



PACE 360

Weekly Report and Outlook on Global Markets

16th October 2020

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MARKET DEVELOPMENTS

RBA's Pursuit of Lower Yields Would Drag Down Australian Dollar

The Australian currency depreciated this week because of the central bank's desire to lower long dates bond's yields



Figure 1: Performance of Australian Dollar and Australian 10 year yield

toward the 0.68 handle.

Australia's 10-year yields are higher than "almost everywhere in the world," Governor Philip Lowe observed this week. That unleashed speculation that the central bank would announce a plan to purchase bonds at the longer end of the curve as soon as next month.

If the RBA decides to pursue lower yields in earnest, the currency would probably fall from about 0.7075 now

Funds Turn Sour on Indonesia, Switch to Malaysia:

When it comes to what kind of central-bank policy is best for luring foreign investors to Asia during the Covid-19 pandemic, orthodoxy is winning hands down.

Take the respective fates of Indonesia and Malaysia.

The proportion of Indonesia's debt held by foreigners has dropped to 27% from 39% at the end of last year, while in Malaysia it increased to 24% from a low of 21.7% in April. The difference has narrowed to just 3 percentage points from as much as 14 percentage points at end-2019. It is the same story for fund flows. Indonesia has had net foreign outflows of \$6.8 billion this year, while Malaysia has recorded inflows of \$1.3 billion.



Figure 2: Foreign ownership of Indonesian and Malaysia's bonds

One of the factors deterring flows into Indonesia has been the central bank's debt-monetization program, in which it buys bonds directly from the government. Money managers are concerned the plan will become entrenched, despite repeated assurances to the contrary from the central bank governor and finance minister. Malaysia's central bank has stuck closely to orthodox measures in its efforts to combat the coronavirus: cutting rates and lowering the statutory

requirement ratio.

Another factor luring global funds to Malaysia instead of Indonesia has been Bank Negara's more aggressive rate action. Malaysian policy makers have trimmed their benchmark by a combined 125 basis points this year, whereas Indonesia's has only cut by 100 basis points, even though its higher nominal rate means it has relatively more headroom.

Australian Cotton Could Be Latest Casualty of China Spat

Australia's cotton industry fears it may be the latest casualty of growing tensions between Canberra and Beijing, with China disrupting exports from its major supplier.

Some Chinese cotton mills have been verbally told by government officials to stop buying the fiber from Australia, according to two people familiar with the situation, who asked not to be identified discussing a private matter.

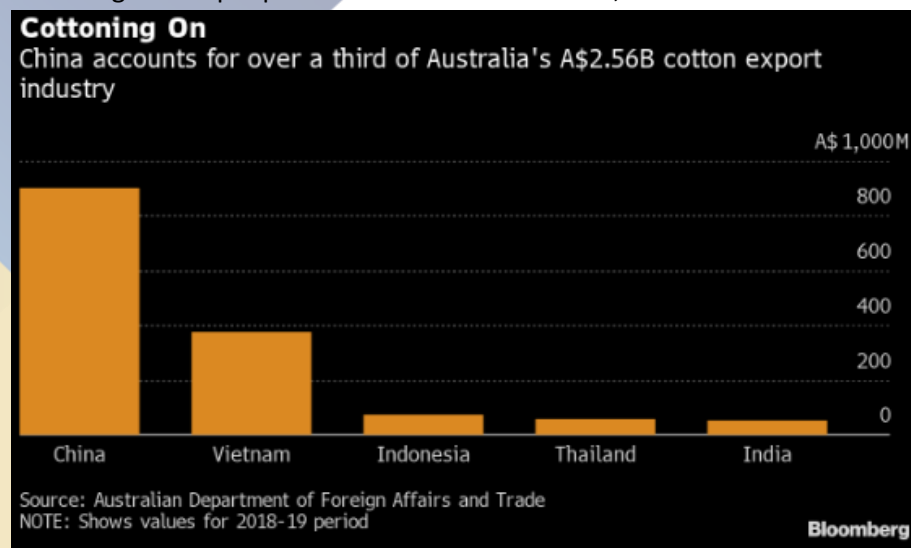


Figure 3: Importers of Australian Cotton

cotton export trade in 2018-19, according to Department of Foreign Affairs and Trade data. Other major importers include Vietnam, Indonesia, Thailand, and India.

Moody's Downgrades UK Credit Rating

The UK's credit rating has been downgraded by one of the big three ratings agencies.

Moody's cited weak economic growth and other factors for its decision to lower Britain's grade by one notch to Aa3 - its fourth-highest ranking.

The pandemic has blown a big hole in the public finances, with the Government spending billions to support jobs and prop up an economy that has already suffered its biggest quarterly contraction on record.

The pandemic has pushed the national debt above £2 trillion, or more than 100pc of GDP.

"Even before the coronavirus-induced shock, a combination of persistently low productivity growth since the global financial crisis, tepid business investment since the June 2016 EU referendum, and prolonged uncertainty over the eventual future trading relationship with the EU were weighing on the UK's growth performance," Moody's said.

