Weekly Report and Outlook on Global Markets

1st August 2020

<u>Goldman Warns on Inflation Threat to Dollar as Reserve Currency.</u>

Goldman Sachs Group Inc. put a spotlight on the suddenly growing concern over inflation in the U.S. by issuing a bold warning Tuesday that the dollar is in danger of losing its status as the world's reserve currency.

With Congress closing in on another round of fiscal stimulus to shore up the pandemic-ravaged economy, and the Federal Reserve having already swelled its balance sheet by about $2.8 trillion this year, Goldman strategists cautioned that U.S. policy is triggering currency "debasement fears" that could end the dollar's reign as the dominant force in global foreign-exchange markets

Key points

- Gold is the currency of last resort, particularly in an environment like the current one where governments are debasing their fiat currencies and pushing real interest rates to all-time lows

Figure 1: U.S. % year Real yield Vs Gold price

- Wall Street's initial reluctance to sound the alarm on inflation back when the pandemic began is fading. With gold surging to record highs and bond investors' inflation expectations climbing almost daily, albeit from very low levels, the debate on the long-term effects of stimulus has gotten louder.
- The 10-year breakeven rate, the gap between nominal and inflation-linked debt yields, has risen to about 1.51%, up from as low as 0.47% in March. That's seen real yields, which strip out the impact of inflation, plunge further below zero -- to about -0.93% on similar-maturity bonds.
- The expanded balance sheets and vast money creation spurs debasement fears. This creates a greater likelihood that at some time in the future, after economic activity has normalized, there will be incentives for central banks and governments to allow inflation to drift higher to reduce the accumulated debt burden.

Goldman raised its 12-month forecast for gold to $2300 an ounce from $2000 an ounce previously. That compares with a value of around $1950 currently. The bank sees U.S. real interest rates continuing to drift lower, boosting gold further.

<u>Russia Wheat Area at Three-Decade High Bolsters Crop Outlook.</u>

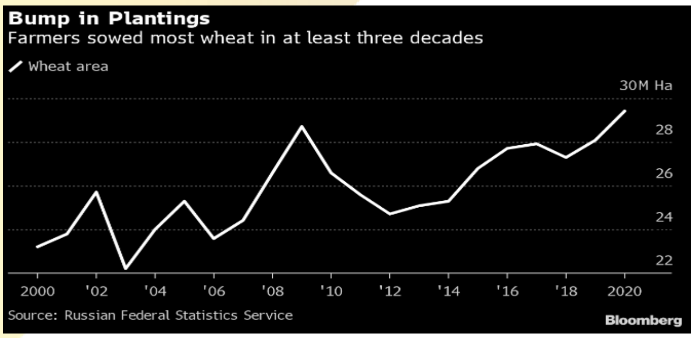


Figure 2 : Wheat area planted.

Russia is set for a larger-than-expected wheat crop as government plantings data topped estimates, bolstering the nation's prospects to regain the lead in global exports this season.

The government pegged the area for harvesting at 29.4 million hectares (72.6 million acres), the most since at least 1990 and up about 5% from a year earlier, according to figures issued late Friday.

Robusta Coffee Heads for Biggest Monthly Gain in a Decade.

Robusta coffee futures have surged about 16% in London this month, the biggest gain for a most-active contract since June 2010 amid a shift toward home coffee consumption. Worldwide lockdowns that shuttered cafes, restaurants and offices have supported demand for Robusta beans, typically favoured to brew instant coffee at homes.

