Weekly Report and Outlook on Global Markets

5th February 2021

MARKET DEVELOPMENTS

Oil Surges to One-Year High Fueled By OPEC+ Commitment on

Oil jumped to the highest in more than a year, extending this week's rally to above $56 a barrel, with investors confident that OPEC+ producers are committed to restraining global supplies. OPEC+ producers have pledged to keep draining a pandemic-driven oil surplus, while global inventories from China to the U.S. continue to decline. Saudi Arabia is keeping oil pricing unchanged for Asia, while raising prices for all grades for buyers in the U.S. and Europe.

Figure 1: Spread between Current Brent contract and 12 month Future contract

The expectation for stronger oil demand is also supporting prices, with governments worldwide distributing Covid-19 vaccines. While a full-fledged recovery still has yet to take shape, oil consumption is poised to return to 2019 levels by the end of the year.

"At the moment we are seeing pretty good oil prices," Shell Chief Executive Officer Ben van Beurden said in a Bloomberg Television interview. "Demand is not back where it was a year ago, but then again we see a lot of discipline also from OPEC+ and therefore the market is being held in balance quite well."

Money is flooding back into the market. Total holdings of WTI crude futures are now at their highest level since July 2018, surpassing levels seen during the frenzied trading of April last year. That influx of funds comes as the crude futures curve continues to indicate strength. The so-called Dec.-Red-Dec. spread, a favoured trade of the world's hedge funds, has topped $4 a barrel this week to reach its strongest level in a year.

Sleepy Philippine Yields to Get a Boost From Inflation

Yields on Philippine peso bonds are set to rise as Friday's inflation beat shows price pressure is building.

Figure 2: Philippines 10 year Peso Bond & Philippine inflation.

January CPI came in at a higher-than-expected 4.2%, rising for a fourth straight month. Should inflation remain above the same level, the yield on 10-year notes could rise toward 4% having consolidated around 3% since July. Adding to pressure on local bonds is a deluge of sales with the government projecting a wider budget deficit this year.

Italian Yields slid to a 5 year high against German Bonds.

Italian bonds rallied on investor bets that former European Central Bank Governor Mario Draghi will be able to form a government to navigate the coronavirus crisis and manage funds coming from the European Union. The yield gap between Italian debt and bunds narrowed to the smallest in five years, falling below 100 basis points for the first time since 2016.

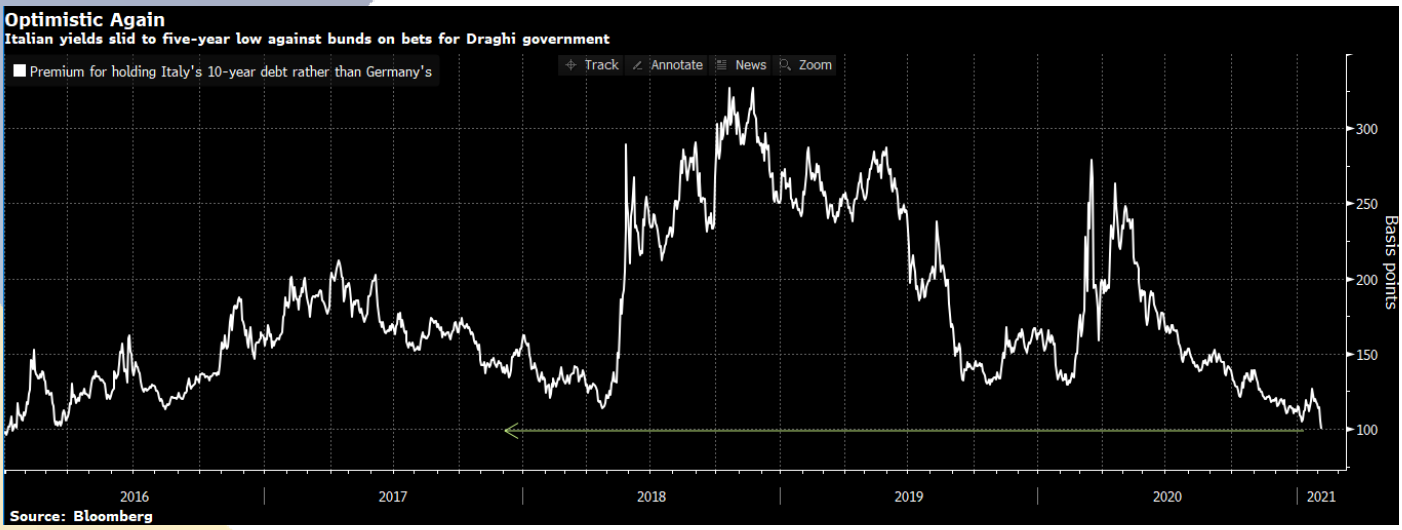


Figure 3: Spread Between Italy 10 year & Germany 10 year.