Moody's, which has had a negative outlook on the UK since November, said its outlook on the new rating was stable.

Beijing authorities may start an anti-dumping investigation on Australian cotton, one of the people said. Mills have been told to shift to Brazilian, Indian, and U.S purchases instead, one of the people said.

Australia is the world's most China-dependent developed economy and has been seeking to reduce its reliance through a string of trade accords with other nations.

China accounted for about 35% of Australia's A\$2.56 billion (\$1.8 billion)

MAJOR MOVES THIS WEEKS

Currencies

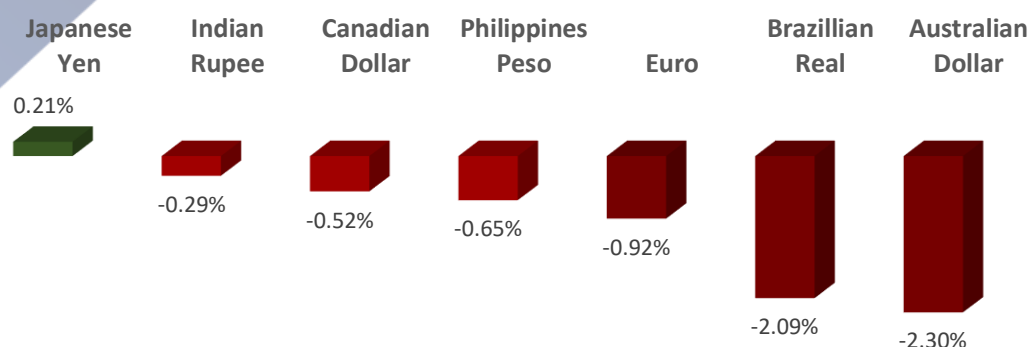


Figure 4: The graph represents Currency returns with respect to US Dollar as the base currency for this week

The currencies this week depreciated against the dollar because of the risk off sentiment in the market. Australian dollar was one of the worst performing currencies this week because of the Reserve Bank's stance to keep the long term yields low.

Global Equities

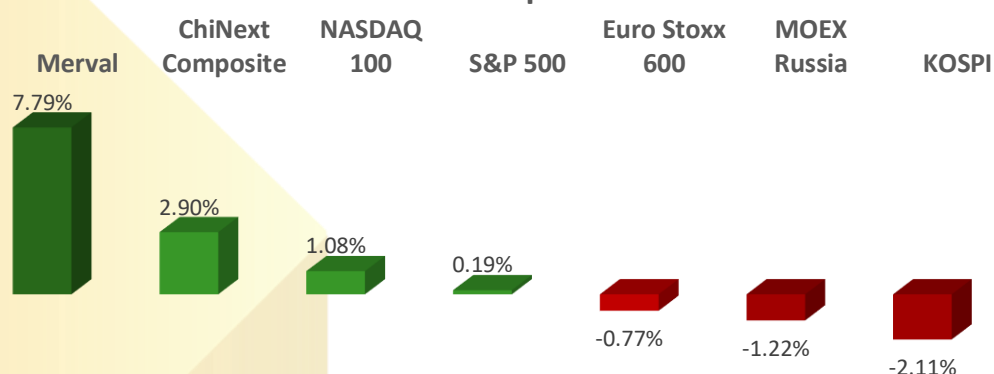


Figure 5: The chart represents the equity index returns over this week.

The equity markets were sideways this week. The Chinese indices outperformed the market today because of the bullish statement from Chinese officials and also on a very positive trade data. This news resulted in most of the Asian indices performing well this week.

