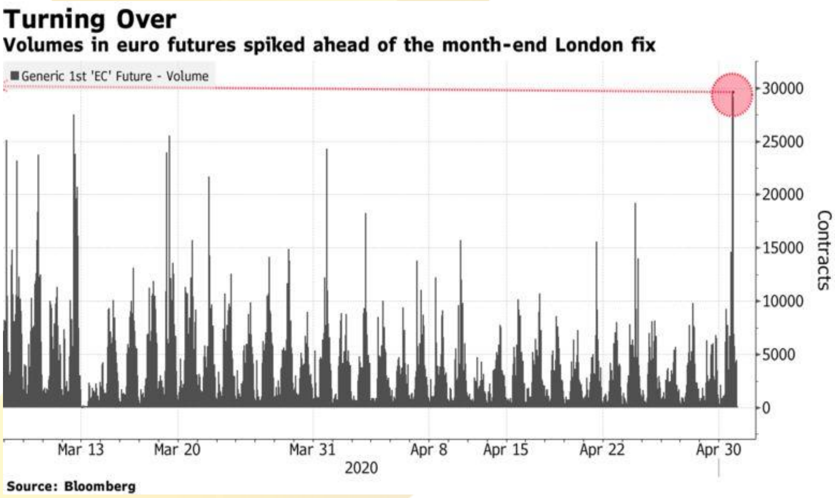


**Figure 2: The chart represents Volumes in Euro Futures from 12 March to 30 April.**

Traders rushed to buy euros in a bid to rebalance their portfolios on the last day of the month, prompting a sudden spike in the currency.

The euro jumped to a two-week high of $1.0972 versus the dollar around the time of the 4 p.m. London fix on Thursday as demand surged. Nearly $3.7 billion worth of euro futures contracts traded in the half hour preceding the fix, the highest for any comparable period since March 6.

The drop in volatility in euro from a month earlier also played a part in boosting volume Thursday. One-month implied volatility on the euro on March 19 rose to 15.44%, the highest since 2016. The gauge has since eased off and was at 6.54% on Friday.

The jump in volume followed the expiry of nearly 2.1 billion euro ($2.3 billion) worth of options at a strike price of 1.08 for the euro-dollar pair, while another 1 billion euros of similar options rolled-off the day before. The common currency had earlier weakened after the European Central Bank left interest rates unchanged and said it was ready to do whatever was needed to support the region’s economy.

## *USA Federal Reserve has drastically reduced its QE programme*

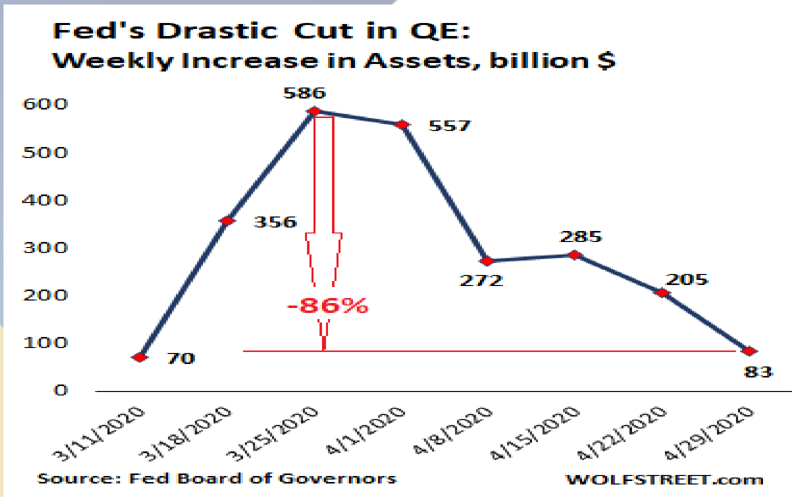


**Figure 3: The chart represents drastic cut in Fed's QE over the last five weeks**

Total assets on the Fed's balance sheet rose by only $83 billion during the week ending April 29, to $6.656 trillion. That $83 billion was the smallest weekly increase since this show started on March 15, and down by 86% from peak-bailout in the week ended March 25.

The Fed added only $62 billion of Treasury securities to its balance sheet during the week, down 83% from the $362 billion during peak-Wall-Street-helicopter-money.

