



CIO OFFICE MORNING MARKET WRAP – Tuesday 5th of May, 2020. ALSO AVAILABLE ON ALEXA.

Like it or not, the US is the world's leading market and Monday's session was no exception. Most of the regional equity indices were down all day long, reflecting Friday's bearish close to the US. However, the King S&P500 rallied late in New-York yesterday, when all other places were closed. As a result, global stocks fell by a severe -1.1% which includes -3% for Europe but +0.5% for the US. As we write today, morning sessions in Asia are obviously reacting positively, as are European futures.

The dollar was a bit stronger, rates were overall steady, and interestingly the price of Brent crude oil moved up 2.9% to \$27.2. This is the fifth positive day for the devastated commodity. It is difficult to precisely quantify what is technical and what is fundamental, but on the latter, more and more explorers are joining major oil companies in reducing output. At the current levels for WTI, shale oil in the US is simply not viable. No new project makes any sense, and the only

reason for pumping is the desperate need for cash flow of the most indebted players. This is why production is being naturally cut in Texas, without mandatory cuts being imposed, and this is why Mexico, after having fought with OPEC+ to get a smaller cut than others, is actually cutting more. Of course, the real catalyst for prices is not supply, but demand, which means, the economy. Hong-Kong posted its Q1 GDP number: with a -8.9% contraction, it is the worst downturn in its history. As we had seen last week, comparing China, Europe and the US, it is logical to see Asian countries being more severely hit in Q1 as they were early in the virus outbreak.

Having said that, Hong-Kong had remarkably well managed the health crisis itself, and this number shows the immense interdependence of the world. Alas, global manufacturing output PMI for April declined 12.3 points to 32.7, with 50 being the limit between contraction and expansion, and 29.5 being the historical trough reached in 2008.

In this report issued Monday, the rebound of China is clear at 51.1 but it is not spectacular: they need a prosperous West to really recover. Part of the West, however, is angry. The Trump administration keeps on openly criticizing China over its handling of the outbreak. In a reminiscence of last year's tensions, Steve Mnuchin also asked Beijing to meet their obligations of the Phase 1 trade deal, warning of significant consequences if they don't.

Does the world need an additional bit of geopolitical tension now? Certainly not, but we are only 6 months away from the US presidential elections. In the meantime, the global death toll of the virus has sadly crossed 250000. California will start loosening its lockdown on Friday, The earnings season will continue today, including Disney, Total, Fiat Chrysler and BNP Paribas. Interestingly, for the first time in months, the consensus expectations for Emerging Markets is revised up. Marginally, but in the right direction.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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