



CIO OFFICE MORNING MARKET WRAP – Thursday July 2nd, 2020. ALSO AVAILABLE ON ALEXA

The third quarter started yesterday on a mildly positive note on global financial markets. The key news of the day was a very significant improvement in industrial leading indicators.

Starting with the most impactful, the US ISM manufacturing index for June beat expectations. It printed a huge 9.5 points improvement to reach 52.6, which is firmly above the 50 level which marks the difference between contraction and expansion. Details of the survey were also strong, with the new orders and the production components both up an impressive 24 points. A bounce in manufacturing activity bodes well for employment.

The equivalent gauge from Market for the Eurozone was also better than expected, but still below the expansion threshold at 47.4. The positive reaction of markets was reasonable, with global stocks adding 0.3%, with remarkably an all-time record for the technology-rich Nasdaq composite index.

Concerns about the jump in coronavirus cases, especially in the US, remain elevated, with California banning indoor dining in 19 counties including Los Angeles, and with Texas hospitals seeing their ICU units fully utilized again. There was however a good news on the healthcare front: the early trial of an experimental vaccine by Pfizer and BioNtech showed promising result and could be on track for the first part of 2021.

Virus concerns in America probably explain why the less affected Emerging Markets outperformed yesterday, adding 0.9% on average, also supported by a slightly weaker US\$, down 0.3% on a trade-weighted basis.

Our regional markets were roughly unchanged, as their closing time didn't allow them to benefit from the good US number. They could however be supported today by the rise in Brent crude oil which moved up 1.9% to just below \$42.

As we write, Oil future contracts in Asia are firm. Crude inventories in the US fell by the most since December last week, and the actual output from the OPEC members in June was the lowest in 29 years, showing good quota compliance from the members of the cartel.

Korean exports and German retail sales also pointed to a strong recovery being underway, and monetary policy continues to support it. Overnight, the PBOC implemented another rate cut targeted at specific sectors and SMEs. The dispute between the German Constitutional Court and the ECB is, as we expected, de-escalating quickly after the ECB provided the required information, and after Mrs Merkel showed an unambiguous support from her political coalition.

In the US, the minutes of the June Fed meeting, released yesterday, left wide open the possibility of additional support in September. They however showed little appetite for yield curve control, which is seen by many investors as the next signal for another rally of everything. Talking about rally, the debacle of bearish investors made another legendary victim, as the hedge fund of John Paulson, known for its genius during the Great Financial Crisis, will close and be converted into a private family office.

Markets are well oriented in Asia this morning with China and Hong-Kong up 1% as we write, despite the US House passing a bill imposing sanctions on banks doing business with a list of Chinese officials. As Friday will be a holiday in the US before their National Day, the crucial monthly job report will be released today at 4.30pm Dubai time. The consensus expects 3 million new jobs to be reflected by the June change in non-farm payrolls. Unemployment numbers will also be released in a number of European countries, and ECB officials will deliver speeches.

Stay safe.

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