With optimism increasing about 'Super Mario' Draghi to get majority in both the houses of Parliament, the demand for Italian bonds is expected to increase. This would result in the spread between Italy 10 year and Germany 10 year falling to as flow as 80 basis point.

Currencies & Equities in Emerging Markets are the least correlated since 2004.

Weakening currencies are taking the sheen out of the emerging-market equity rally. After trailing behind stocks for two years, the benchmark gauge of developing-nation exchange rates is struggling again amid a resurgent dollar. That's taken the 60-day rolling correlation between currencies and stocks to the lowest since 2004, raising questions about the sustainability of equity gains.

Figure 4: MSCI EM Currency Index & EM Index, Correlation between them.

MAJOR MOVES THIS WEEKS

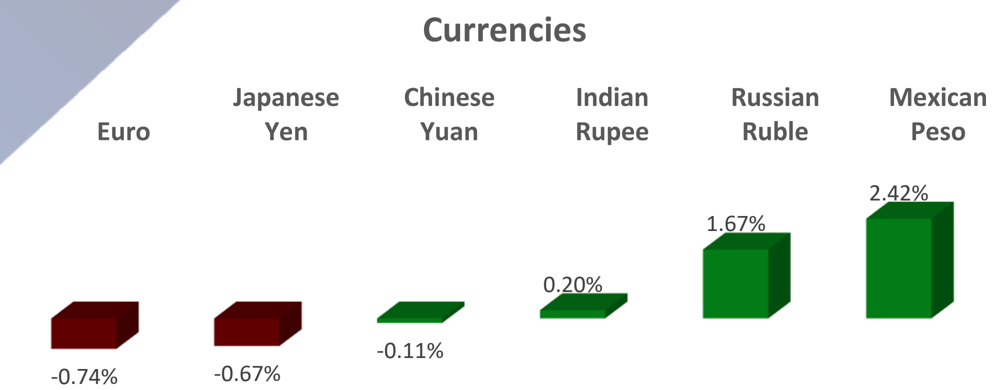


Figure 5: The graph represents weekly Currency returns with respect to US Dollar as the base currency.

There was a clear distinction between the performance of EM Currencies & Developed Market currencies this week. Rise in the dollar index put pressure on the Euro, Yen, Yuan and other developed currencies but the risk on sentiment in the markets pushed most EM currencies higher against the dollar.

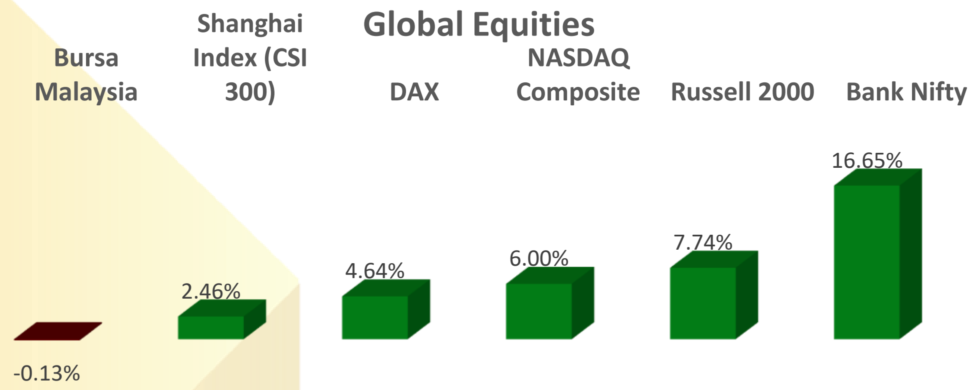


Figure 6: The chart represents the weekly equity index returns.

