



CIO OFFICE MORNING MARKET WRAP – Wednesday 6th January 2021. ALSO AVAILABLE ON ALEXA.

Global markets saw a broad rally yesterday with most sectors and regions up, barring the Eurozone. Attention remains on rising virus cases, vaccine rollout, oil price recovery and the US Georgia Senate polls. This morning Asia markets are flat to slightly positive, with no major directional move. Asian and emerging market performance has continued into 2021. China's stock market closed at an 11 year high yesterday, extending 2020 gains, when it was the best performing large stock market. The CSI 300 Index (large cap stocks) was +2% higher. China tech stocks currently under the spotlight from regulators had a good day. Chinese shares have rallied more than 50% from the lows of the sell-off in March. China last year saw inflows of \$150 billion into onshore stock and bond markets from global investors. It is still not bubble territory as the price-to-earnings ratio for the CSI 300 is not very elevated at 20.6X though above trend. Leverage in China's stock market, is also substantially lower than five years ago after China regulators set strict guidelines. However, pressure from the US on China tech continues and Pres. Trump signed an executive order banning transactions with eight Chinese software applications including WeChat Pay, Tencent QQ and Ant Group's Alipay. Also the NYSE is flip flopping and the bourse may revert back to its original plan to delist three major Chinese telecom firms.

Other Asian markets saw gains with the Indian Sensex +0.5% and the Hang Seng index +0.6%. Japanese markets continue to lag as the nation is considering declaring a state of emergency for Tokyo and several neighbouring areas. GCC markets saw gains with the Dubai Index +1.2% and Abu Dhabi Index + 0.5% with the Saudi Tadawul Index +0.2%. In Dubai real estate stocks gained

whilst in Abu Dhabi the telecom and banking sector were better on the day. Saudi Arabia, the UAE, Bahrain and Egypt signed an accord with Qatar on Tuesday ending three-and-a-half years of sanctions and restoring full diplomatic ties. Saudi Arabia has already opened its airspace to Qatar and the other countries are expected to follow suit.

Energy was the best performing sector, in line with oil gaining 4.9%. WTI Crude settled above the \$50/ barrel mark for the first time in almost a year (since February 2020) after concessions were made to make additional cuts within OPEC + thru March. OPEC+ agreed to cut overall production by 850,000 barrels per day over the next two months. Saudi Arabia will cut oil production by 1 million barrels per day over February and March to allow non-OPEC producers Russia and Kazakhstan to boost production by 150,000. Other OPEC members will keep oil production unchanged and the group will meet again in March to discuss output levels for April. Oil prices rose more than 5% on the news, as the market had been looking for at best, no change, or possibly an increase in production next month. Brent futures this morning are at \$53.95.

Mixed performance from safe haven assets. Treasuries fell, lifting yields and providing a boost to Financials and the U.S. dollar continued its downward spiral, while gold modestly added to yesterday's rally rising to \$1948. The yield on the 10-year Treasury bond, added 0.04 percentage points to 0.96 per cent. Germany's 10-year yield rose three basis points to -0.58%.and Britain's 10-year yield rose four basis points to 0.209%. The Vix volatility index touched 28.6, above its long-run average of about 20 but settled at 25.3.

U.S. equities ended the day higher. The S&P 500 closed +0.7% and the Nasdaq +0.95%. Small caps continue to indicate faith in an economic recovery with the Russell 2000 +1.7%. Heightened political uncertainty as key Georgia Senate runoff elections commenced and concerns remain surrounding the implications of the surging COVID-19 cases globally and a disappointing rollout of vaccines in the U.S. thus far. ISM Manufacturing print for December (60.7 actual vs 57.5 estimates) was the best since August 2018 and the second best print in 15 years. In Europe, UK's FTSE 100 closed up 0.6% but other major bourses were lower. The Stoxx Europe 600 index was -0.2% with Germany and France markets down on continuing lockdowns as Germany extended its lockdown by another three weeks. Whilst the UK lockdown is at the highest tier5 level vaccine rollout is robust and the FTSE 100 continues to be supported by oil and commodity stock prices rising.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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