Weekly Report and Outlook on Global Markets

4th July 2020

Market Developments	2
Major Moves This Week	4
Global Fund Manager's Statements	5
Global ETF Fund Flows	5
PACE 360's Future Outlook	6

Two Themes Emerge in FX Options: Go Risk-On for Now, Worry Later

This week's price action in currency options has clearly revealed how investors see the next few months playing out: riskier assets may rally during calmer summer months while 4Q risks will keep them on their toes.

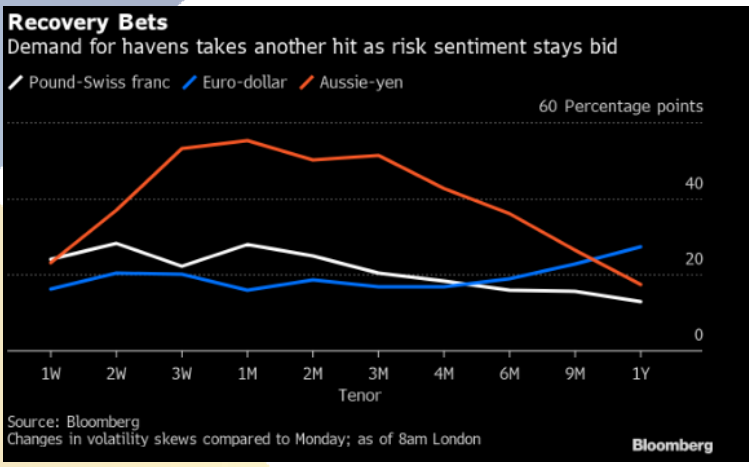


Figure 1: The chart represents the currency forwards of Pound Swiss Franc, Euro Dollar & Aussie Yen.

Changes in the major currencies' volatility skews are revealing; the euro sees calls trading at a premium on all tenors up to and including six months, with one-week risk reversals now at 59bps

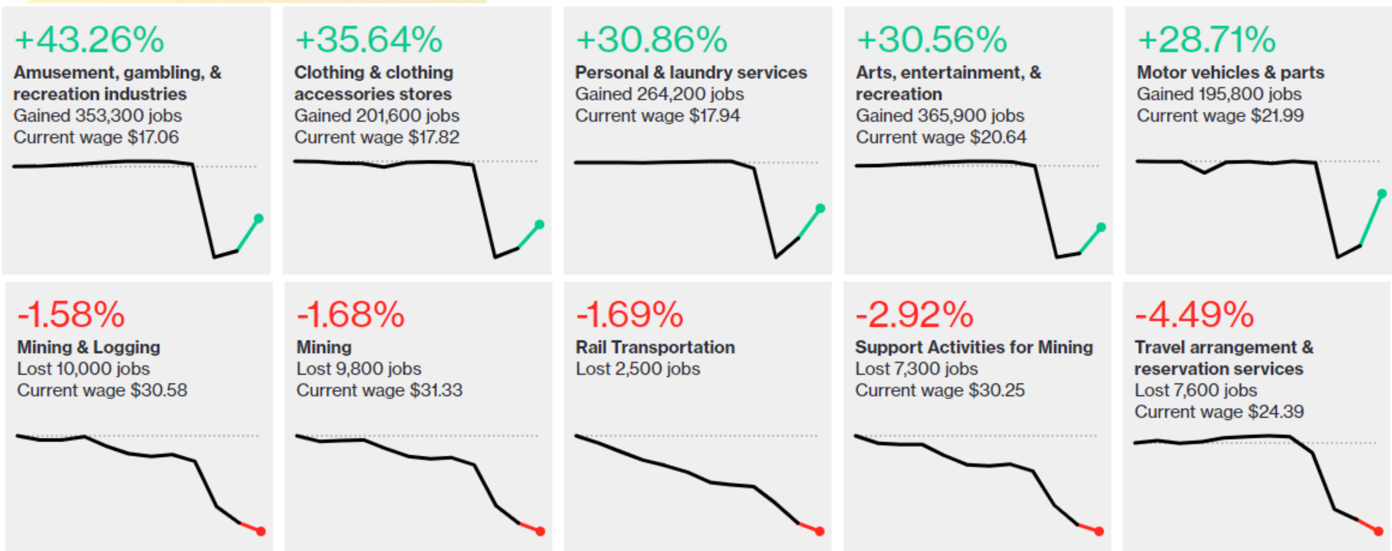
- Aussie-yen skew, still deeply below parity across expiries, shifts upward with the move more pronounced on the one-month tenor
- Pound-Swiss franc paints a similar picture, suggesting traders would focus on havens falling out of favor in 3Q, rather than go full risk-on into year-end; Brexit risks also weigh at the back end
- Changes in euro-dollar option dynamics is more pronounced at the back end of the curve, which reflects the following:
    a. The market is finally repricing longer-term bets given the EU's response to the pandemic
    b. Rate differentials may favor the euro further out
    c. U.S. elections in November may be followed by dollar weakness, even if history shows the other way round