The announcement of new budget & RBI's policy pushed the Indian Indices to new highs. With the proposal of new stimulus package by Joe Biden's administration, the markets showed a clear risk-on sentiment this week with most U.S. Indices making new rally highs.

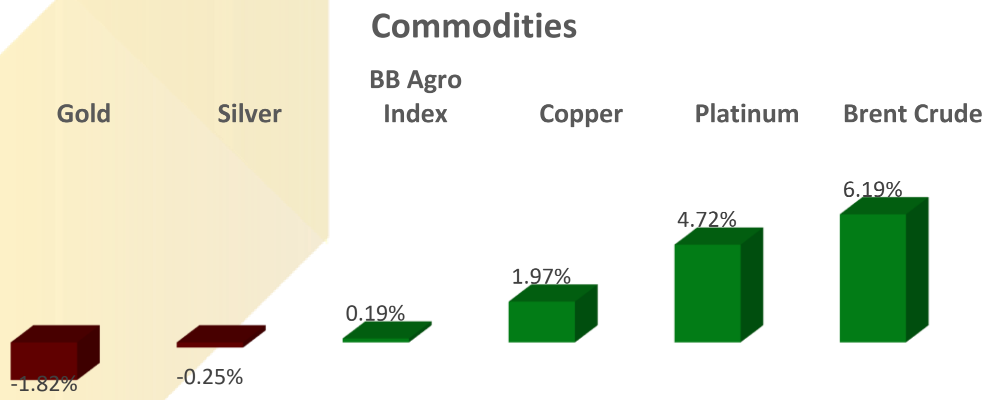


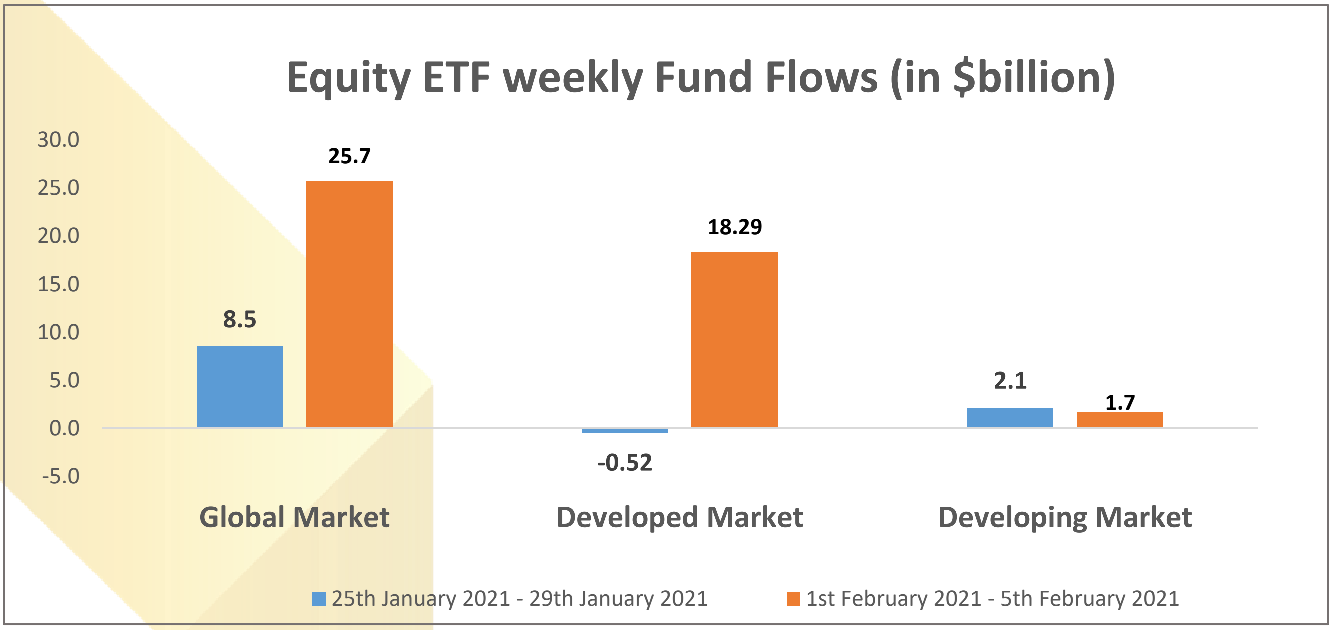
Figure 7: The chart represents the weekly commodity returns.

