



CIO OFFICE MORNING MARKET WRAP – Monday June 2nd, 2020. ALSO AVAILABLE ON ALEXA.

The week starts under influence of two topics: economic data in May, and violent demonstrations in the United States. Starting with the latter, President Trump proposed a 10-year jail term for rioters, and threatened to deploy the US Army to restore order yesterday, blaming the lack of action of state governors and city mayors. Deploying the military for internal security didn't happen since the riots in Los Angeles in 1992, as this falls under the responsibility of cities and states.

For the anecdote, after the 1992 riots, Los Angeles elected their first Republican mayor in 40 years but George Bush lost the presidential election to Democrat Bill Clinton months later. Joe Biden met with black leaders, after a seventh night of unrest, outlining what he would do as president. As we anticipated yesterday, markets were not affected by the terrible images and the potential economic implications of the US riots. Global stocks had a great day, gaining 1.1% with Emerging Markets outperforming, and the US adding 0.5%. US Treasury yields were unchanged.

The reason was simple: the PMI numbers released in Europe and in the US yesterday were good enough to suggest that the bottom is behind us, which is obviously what markets expect and have to some extent already priced-in. These soft data, from surveys, were not spectacularly positive; the US manufacturing index came out at 43.1, still in contraction territory and slightly below expectations, but showed an improvement compared to April. The global manufacturing gauge from JP Morgan rose to 42.4 from 39.6 in April, with its current and future output components leaping out of the distressed levels.

We are not out of the woods yet, but heading in the right direction, which will have to be confirmed by the equivalent measures for services released tomorrow. Markets are pricing in a scenario of economic recovery, meeting high liquidity and low rates. Energy jumped yesterday with the price of Brent crude oil moving up 9% to \$38.6. Oil didn't just benefit from the cyclical green shot, but also from a conversation between Presidents Trump and Putin which supported the idea that OPEC+ will extend output cuts when they meet in the coming days. This helped markets in Oil producing regions, including ours obviously but also Latin America, explaining why Emerging Markets outperformed. Looking East, India's credit rating was downgraded by Moody's with a negative outlook, on growth and fiscal risks. This couldn't come as a surprise given the lockdown and massive stimulus package of the last weeks, and should probably be seen as cyclical rather than structural.

Staying East, markets in Asia are mixed as we write this morning. US futures in particular are weaker because of the escalation in the US, South Korea is slightly down, but Japan is well oriented and Shanghai is steady. Oil prices futures are confirming their trend, in the green. There is no major economic data released today, and the streets of America will continue to dominate the headlines. The benign scenario is obviously to see the demonstrations calming down in the coming days, or simply not spreading and being peaceful. More demonstrations and more violence would obviously impact markets. The worst case scenario is to see victims from fights between security forces and rioters, broadcasted to the world in real time through social media -which didn't even exit back in 1992, and a potential escalation into outright insurrection. This is obviously not our scenario: the reaction to the death of George Floyd is very understandable, but the US people don't support chaos.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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