



## **CIO OFFICE MORNING MARKET WRAP – Monday October 5th, 2020. ALSO AVAILABLE ON ALEXA.**

The event of the week was the hospitalisation of President Trump infected by Covid19, which saw risk assets succumb to rising volatility on Friday. Markets, agnostic about politics, have their own ways of signalling that something is amiss and investors should be wary. Intermarket relationships have not been favourable for a continuation of the rally for a few weeks now, with crude prices slumping, and both real rates and the dollar trying to put in a bottom.

The combined signal is a tightening of financial conditions, that is some ebbing of the plentiful liquidity which of late had supported equity multiples. The fundamentals for crude are far from comforting, as demand prospects are deteriorating and lack of production discipline among OPEC+ members is raising supply concerns. On Tuesday traders will get guidance on future supply and demand trends from the Short-Term Energy Outlook to be released by the US Energy Information Administration. And OPEC is expected to publish its World Oil Outlook on Thursday. Investors will be looking forward to the Wednesday release of the minutes from the Federal Reserve's September meeting, to get insights about the officials' assessment of the economy and possible future policy support.

With no new measures expected to be announced anytime soon, US long-dated yields should remain range-bound, providing less of that tailwind which propelled markets in the aftermath of the pandemic higher. As for the US dollar, short positioning is still at extreme levels which, alongside stable to slightly higher rates, could set the currency up for a squeeze higher. It remains to be seen whether some fiscal stimulus measures are going to be pushed through before the elections, now that the Republicans do not have the president campaigning and could be more willing to compromise, or whether uncertainty will dominate with some further tightening of financial conditions.

Trump himself tweeted from hospital that a deal is needed and negotiators should “get it done”. In a further twist of events, one of Trump’s doctors said Sunday that the president could be discharged as early as Monday as he recuperates. It is not far-fetched to think that investors will soon be obsessing as much about Trump’s medical bulletins as the Fed’s minutes. For now news of the president’s improvements see Asian stocks and US futures higher in the morning session. Brexit talks have taken a sudden turn for the better, with the UK and the EU agreeing to step up negotiations on a trade agreement. The pound is holding onto its gains from Friday and is being quoted at 1.2950 as of the time of writing.

Stay safe.

**MAURICE GRAVIER**  
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