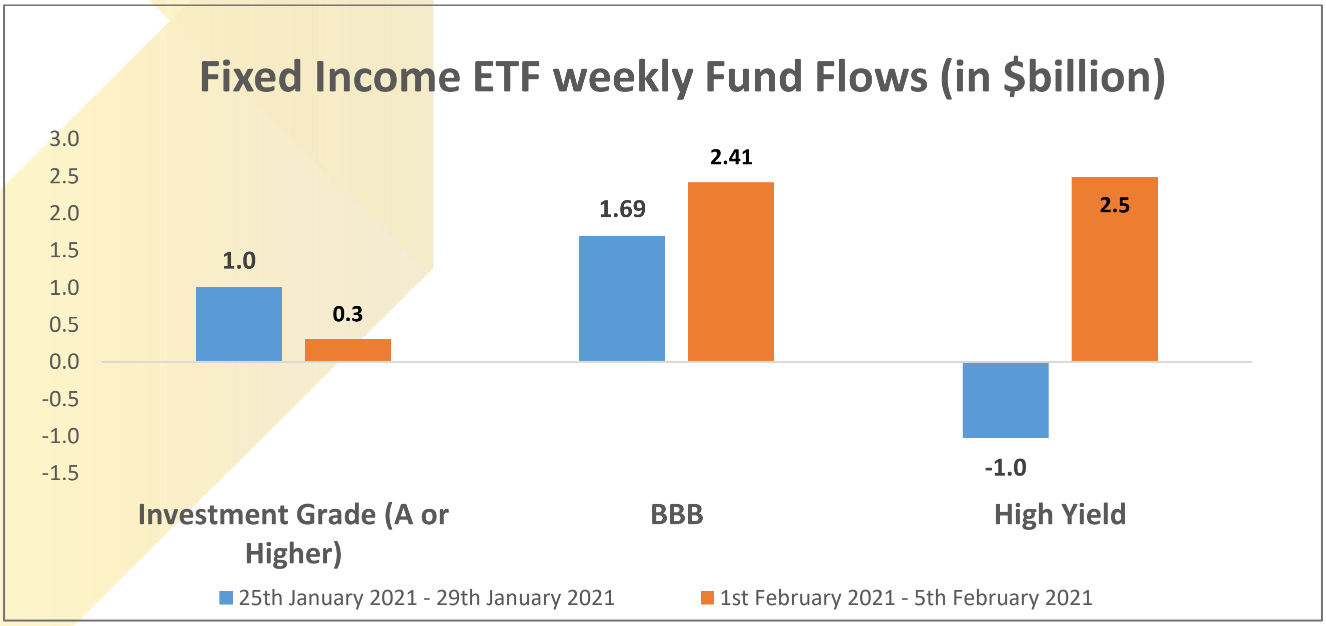
OPEC+ Committee's announcement to ensure that the supply glut in Crude will be cleared brought about a bullishness in crude which helped it make new yearly highs. Gold & Silver's underperformance this week was the result of increase in bond yields.

GLOBAL FUND MANAGERS' STATEMENTS

1) Mark Mobius (Founder, Mobius Capital Partners) : He doesn't subscribe to the view that inflation will make a comeback now. He argues that the present-day scenario is more of a deflationary one, because as governments devalue currencies to extract the maximum benefit, incomes and salaries move in tandem with the change in prices of goods and services. He cites India as an example where prices have risen but incomes too have surpassed the measurement of inflation. "Central banks may at some point look at reversing the rate environment but more and more central banks are losing control over money supply with cyber currency growth", "I see definite opportunities in the retail and residential segments and particularly big opportunities in property markets in India," said Mobius. Privatisation is crucial for India's growth prospects according to him. "ESG should be top of the priority list for companies and investors when investing," he said.

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 powered ahead because of the favourable developments on the US stimulus front. Risk assets are completely overstretched and over extended. We do expect a reversal by mid-March in all risk assets even if risk assets continue to be well bid over the next few days. We believe that fundamentals and valuations will prevail finally while they are being glossed over at present."

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