Weekly Report and Outlook on Global Markets

24 Sep 2021

China Warns on Food Security as Coal Crunch Hits Fertilizers

Figure 1:This chart China's urea prices which have soared this year amid rally in coal

The global fertilizer market is on a tear due to extreme weather, plant shutdowns and government sanctions, hitting farmers already buckling under the strain of rising costs and stoking fears that food inflation could worsen. In China, the rally has caught the attention of regulators, adding to a range of commodities that Beijing is scrutinizing.
Urea futures in Zhengzhou hit a new high Thursday, tracking a rally in coal prices. While natural gas is the primary feedstock for nitrogen producers around the world, most Chinese producers use coal, making them vulnerable to Beijing's increasingly strict policies around air pollution and the environment more broadly.

Taper Warning Signs Flash to Markets From India Central Bank

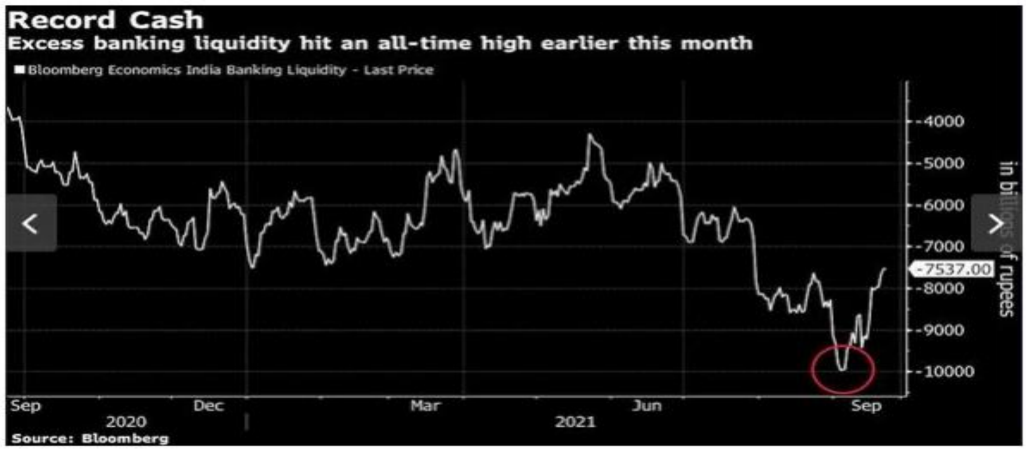


Figure 2: This chart shows Indian banking liquidity which hit an all time high earlier this month

Traders are seeing hints that India's central bank is seeking to drain record liquidity from the banking system, another sign that the global flood of pandemic era easy money may begin to ease. The Reserve Bank of India is increasingly shifting its forex intervention to the forwards market to keep from injecting rupee liquidity. The monetary authority is also signaling a taper to its outright bond purchases, or even do away with them totally, from next quarter.

MAJOR MOVES THIS WEEK

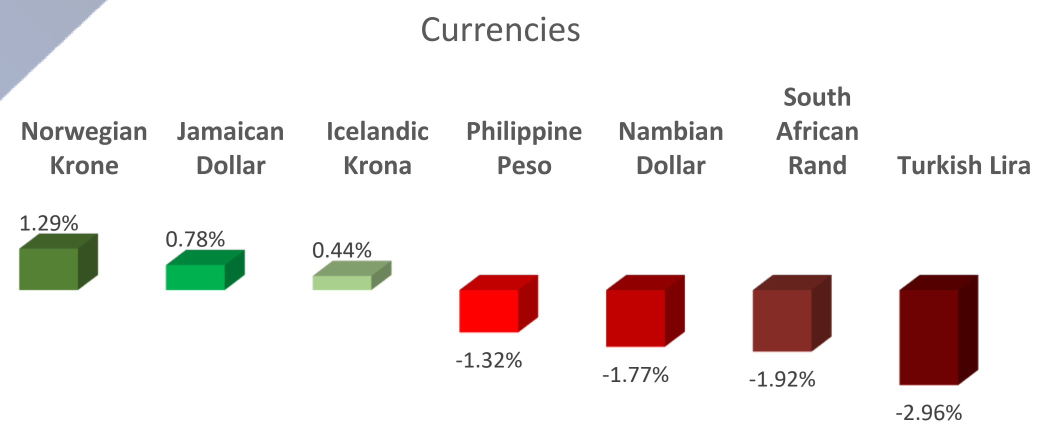


Figure 5: The graph represents Currency returns with respect to US Dollar as the base currency for this week.

