Weekly Report and Outlook on Global Markets

9th January 2021

Market Developments 2

Major Moves This Week 6

Global Fund Managers' Statements 6

Global ETF Fund Flows 6

PACE 360's Future Outlook 7

India's Central Bank to Drain Cash to Raise Short-Term Yields

India's central bank will start draining cash from the banking system as it seeks to revert to normal liquidity operations from pandemic-imposed emergency measures.

The Reserve Bank of India will withdraw 2 trillion rupees ($27.3 billion) via a 14-day reverse repo auction on Jan. 15, it said in a statement on Friday. The move will probably raise short-term rates, which had crashed in November due to the glut of cash and risked distortions in the financial system.

"It has been decided to restore normal liquidity management in a phased manner," the RBI said. "It is reiterated that the Reserve Bank will ensure availability of ample liquidity in the system."

Figure 1: 91 day, 182 day, 364 day t bill yields.

The first steps to reset the price of liquidity comes after surplus cash in the banking system pushed short-term rates way below the reverse repo rate of 3.35%, the lower bound of the central bank's interest-rate corridor. Friday's decision follows signs that India's economy is recovering from a strict lockdown.

Traders had widely anticipated that the central bank would take some steps at its December meeting to withdraw cash to correct the anomaly in short-end rates, which can distort banks' asset pricing. But the RBI had chosen to keep cash conditions unchanged as it sought to prioritize growth. Nomura Holdings Inc. had said it expected the RBI to begin liquidity withdrawal from the second quarter of 2021.

The decision restores implementation of the RBI's new liquidity management framework announced in February 2020, which was suspended due to the pandemic. Under that framework, RBI has tools including the variable rate repo and reverse repo auctions to add or drain cash from the banking system.

Indonesian Bond Returns Powered by Juicy Real Yields

Indonesian bonds still have room to rally as continued low domestic inflation keeps real yield returns relatively high.

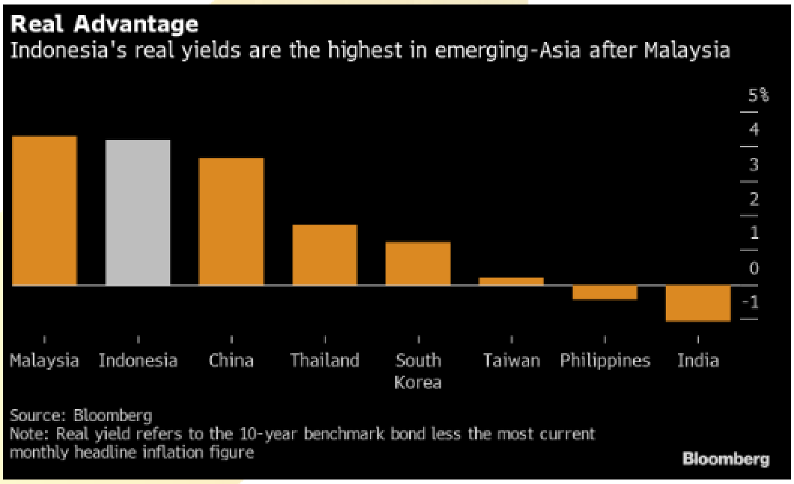


Figure 2: Real yields in Asian countries.

Though Indonesia's inflation rose for the fourth straight month, it is still below the central bank's target inflation range of 2-4%. Even with the rally taking the 10-year benchmark yield below the 6% level, muted domestic inflation means relatively high real yields. Rupiah bonds are offering close to 4.20%, adjusted for inflation, which is the second best in emerging-Asia after Malaysia. At the other end of the spectrum is India with a negative real yield.

U.S. Initial Jobless Claims Remain Elevated Heading Into 2021

Applications for U.S. state unemployment benefits were little changed at elevated levels in the final week of 2020, indicating the labor market remains battered with the pandemic dragging on.

Initial jobless claims in regular state programs fell by 3,000 to 787,000 in the week ended Jan. 2, Labor Department data showed Thursday. On an unadjusted basis, the figure rose by 77,400.

Continuing claims for state programs -- a rough approximation of the number of people receiving those benefits -- declined by 126,000 to 5.07 million in the week ended Dec. 26. A Bloomberg survey of economists had called for 800,000 initial state claims and 5.2 million continuing claims on an adjusted basis.