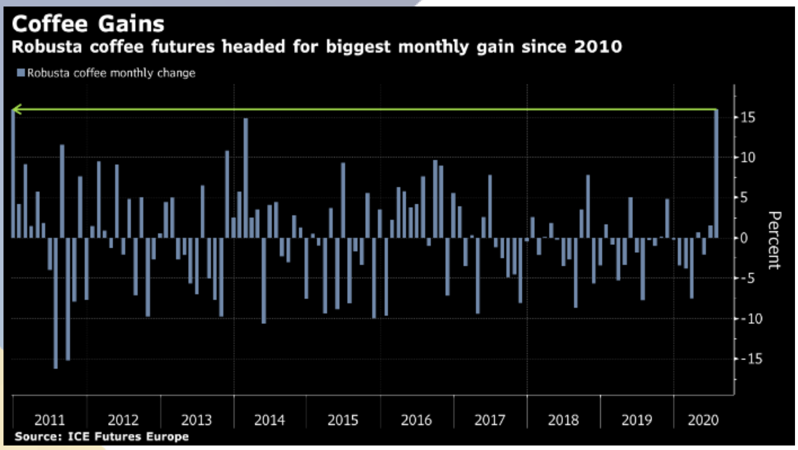


Figure 3 : Robusta Coffee monthly gains

Nestle SA reported higher sales amid strong demand for coffee in home offices. Sales of its Starbucks-brand coffee products rose more than 10%, while Nespresso had mid-single-digit growth, the company said on Thursday.

Robusta spreads have firmed up and its certified stockpiles have fallen to the lowest since the start of last year. Speculators covering their negative positions has also helped prices rally in recent weeks. Smaller Robusta crops expected in Brazil and Vietnam in the 2020-21 season are also bullish for prices

Australia Consumer Prices Fall as Deflationary Pulse Emerges

Australia slipped into deflation in the three months through June, reflecting a combination of cheap oil and government intervention to pause some service charges to nurse households through the Covid-19 lockdown. The consumer price index fell 1.9% from the first quarter, compared with economists estimates of a 2% drop, the biggest decline in 72 years, data from the Australian Bureau of Statistics showed Wednesday. Annual CPI slid 0.3%. The trimmed-mean gauge, a key core measure, declined a quarterly 0.1% for an annual increase of 1.2%, compared with forecast gains of 0.1% and 1.4%, respectively

Figure 4 : Headline Inflation vs Trimmed mean (Core Inflation)

Other details:

- The decline in consumer prices was mainly the result of free child care, plummeting 95%, and a fall in pre-school and primary education, down 16.2%
- The cost of fuel plunged 19.3% on tumbling global oil prices
- Price rises came on the back of increased spending during the lockdown, with cleaning and maintenance products spiking 6.2% and other non-durable household products, including toilet paper, rising 4.5%
- Food and non-alcoholic beverages rose 0.5% as high demand saw a reduction in specials being offered

MAJOR MOVES THIS WEEKS

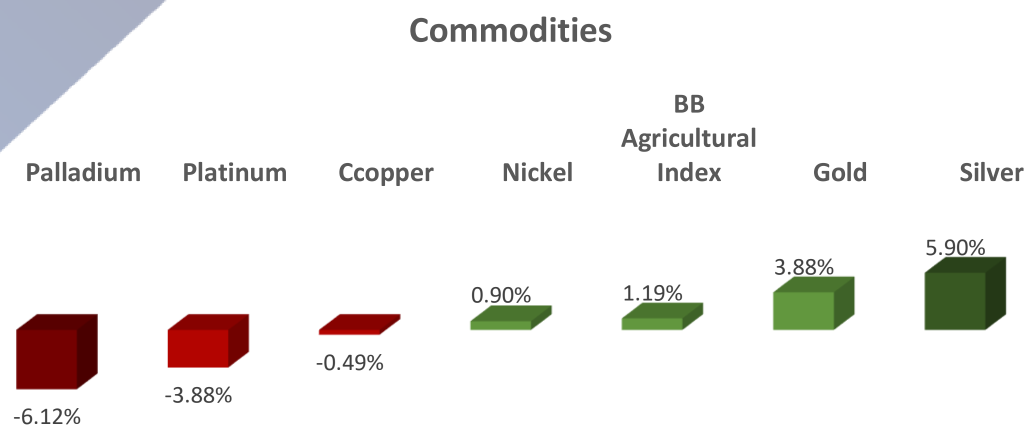


Figure 5: The chart represents the commodity futures returns over the week.

This week, silver outperformed most commodities followed by gold showing that the demand for these precious metals in still very high. Industrial commodities remained sideways this week. Crude remained sideways despite the demand from Asian countries to reduce the Selling price of Saudi Crude.