This week we have seen depreciation in broader currency markets against Greenback. EURO remained stable while British Pound weakened against Dollar this week. Emerging markets were under performer against dollar this week except. Overall, it was stable week for Dollar.

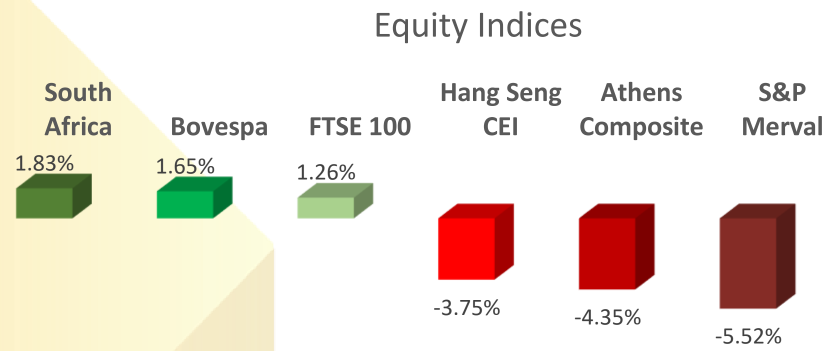


Figure 6: The chart represents the Equity Index returns over this week.

Continuing with the past week performance this week has again seen and weakness in global equities. Commodity producer markets like South Africa and Brazil strengthened, while Broder Emerging Markets equities have seen a decline led by Chinese and Honk Kong Equities. Dow & S&P 500 gained some strength this week and closed in the green with small gains.

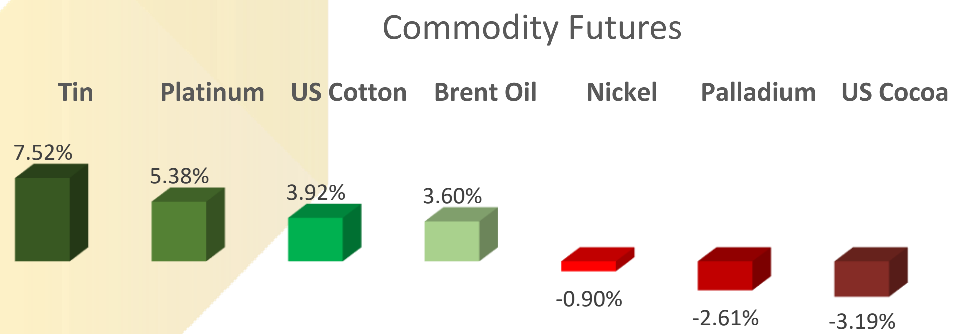


Figure 7: The chart represents the Commodity returns over the week.

Commodity also given positive move this week mainly risk on related commodities performed. We have seen stable performance in industrial metals mainly in Tin & Aluminium this week. Crude and Natural gas extended gains this week. Silver also performed this week while gold has shown marginal down move. We have seen strength in agricultural commodities.

GLOBAL FUND MANAGERS' STATEMENTS

Ray Dalio (X Co-chief investment officer, Bridgewater Associates): China Evergrande Group's debt crisis "is all manageable" even as lenders are hurt by the property developer's troubles, Ray Dalio said. "The system will be protected because it's denominated in its own currency." "Investors will be stung -- that's how it works," Dalio, the founder of hedge fund Bridgewater Associates. "China's a strategic play -- you're not going to jump in and out. And the amount that you're in should be that which you're comfortable with," Dalio said. "It's not smart to sell on the break, or buy." While most investors are overweight the U.S., diversification is important given the "war of sorts going on in technology," he said. Earlier this month, he said investors shouldn't neglect China "not only because of the opportunities it provides but you lose the excitement if you're not there." As for the market swings in Chinese markets, Dalio has described them as little more than "wiggles.