The Jobs Numbers: Who is hiring in US and who isn't.

U.S. employers added 4,800,000 jobs in June, and the nation's unemployment rate fell to 11.1 percent, according to data released Thursday by the Labor Department. Meanwhile, average hourly pay for workers rose 5 percent from a year earlier, to $29.37 from $27.96. However, this wage increase is mostly due to the fact that massive layoffs in March and April disproportionately hit lower-paid workers

Leaders & Laggards

Below are the industries with the highest and lowest rates of employment growth for the most recent month. Additionally, monthly growth rates are shown for the prior year. The latest month's figures are highlighted. Wage data are shown when available.



RBI Buys So Many Dollars That It Ends Up Helping Bond Market.

The Reserve Bank of India has accumulated so many dollars recently that it's having a knock-on impact on the nation's sovereign debt market.

The central bank mopped up $30 billion of dollars in the April-June period, the most in more than a decade, leading to a flood of rupees in the financial system. The impact from RBI's foreign-exchange intervention explains why sovereign bonds have gained for a fifth month despite the deluge of issuances

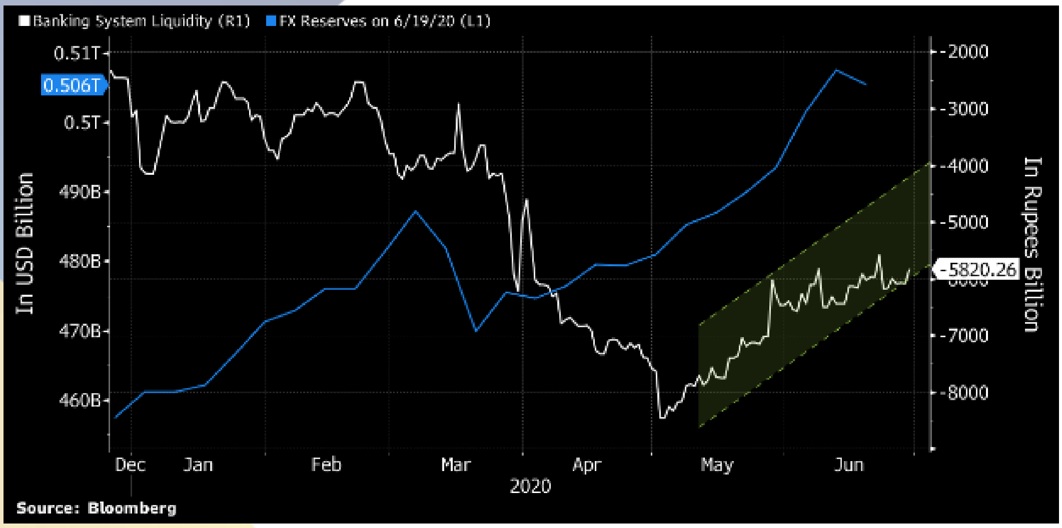


Figure 3: Banking system liquidity remains in surplus as RBI injects funds vis F/X interventions.

The central bank's FX policy is achieving multiple objectives of augmenting reserves, creating liquidity that's helping demand for bonds, and at the same time curbing rupee volatility. The RBI may continue with its policy of injecting funds via FX interventions over open-market debt purchases for now.