When the Fed announced the first batch of its alphabet soup of bailout programs, "loans" on its balance sheet ballooned. But over the five weeks since then, they have remained essentially flat at around $122 billion. These loans show that the Fed has not done any of the things with SPVs and Primary Dealers over the past five weeks like buying junk bonds, ETFs, or stocks. It seems as if their assurance of buying such asset classes was enough to keep the capital markets afloat.

## *Lira Defence drains reserves faster than Turkey Refills them*

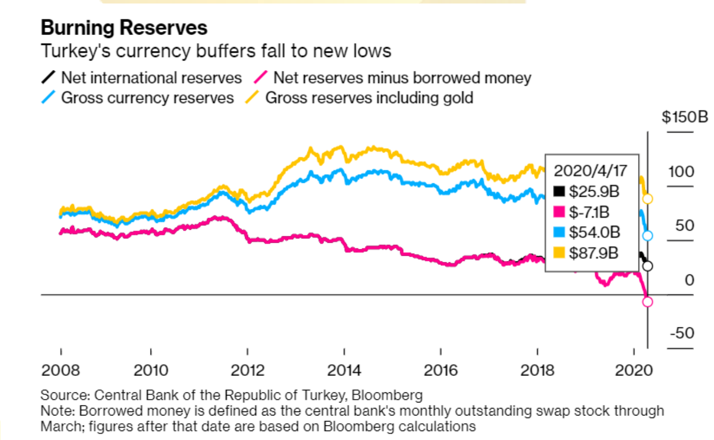


**Figure 4: The chart represents Turkey's falling currency buffers**

Turkey's defence of the lira sent central bank net international reserves to the lowest level since last May even after it borrowed a record amount of foreign exchange from local lenders.

To bulk up its stockpile during the intervention, the central bank has been borrowing from local lenders and booking the liabilities from these transactions off its balance sheet. Since December, the total stock of currency swaps with a maturity of up to a year increased by $11.4 billion to $29.6 billion through the end of March, according to data published Tuesday.

Since then, it borrowed around $3 billion more from banks through mid-April, according to Bloomberg calculations. Yet Turkey's hard-currency buffers dropped by $15.2 billion from the start of the year to $25.9 billion through April 17, which brings net reserves stripped of these liabilities to lenders deeper below zero.

# MAJOR MOVES THIS WEEK

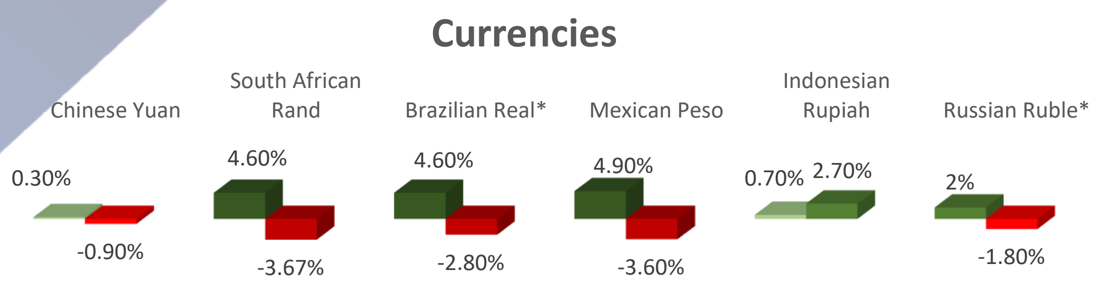


**Figure 5: The chart represents Currency returns with respect to US Dollar as the base currency for this week which is divided in two parts. The left part represents the returns from 27th April 2020 to 29th April 2020 whereas the right part represents returns from 30th April 2020 to 1st May 2020 respectively. * Brazilian Real and Russian Ruble last traded on 30Th April 2020**

Emerging countries' currencies had a volatile week. For the first three days there was a complete risk on movements where most of them appreciated against dollar but they gave away their gains in the next two days. A potential trade war between US and China which might be on the cards put pressure on Yuan which further pressurized other EM currencies. Developed countries' currencies like Australian and New Zealand Dollar behaved in a similar manner as well. Euro was the standout gainer with 1.4% appreciation against Dollar.