Quint Tatro (Chief investment officer, Joule Financial): "We're starting to become concerned with the complacency that we see out there among traders," said Tatro. He said his firm recently reduced its equity exposure "for the first time in a long time."

"We're ... getting concerned with this perpetual idea that we're always going to be bailed out," he said. "We do think we could see some further downward momentum here, and we're not getting all excited in this latest snapback rally. We think it could be a little bit of a bull trap, and we're going to stay a little bit more on the sidelines than we have in the past."

JENNY ZENG (Co-Head of Asia Pacific Fixed Income, Alliance Bernstein's): China's "highly distressed" real estate companies are at risk of collapse as the country's highly indebted developer Evergrande is on the brink of default. "In the offshore dollar market, there is a considerable large portion of developers (who) are implied to be highly distressed," Zeng said. These developers "can't survive much longer" if the refinancing channel remains shut for a prolonged period, she added. While the struggling developers are tiny individually, compared to Evergrande, they make up about 10%-15% of the total market on aggregate, Zeng said. She warned that a collapse could result in a "systemic" spillover to other parts of the economy.

"Once it starts, it takes much more from a policy perspective to stop it than to prevent it from happening," she added. aken on its own, the financial or social risks associated directly with Evergrande itself are actually "reasonably manageable," Zeng said. She cited the fragmentation of the Chinese property market as a reason behind this.

"Despite Evergrande's size – we all know it is the largest developer in China, probably the largest in the world – [it] still accounts for only 4% and now it's even less of the total annual sales market," Zeng said. "The debt, particularly the onshore debt, is well collateralized."

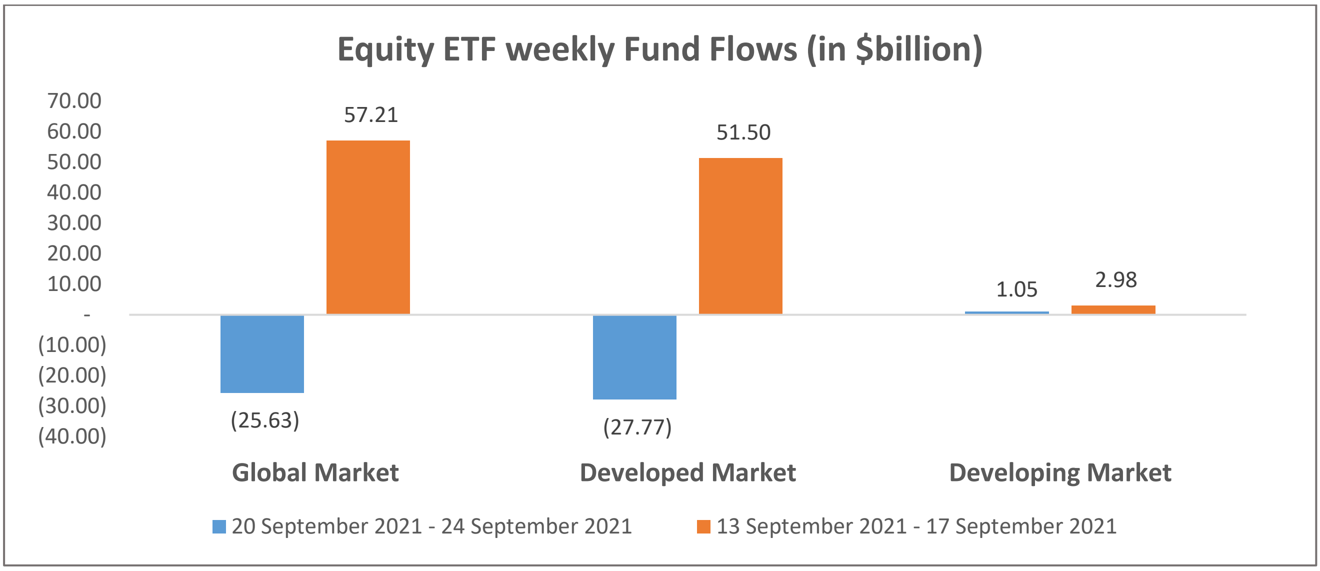
George Milling Stanley (chief gold strategist at State Street Global Advisors): Although gold prices are testing an important support level, the market appears to be taking a hawkish shift from the Federal Reserve in stride, indicating that further downside in the price could be limitedMilling-Stanley pointed out that in June, when the Federal Reserve first signal rate hikes on the horizon, gold prices dropped $100. Following the latest monetary policy meeting, gold prices are down but holding support around $1,750 an ounce. "I'm encouraged by the price action because maybe the markets are getting more comfortable with the Federal Reserve's monetary policy," he said.

