



CIO OFFICE MORNING MARKET WRAP – Wednesday 6th of May, 2020. ALSO AVAILABLE ON ALEXA.

Markets were overall well oriented on Tuesday, as lockdown relaxations are either starting or seriously considered everywhere. Global stocks rose 1%, with however some fading in the last hours of trading in the US markets, ending up only 0.9%. The 10 year Treasury yield increased 3 bps to 0.66%. While the dollar was slightly weak and Gold steady around \$1700, the price of Brent crude oil jumped 15% to \$31.3.

The output cuts decided by the last OPEC+ meeting have started, inventory building was slower than expected, and the US shale sector is spontaneously retiring around a million barrel per day of production. The balance remains of course very oversupplied in the short-term, but hopes are for a change. Almost half of Oil demand is from cars and trucks, it's all about reopening.

Sweden is a striking example, with a unique strategy implying almost no mandatory social distancing. Their GDP was flat in Q1, which compares to -14% in annualized rate for their EMU neighbours. Norway and Turkey are the latest

to loosen restrictions, but the most important is the US. The ISM for Services released yesterday was slightly less worse than expected, at 41.8 after 52.5 in March, still an economic crash.

President Trump is clear: the US must begin to reopen immediately, even if it will affect people and create more infections. It makes sense as the US deficit and debt are projected to proportionately exceed the levels reached during World War II. For this reason, it may not be the best time to provoke China, one of America's largest creditor and also the country producing all the crucial goods to fight the virus. But elections are only 6 months away: Mr. Trump and his administration are pushing the theory that the coronavirus likely escaped from the Wuhan Institute of Virology, and putting pressure on China's compliance with their commitments from the Phase 1 trade agreement signed earlier this year.

In Europe, German constitutional court criticized the ECB's quantitative easing program, with the apparently terrifying requirement that the Bundesbank ends its involvement, absent a more thorough analysis. This analysis should hopefully not be difficult to provide, and the court's decision will probably only slow implementation of some actions rather than compromise them. As we write, the early hours of Asian trading are mixed, reflecting the colder close of the US. Japan is still closed for holidays, China reopens broadly flat, and Oil prices are fluctuating, slightly in the red.

There are lots of economic data today, especially global service PMIs, but they are all backward-looking and shouldn't be that important. Earnings season will continue, including Novo Nordisk, PayPal or Unicredit among the most interesting. So far Q1 shows very clear differences between sectors, but also between individual companies. An example is Ferrari. After an upbeat Q1, its market value is now twice Porsche's, and 50% larger than Ford's.

Stay safe.

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