BofA Model Shows Second Wave Now Seen as Coin Toss

A smooth economic reopening, or a second wave of virus infections? Bank of America developed two baskets of stocks to track the market's preference on both scenarios. As their strategists see it, as optimism over reopening rises, the companies hit hardest during the coronavirus lockdown like airlines tend to outperform, lifting the "business-as-usual" cohort. On the other hand, "stay at home" stocks, or those enabling working from home or automation, are favored when fears for a prolonged outbreak take over.

Back in January, "stay at home" stocks were trading at a discount to those gearing toward "business at usual." That discount quickly turned into a 40% premium at the height of the pandemic fears in March, as the market plumbed lows. Now, the premium has narrowed to 10%, sitting in the middle of the two baskets' valuation range.

"The market has essentially split the difference," BofA strategists led by Savita Subramanian wrote in a note. "The S&P is pricing 50/50 on reopening vs second wave."

MAJOR MOVES THIS WEEKS

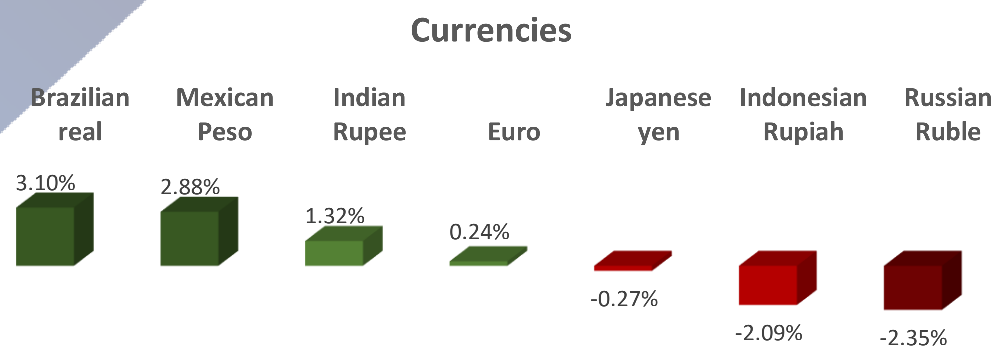


Figure 5: The bar graph represents Currency returns with respect to US Dollar as the base currency for this week

This week, a risk on sentiment prevailed in the currencies with most currencies appreciating against the dollar. The Latin American countries gained the most against the dollar this week showing signs of carry trade. Thai Baht, Indonesian Rupiah, Russian Ruble were the very few currencies that depreciated against the dollar this week.

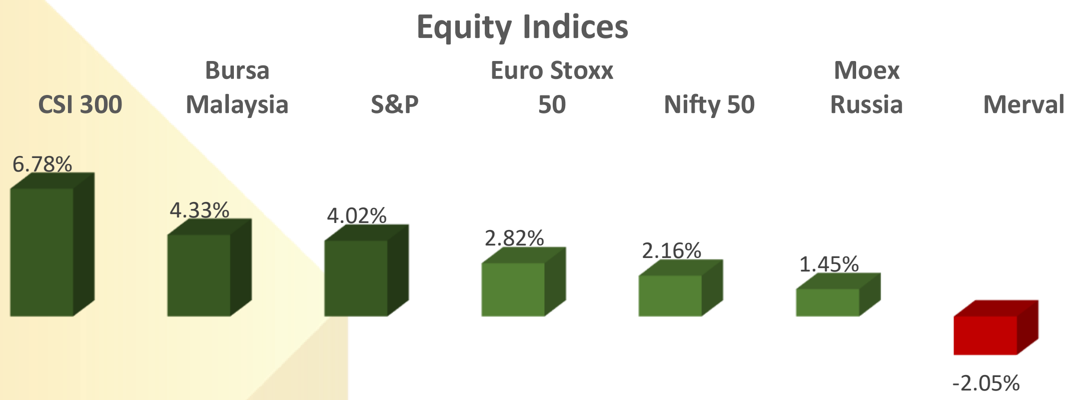


Figure 6: The chart represents the equity index returns over this week.

