



PACE 360

Weekly Report and Outlook on Global Markets

19th February 2021

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MARKET DEVELOPMENTS

The Great Rotation Out of the Euro Is Benefiting the

A great rotational play may be under way in the G-10 currency markets, with smart money exiting the euro in favor of the pound.

The euro has weakened about 1.5% against the dollar so far this year, while sterling advanced about 1.7% to earn the tag as the best-performing exchange rate. At the heart of the divergence between the two currencies is traders handicapping the euro for its tardy response to vaccine approvals and rewarding the pound for its head start.



Figure 1: GBP/USD VC EUR/USD

There are other important factors at work too: the pound is now absorbing the bulk of the broad weakness in the dollar. A few months ago, that task was left largely to the euro. That has implications: if the trend prevails, the pound has the potential to strengthen toward \$1.42 in the coming months. Indeed, volatility pricing in the markets see a more than 60% probability of that level being touched before the end of the second quarter.

As for the euro, its recent moves mean that its overvaluation is waning, even though it is still considerable, based on the framework outlined here. The currency has weakened since it was noted that any increase in bund yields will ironically come to haunt its valuations. Since then, German 10-year yields have climbed about 20 basis points while EUR/USD slipped 0.5%.

African Nations Are Already Hiking Rates With More to Come

Inflationary pressures and currency weakness could force central banks in some key African economies to tighten monetary policy, even as the slow rollout of coronavirus vaccines and new mutations of the disease pose risks to economic growth.

Mozambique and Zambia became the first two countries in the world to raise their benchmark interest rates this year, and three of sub-Saharan Africa's biggest economies -- Nigeria, South Africa and Angola -- could follow suit.

Nigeria

While Nigeria's economy dropped into a recession for the second time in four years, surging inflation and weak liquidity in the foreign-exchange market may prompt the central bank to act soon. A slow recovery starting in the second quarter could push the monetary policy committee to redirect its policy goals from growth, toward its primary mandates of price and exchange-rate stability

South Africa

In South Africa, rising electricity and oil prices are fuelling inflation expectations and driving up bets the central bank will raise its key rate this year. Forward-rate agreements, used to speculate borrowing costs, are now pricing in 42 basis points of tightening in 2021, a turnaround from the beginning of the month when expectations were for the repurchase rate to remain unchanged at a record low 3.5%. Any upward move by South Africa could be emulated by neighbouring Lesotho, Eswatini and Namibia, which peg their currencies to the rand.

Angola

Angola's central bank, which didn't cut its policy rate in response to the virus in 2020, also faces pressure to hike due to rampant inflation. Price growth in Africa's second-biggest oil producer jumped to 25.3% in January. Budget documents show the government sees inflation only slowing to 18.7% by the end of the year and that could force the central bank to act as the kwanza continues to weaken and the gradual implementation of a new 14% value-added tax pushes up prices.

Gold premium over Platinum falls to lowest since 2018.

Precious Metal Premium

Gold's price edge over platinum has narrowed to the lowest since 2018



Platinum has rallied this year while costlier gold has sunk, and that shift offers investors a window into the global recovery. One ounce of gold now buys 1.4 ounces of the metal used in pollution-control devices, the least since March 2018 and down from near 2.5 ounces last March. That decline in the ratio is a reflection of the ongoing theme across the financial markets, which is optimism about economic growth amid vaccine rollouts.

The global rebound will help spur platinum demand, while gold, a traditional haven, is unlikely to benefit as much.

Japan 10 year yield rises to 0.1% key level

Growing Fear

Japan's 10-year yield reaches a 0.10% landmark amid rising volatility



Japan's 10-year yield rose to the highest since November 2018 amid a global bond selloff and growing concern over the central bank's policy review next month. The rise in yield to the 0.1% landmark was accompanied by a surge in implied volatility in bond futures. Investors are too scared to buy bonds as they have no idea of what the Bank of Japan will do at its March policy review, said Shuichi Ohsaki, chief rates strategist at Bank of America in Tokyo.

MAJOR MOVES THIS WEEKS

Currencies

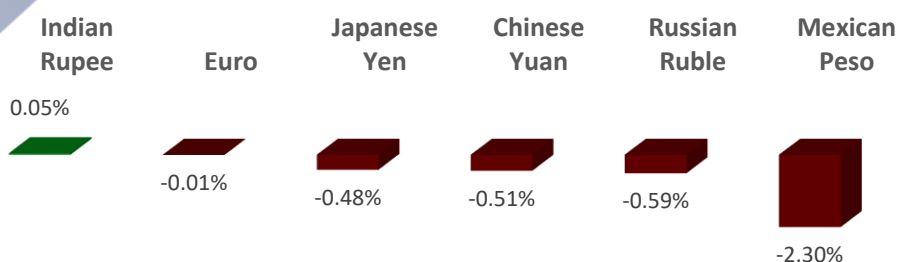


Figure 2: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

This week the EM currencies saw a good depreciation with currencies like Mexican Peso, South African Rand leading the losses. With dollar bullishness prevalent in the market, most developed market currencies have also depreciated except for British Pound.

Global Equities



Figure 3: The chart represents the weekly equity index returns.

Due to the prevailing bearishness in the market, most equity indices today took a beating. Rising 10 year yields however, supported the Banking stocks which outperformed most market this week.