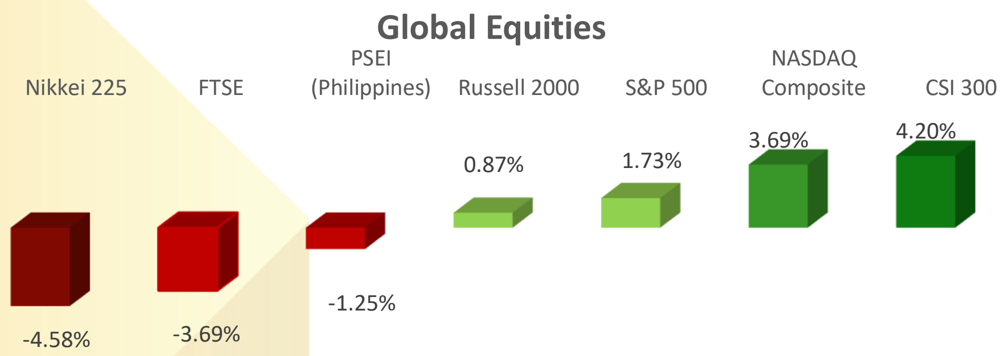


Figure 6: The chart represents the equity index returns over this week.

There was a mixed picture in the Equities this week with most of the European indices closing in the red due to the German GDP figures which signalled that the impact of COVID-19 on Europe would be higher than expected. With results of FANGMA stocks better than expected, NASDAQ & S&P 500 moved upwards in the later part of the week while Russell 2000 remained pretty side-ways.

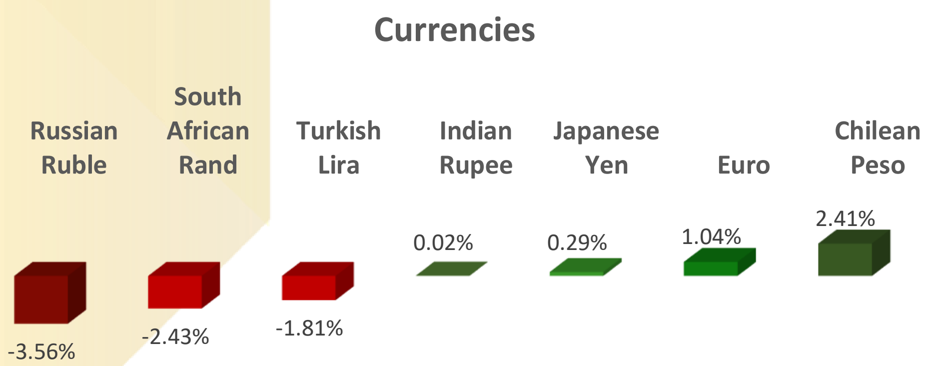


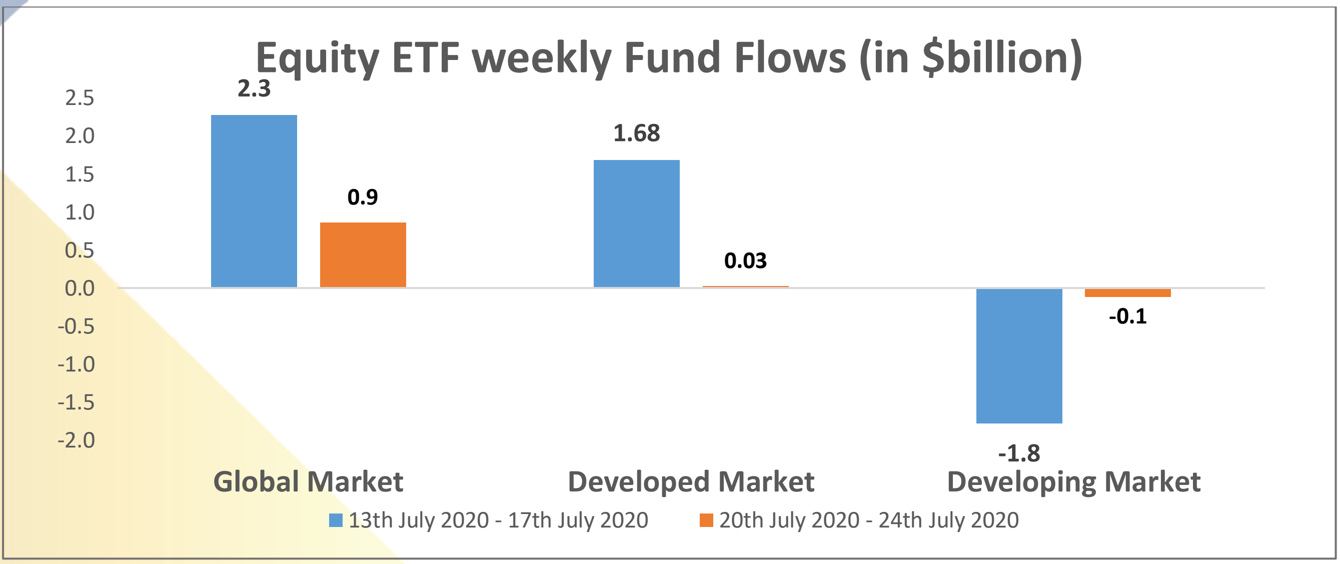
Figure 7: The bar graph represents Currency returns with respect to US Dollar as the base currency for this week