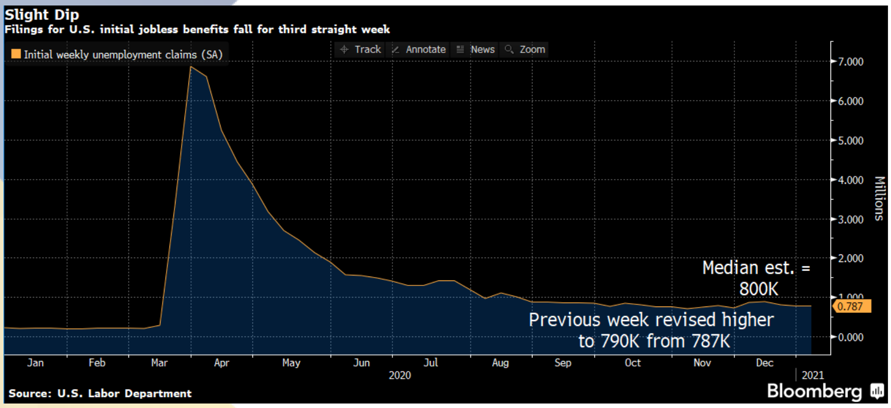


Figure 3: Initial weekly unemployment claims.

The data tend to be more volatile around holiday weeks such as those containing Christmas and New Year's Day.

While initial claims dropped for a third consecutive week, the figures underscore a labor-market rebound that remains fragile, with Friday's jobs report forecast to show a sharp slowdown in December hiring. The surge in Covid-19 cases sparked a wave of renewed restrictions on businesses and activity, spurring businesses to cut jobs.

Other indicators pointed to a slowing employment recovery in December. ADP Research Institute data show company payrolls fell by 123,000 and figures from Challenger, Gray & Christmas showed 77,030 job cuts, a 134.5% increase from a year earlier.

The recently signed $900 billion pandemic aid package will provide some relief for workers and businesses in the wait for widespread vaccinations. The law extended jobless benefits for millions of Americans poised to lose that financial support at the end of 2020. It also provided an additional $300 per week in unemployment aid through mid-March.

One of the programs set to expire, Pandemic Unemployment Assistance, saw 161,460 initial claims last week, a decline of almost half from the prior week. The program provides jobless benefits to those not typically eligible like the self-employed and gig workers. There were 8.38 million continued weeks claimed for PUA in the week ended Dec. 19, down slightly from the prior week.

China Acts to Slow Gains by Strongest Yuan in Almost Three Years

There are growing signs that Beijing is keen to slow the ascent in China's currency after it surged to the highest level since mid-2018 against the dollar.

The People's Bank of China set its fixing at 6.4604 per dollar on Wednesday, 0.06% weaker than the average estimate in a Bloomberg survey. The onshore yuan fell 0.11% to 6.4620 as of 4:24 p.m. in Shanghai after gaining in the previous two sessions. The move came after policy makers sent a string of signals suggesting they are growing uncomfortable with the yuan's strength.

Here are some charts reflecting investor confidence in the Chinese currency:

Figure 4: Spread between onshore yuan and daily fixing.

This week, the onshore yuan traded at the largest premium over the reference rate since November, reflecting strong demand for the currency in the spot market. The fixing limits the yuan's movements by 2% on either side.

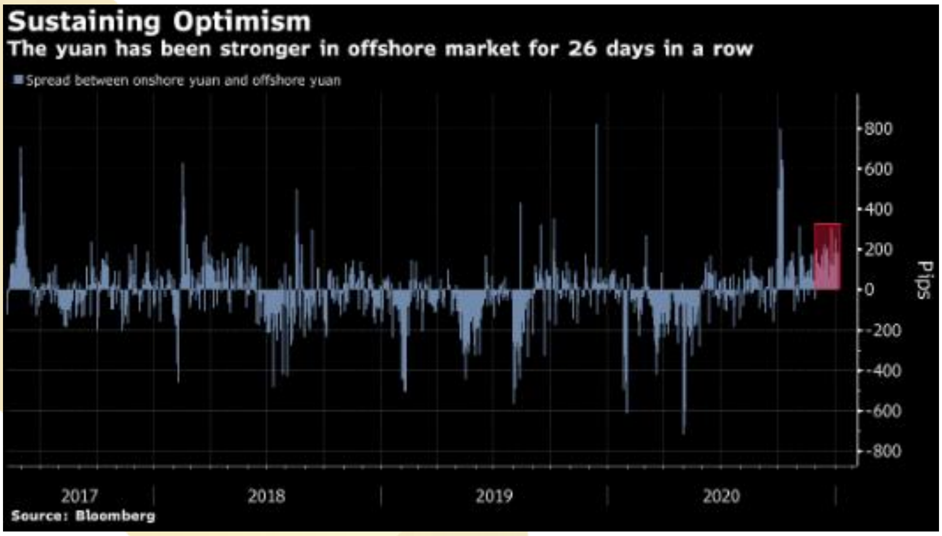


Figure 5: Spread between offshore & onshore yuan

The offshore yuan has been trading at stronger levels than the onshore rate for 26 days in a row, the longest stretch since 2017. The currency traded overseas is usually a better gauge of investor sentiment, as it's subject to less official influence. So the gap is a reflection of optimism toward the yuan.