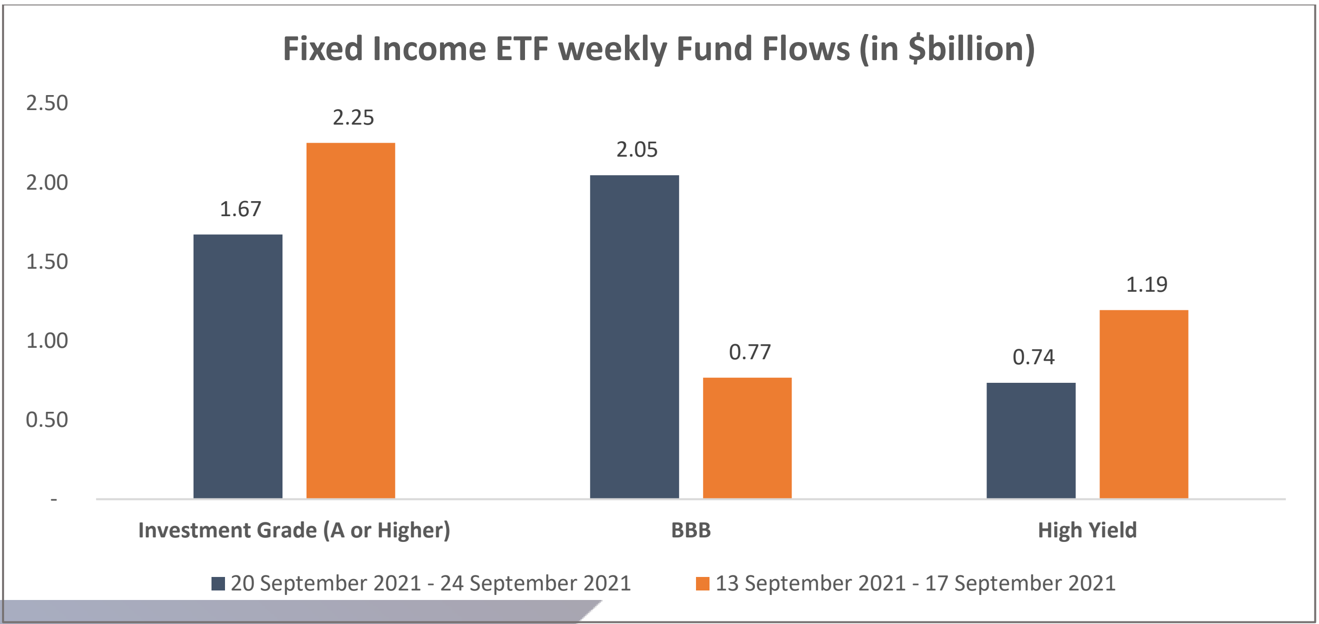
Milling-Stanley added that generally, gold investors are too focused on monetary policy and interest rates.

"The gold market is more than just where interest rates are going," he said. "Historically, the two promises gold makes in a portfolio is to improve your returns and reduce your risks. Right now, investors should focus on gold's ability to reduce risk in your portfolio."

One major factor working against gold has been the continued unprecedented rise in equity markets. Milling-Stanley said that the S&P 500, Dow Jones Industrial Average have pushed to record highs on nearly a daily basis for most of 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

Global equities may have bottomed out for the very short term but longer term the markets are just as overextended as they were a few weeks back. We continue to be bearish for the longer term even if the rebound extends further in the coming week. We continue to be bearish on industrial commodities and US 10 year bond yields. We remain bullish on gold for the long term and would recommend accumulation at all levels.

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