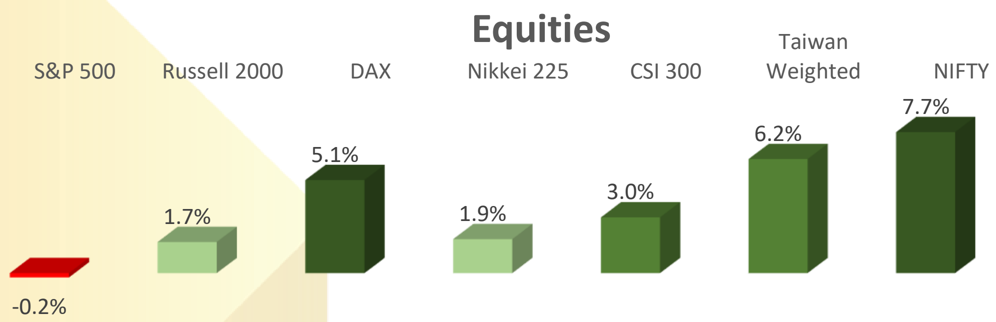


**Figure 6: The chart represents the equity index returns over this week.**

After rallying for the first three days of the week S&P 500, Russell 2000(US small cap Index) and Nikkei gave away their returns in the last two days to end on a flat note. A normal correction after a huge rally was further fuelled by Donald Trump's comments on China which can restart the trade war. German DAX and major emerging market equities too saw huge rallies this week. However we should take this into consideration that these markets were closed on Friday and in fact Asian emerging markets stopped operating much before the opening time of S&P 500 on Thursday. The starting point of risk off movement. Hence one should expect gap down openings in these index on Monday.

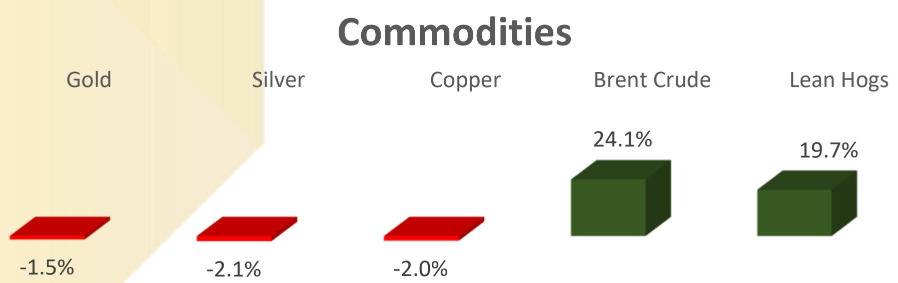


**Figure 7: The chart represents the weekly returns of the following commodities.**

This week was below average for the metals. Gold and Silver continued their consolidation which has been the case from the last few weeks whereas copper after rallying since last 10 days had to face reduction in its value in the last two days of the week to close overall in the negative territory. Brent and WTI crude both rallied after reaching to historic lows last week . Supply chain disruptions in the meat industry in USA has caused lean hog prices to sky rocket. They are up by more than 40% from their monthly lows

## GLOBAL FUND MANAGER'S STATEMENTS

1) Jeffrey Gundlach (CEO, DoubleLine ) on CNBC :- " I'm certainly in the camp that we are not out of the woods. I think a retest of the low is very plausible and I think we'd take out the low. People don't understand the magnitude of the social unease at least that's going to happen when 26 million-plus people have lost their job. Actually I did just put a short on the S&P at 2,863. At this level, I think the upside and downside is very poor. I don't think it could make it to 3,000, but it could. I think downside easily to the lows or beyond . I'm not nearly where I was in February when I was very, very short" – April 27th 2020.

2) Scott Minerd (CEO, Guggenheim Partners) on Bloomberg TV :- " When fed increases money supply economy doesn't grow according to that and inflation doesn't grow then the asset prices grow and we are seeing that. Markets seem to be priced for a V-shaped recovery, which incoming data suggest is unlikely to occur. The bond markets will not tolerate vague policy guidance for long, and previous tantrums may be a taste of what is to come" – April 30th 2020.

## PACE 360'S FUTURE OUTLOOK

"There has been a significant rise in risk assets in the last week. While longer term trajectory continues to be bullish markets will take a breather in the near term. We expect markets to carve out a range for themselves over the next few weeks. Thursday's highs may become the upper end of the range for some time."




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