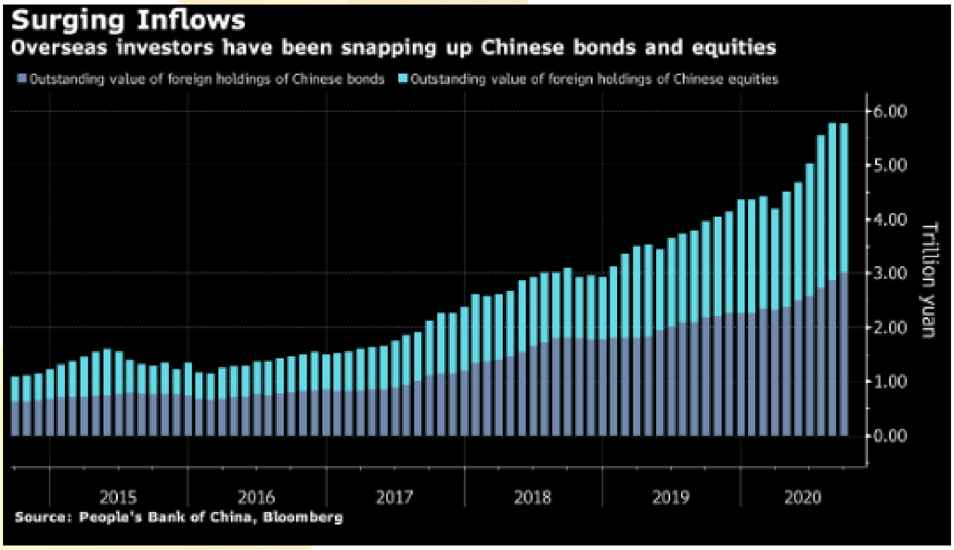


Figure 6: Outstanding value of foreign holdings of Chinese equities.

Overseas funds increased their holdings of onshore bonds and stocks by more than 30% in the nine months through September, official data showed.

MAJOR MOVES THIS WEEKS

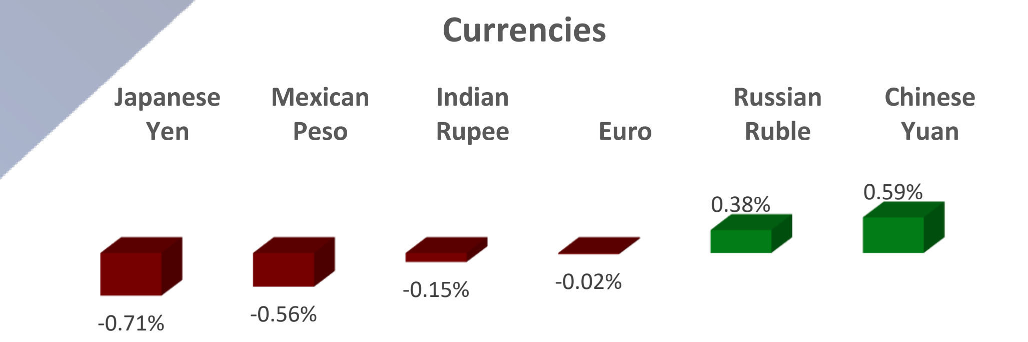


Figure 7: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

With the increasing crude oil prices, oil-dependent currencies have performed better this week. With an appreciation in the dollar index, Euro, and other currencies have shown depreciation.

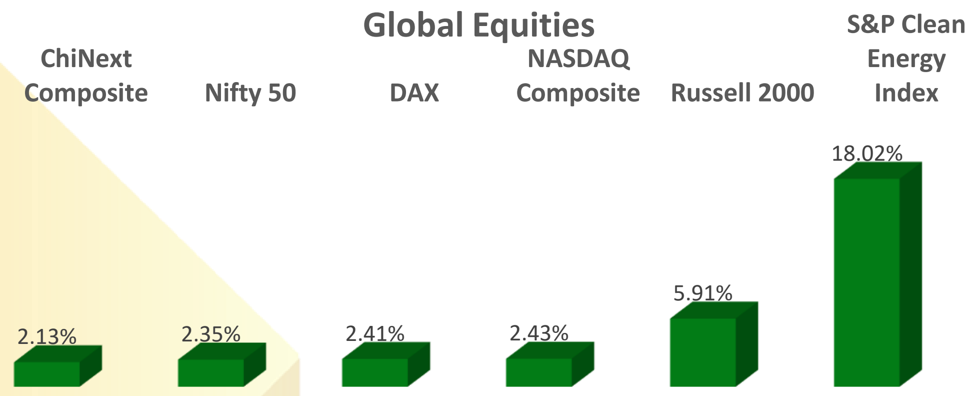


Figure 8: The chart represents the weekly equity index returns.