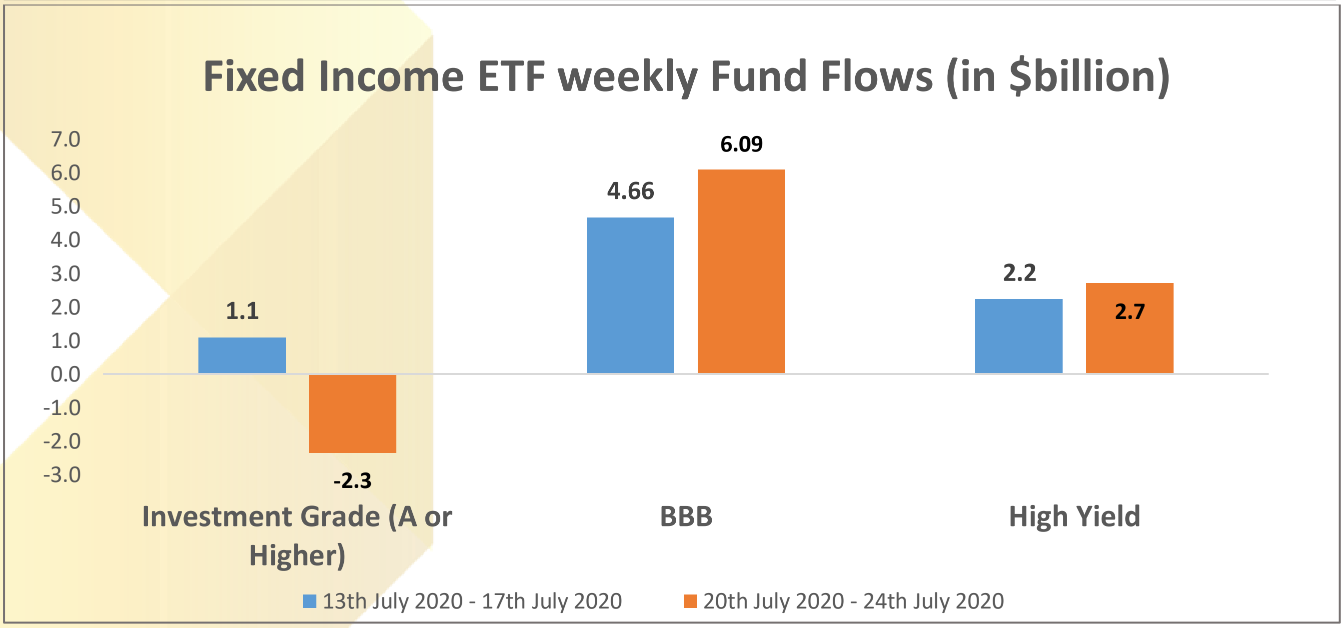
Despite the bad GDP figures from Germany, most European currencies either help their ground or appreciated this week. With very few exceptions, most currencies this week remained side-ways against the dollar.

GLOBAL FUND MANAGER'S STATEMENTS

1) Scott Minerd(CIO, Guggenheim Partners): "Technical analysis indicates the 10-year note yield could soon touch 25bp."," With 10-year rates trading below prior closing lows, a move to negative rates is becoming more likely." – Tweeted on 31st July 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

"The quarterly results from Facebook, Amazon, Apple and Alphabet totally resurrected the risk on sentiment in an otherwise dull week. We do believe that dollar has finally bottomed out and could move up particularly against EM currencies. We expect equities to be sideways to bearish in the near term. Gold and silver may have peaked out for the near term and could correct even though they remain bullish for the longer term."

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