Commodities

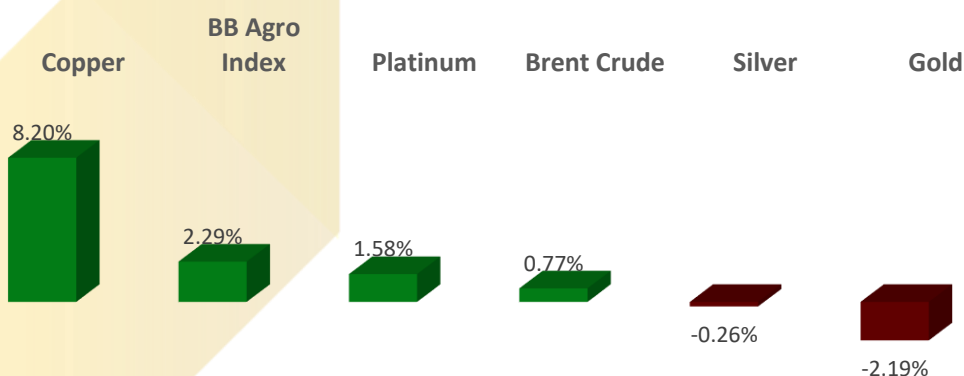


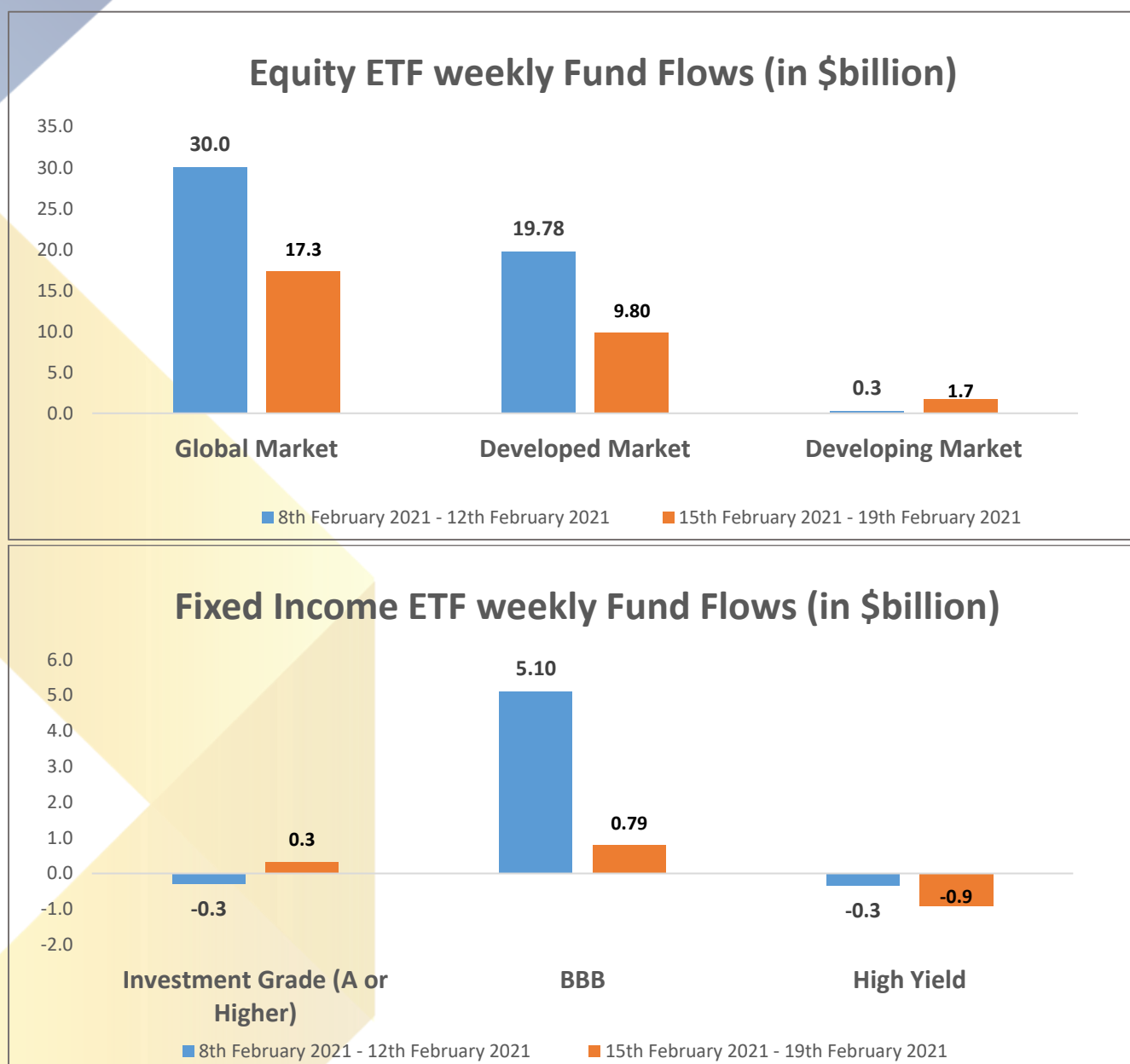
Figure 4: The chart represents the weekly commodity returns.

Rising 10 year yields put pressure on Gold and other precious metals. Industrial metals and Agricultural commodities appreciated this week.

GLOBAL FUND MANAGERS' STATEMENTS

- 1) Jeffrey Gundlach(Founder Double line Capital): "I am a long term dollar bear and gold bull but have been neutral on both for over six months. Lots of liquid poured into a funnel creates a torrent. Bitcoin maybe The Stimulus Asset. Doesn't look like gold is" – Twitter, 18th Feb 2021.

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

"Risk assets did start declining towards the latter half of last week. We expect risk assets to fall by another 8-10% over next 4-5 weeks. We are particularly bearish on EM Equities and currencies and Russell 2000 index in US. We expect dollar index to strengthen by about 2-3%. We believe gold is in the process of making longer term bottoms and expect gold to do very well over the next 4-5 years."

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