With a democratic sweep pushing the risk sentiments higher, all the equities around the world have appreciated this week. Clean energy indices all over the world have outperformed other sectoral indices. Small cap indices have outperformed large cap indices.

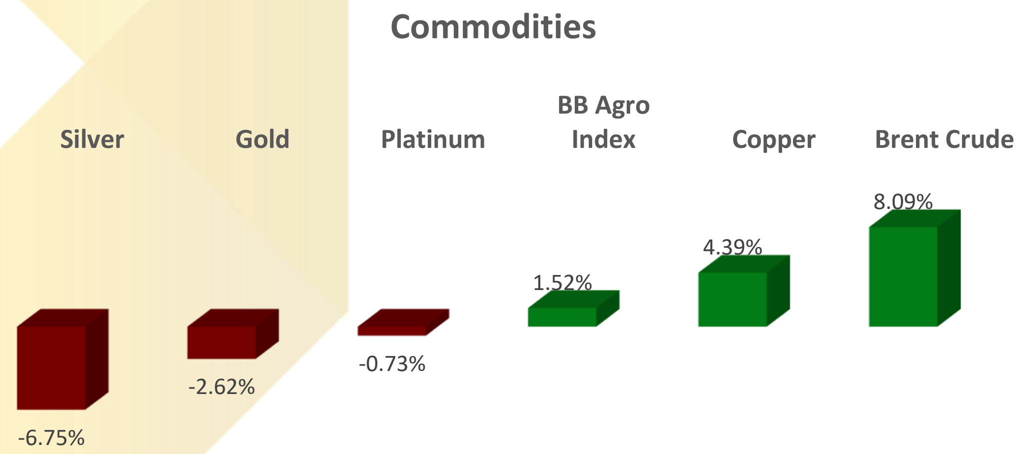


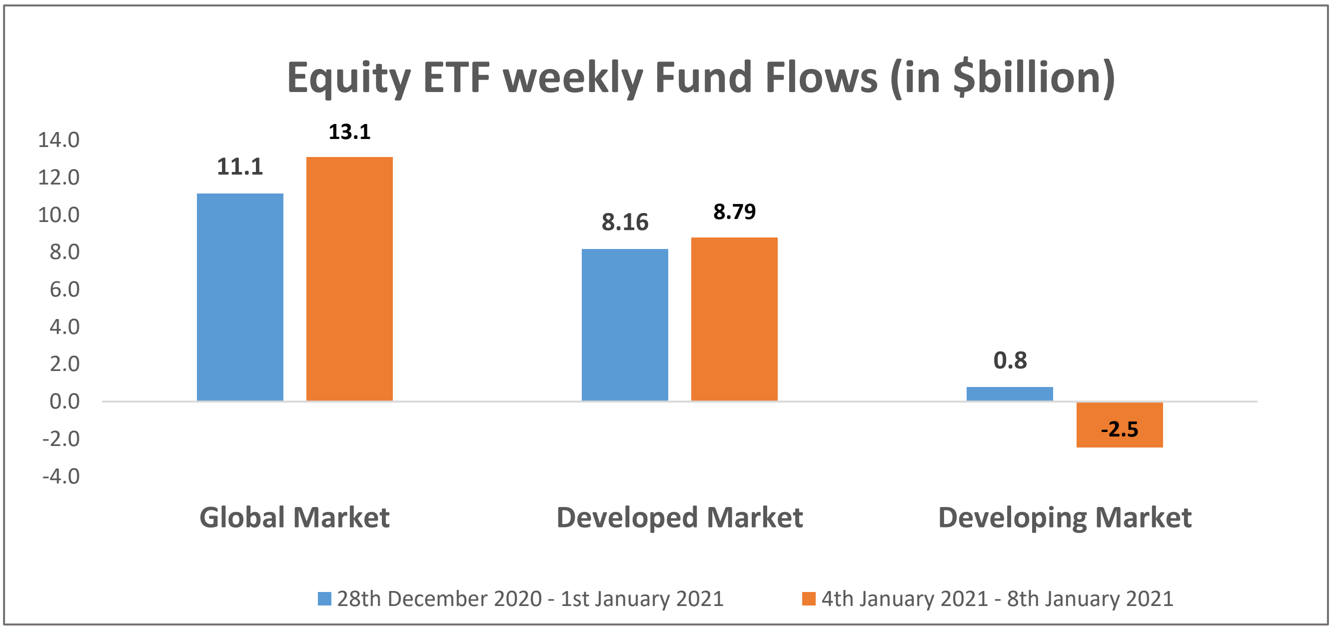
Figure 9: The chart represents the weekly commodity returns.