There was a clear risk on sentiment in the equities this week with China and Hongkong taking the lead. This week S&P as well as Russell 200 gave a return of about 4% showing that money was going into both large-caps and small-cap stocks. The exceptions to this week's risk on sentiment were Nikkei and Merval.

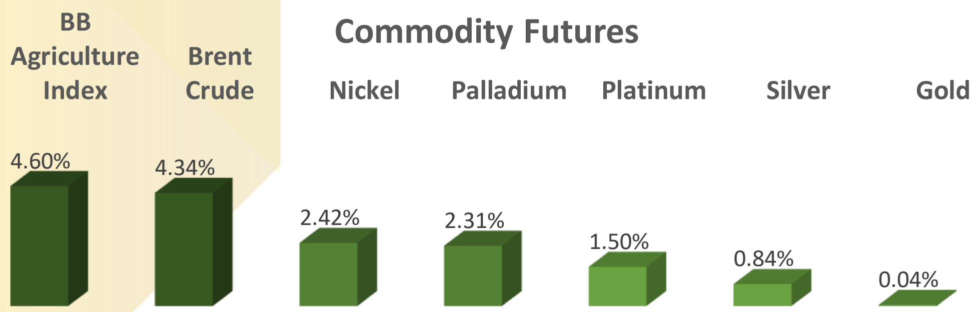


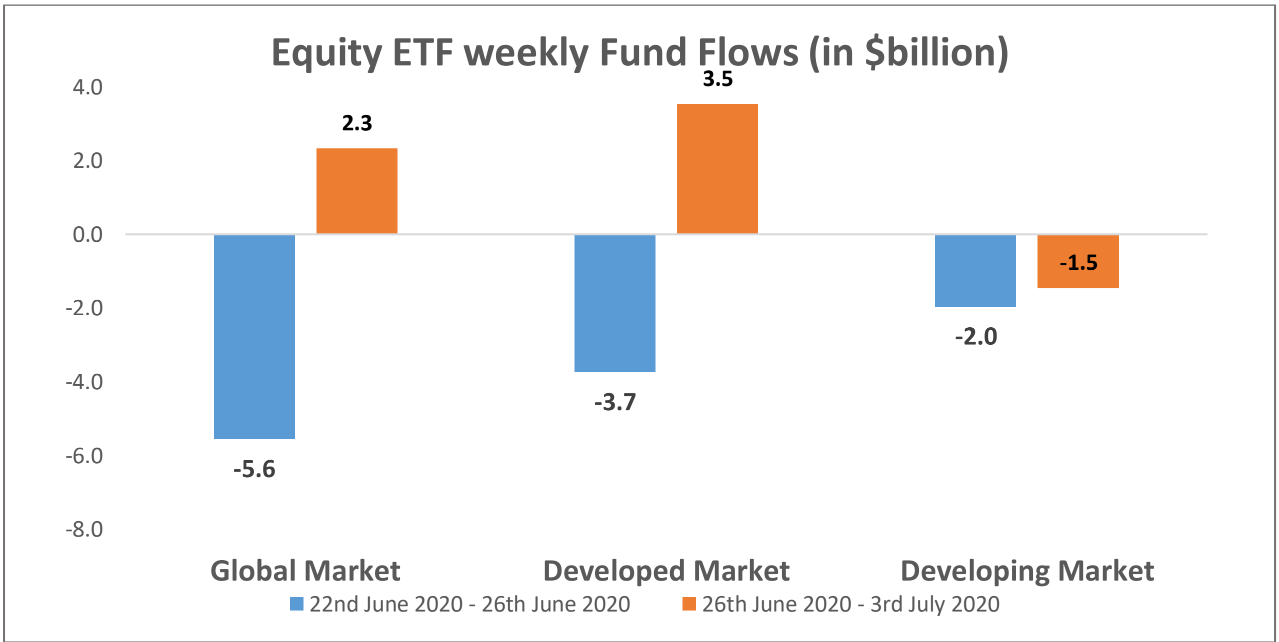
Figure 7: The chart represents the commodity futures returns over the week.