Commodities

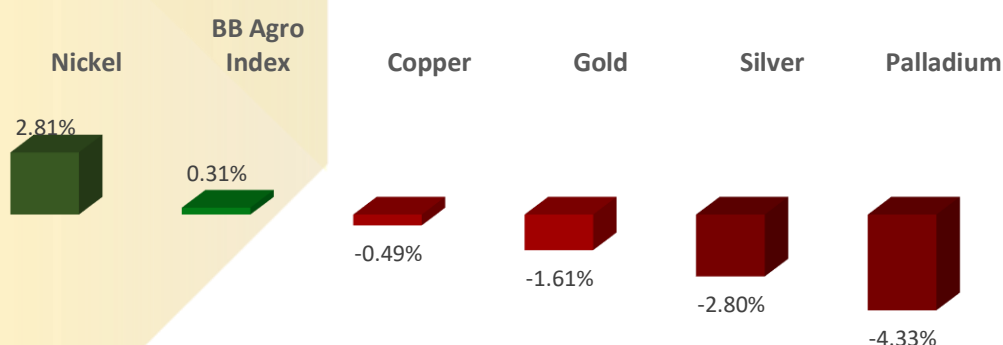


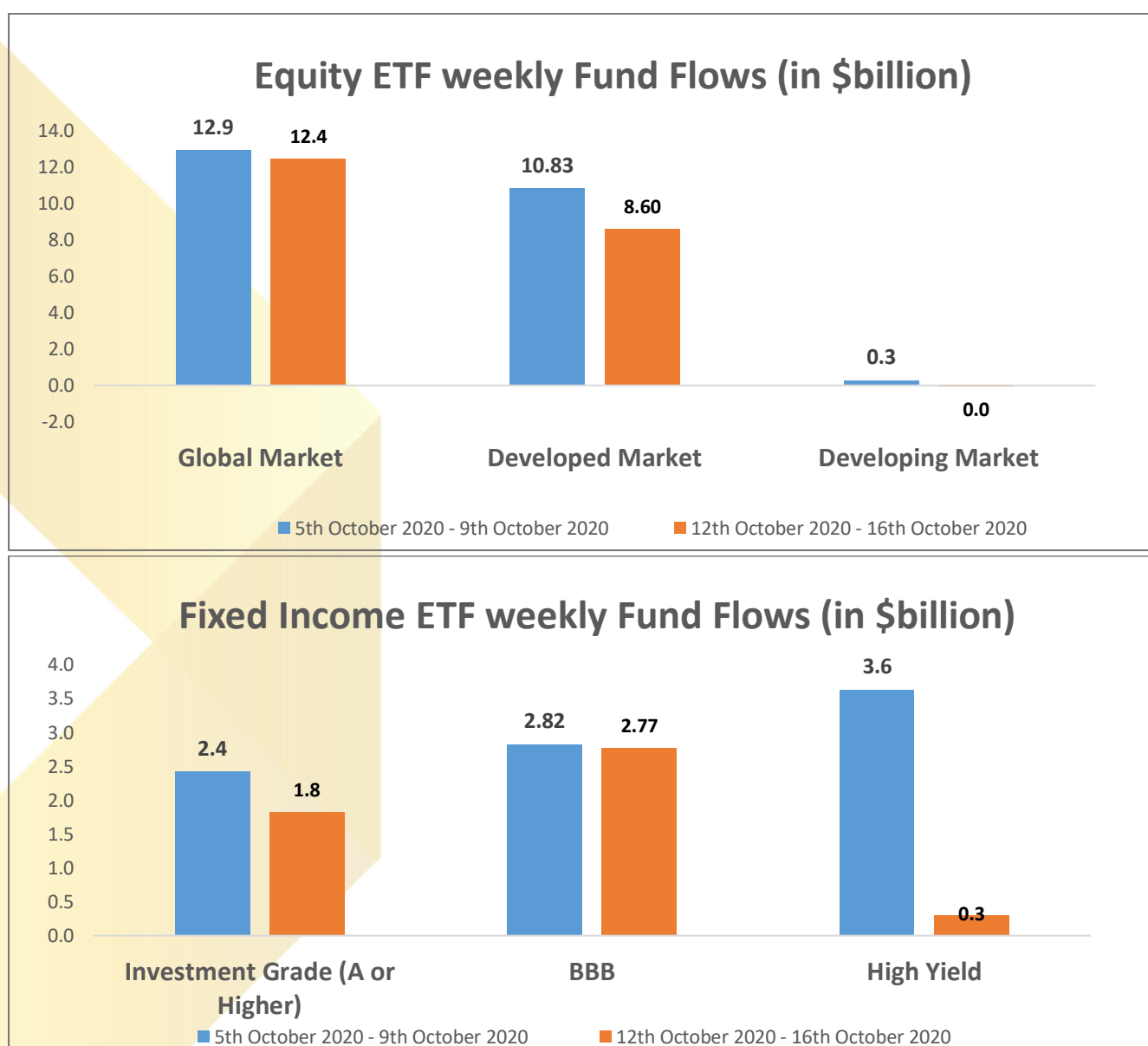
Figure 6: The chart represents the commodity returns over the week.

Precious metals closed in red this week because of no stimulus news by Trump. Crude also underperformed the market this week due to lower demand.

GLOBAL FUND MANAGERS' STATEMENTS

- 1) Jim Paulsen (CIO, Leuthold Group LLP): "To me the financial markets and the corporate and individual behaviours tell a very different narrative than I hear about every day. The recent stock rally has been led by cyclical and small-cap stocks. These stocks are sensitive to an economic recovery and their gains are a good sign. We're seeing behaviours by companies and consumers that are just not consistent with the national narrative that this economy is hanging by a thread and consumers and businesses are petrified in fear" – In an interview with CNBC on 13th October 2020.

GLOBAL WEEKLY ETF 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 subcategories as well

PACE 360'S FUTURE OUTLOOK

" Global risk assets seem to be overstretched and overvalued in the present context. The resurgence of covid in most parts of the world, absence of fresh fiscal stimulus from the US and the US election uncertainty is probably not adequately discounted by the markets at their current levels. We continue to expect a pre-election sell off in global risk assets over the next couple of weeks. Nasdaq 100 is looking particularly vulnerable among key equity indices. Gold is gradually consolidating around 1900 levels and is preparing its base for a move higher in the coming months."

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CONTACT US



+91-11-4742 1001



info@pace360.in



A-1/291, Safdarjung Enclave, New Delhi – 110029

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