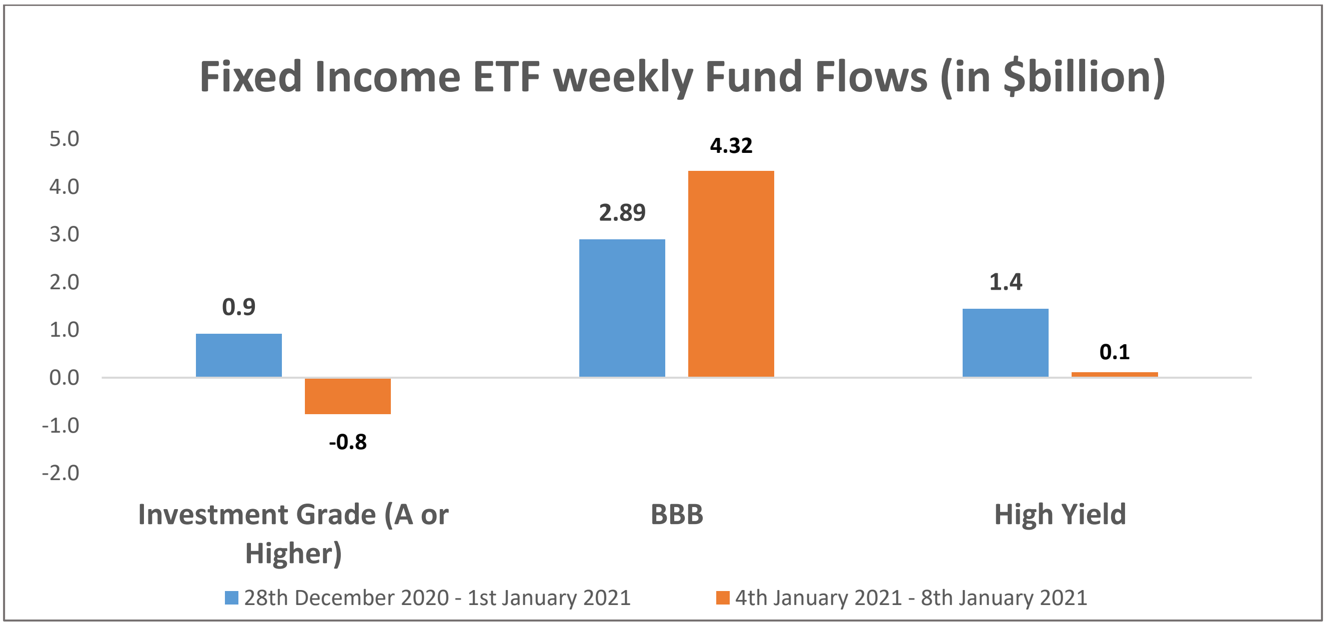
A Surprise 1 million barrel per day production cut by Saudi Arabia has pushed brent crude to new highs. Most precious metals have depreciated this week due to the dollar strength and the risk on sentiment. Industrial metals also appreciated this week owning to a risk on sentiment.

GLOBAL FUND MANAGERS' STATEMENTS

1) Carl Icahn (Founder Icahn enterprises): "In my day I've seen a lot of wild rallies with a lot of mispriced stocks, but there is one thing they all have in common. Eventually they hit a wall and go into a major painful correction. Nobody can predict whether it will happen, but when it does happen, look out below." "Another thing they(Bullish Rally) have in common is it's always said, 'it's different this time'. But it never turns out to be the truth.'" – Interview with Business Insider, 6Th January 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

" While the extreme euphoria in the global equities continues unabated, the EM currencies have started coming down and the dollar index also seems to have bottomed out. We believe that EM Equities and commodities will be the next dominoes to fall. US equities will probably be the last risk asset class to fall. We expect a blood bath in all risk assets between now and mid-February. The sharp moves down could begin as early as the latter half of the coming week."

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