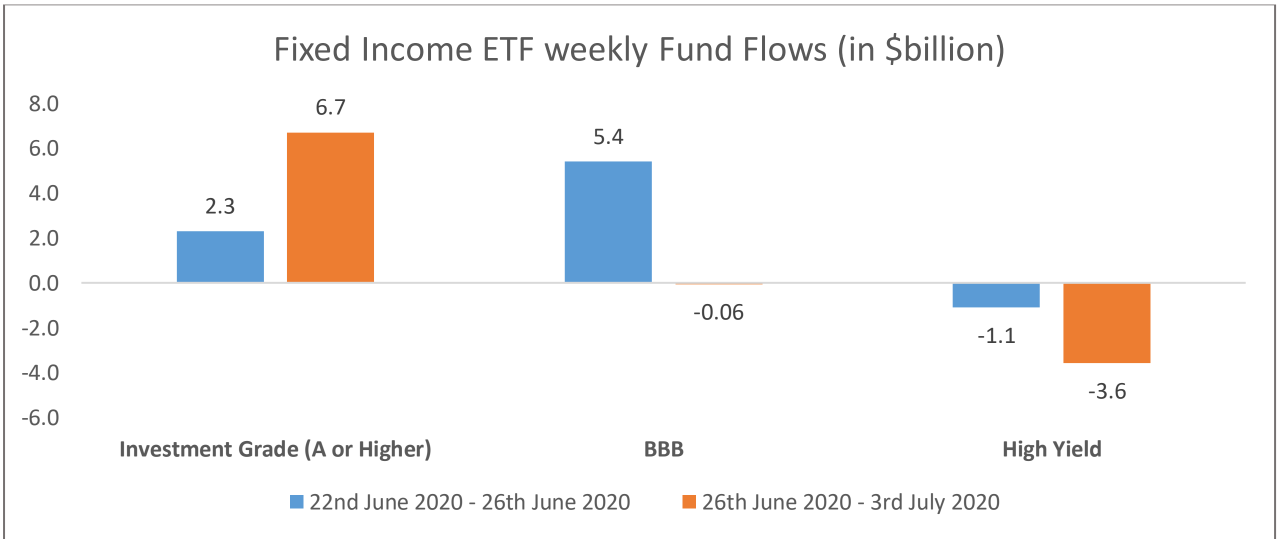
This week the Agricultural commodity futures outperformed all other commodities. Industrial metals like Copper, Nickel and Palladium gave an average of 2% return this week showing a risk on sentiment in the markets. Safe-haven commodities like gold remained flat this week showing strength despite the risk on sentiment in the market.

GLOBAL FUND MANAGER'S STATEMENTS

1) Jeffrey Gundlach(Founder, DoubleLine Capital LLP): "A quick economic recovery is highly optimistic and not even possible given that a rebound to pre-covid levels will at least take a year to materialise. I think that whatever the consensus is on the so-called shape of the recovery, I'm taking the under" – Interview with Yahoo Finance, 2nd July 2020.
2) Jim Rogers (Co-founder Quantum Fund Management): "Well often in history, after a long rise in the market, it turns into a blow of bubble, especially when there is a huge amount of money that suddenly comes in. I am not very good at timing the market, but I suspect we may have a blow-up at least in the American stock market, and maybe the Japanese stock market, because of all this madness that is going on." – Interview with ET Now, 29th June 2020.

GLOBAL ETF FUND FLOWS





Please note that the Global ETF fund flows under Equity ETF weekly flows category will not be equal to the sum of their respective sub-categories which are mentioned on their right side since there are other sub-categories as well

PACE 360'S FUTURE OUTLOOK

"Last week turned out to be a rather positive one for global risk assets. Favourable news on the vaccine front was one of the more important triggers for the same. However, S&P ran into a wall at the familiar level of around 3150-3160 levels and sold off from there. With the result season extremely close and with Biden gathering strength in the polls we believe we are at the cusp of a risk off phase. We continue to be bearish on risk assets for the next four months. Gold and long dated US treasuries continue to look bullish over this timeframe."

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