



CIO OFFICE MORNING MARKET WRAP – Monday September 7th, 2020. ALSO AVAILABLE ON ALEXA.

In the US and Canada it is going to be a holiday-shortened week, with markets closed today for Labor Day. The stock sell-off is showing signs of easing, following the largest two-day drop since June. Asian equities are little changed, while US futures are mixed. Yesterday local markets caught up with the global rout and fell, in the UAE more than offsetting mild gains recorded in the previous week.

The Dubai index fell 1.1% and Abu Dhabi's 0.6%, while Saudi equities were only fractionally down. Friday Fed chair Powell said that the economy will continue on a healing path, "but it will get harder from here". Given that Fed monetary stimulus is now at its maximum investor focus is likely to increasingly shift to the economy. While looking back paints a comforting picture with monster rebounds in activity in Q2, looking ahead poses the question of how the pace of the recovery will be maintained. In Europe the ECB on Thursday is expected to hint to additional measures further down the road, following more muted data and reemerging deflationary threats, as highlighted by stalling business confidence, a slowdown in Germany's factory orders and inflation dipping into negative territory.

Most economists expect the pandemic purchase program to be extended by 6 months to the end of 2021. Important macro releases in China should confirm on the other hand the robust recovery indicated by the latest PMI data. Exports and total social financing will provide a gauge of external demand and credit expansion respectively. In the United States the missing piece of a comprehensive stimulus puzzle is constituted by the approval of enhanced benefits by Congress, following their expiry at July end. Although Fed officials have repeatedly pressed for more fiscal aid, an agreement between Republicans and Democrats is not yet in the offing and the latest solid jobs report is far from an incentive to sort out differences. At least last week Treasury Secretary Steve Mnuchin and House Speaker Nancy Pelosi reached an informal agreement to avoid a government shutdown by the end of the month, with the goal of keeping the government funded until after the election.

The oil market is not pointing to the recovery getting stronger either. Saudi Arabia has been cutting pricing for oil sales to Asia and the US for the month of October, a sign of fragile demand amidst an untamed pandemic and still swollen stockpiles. WTI crude is extending its slide below the \$40/bbl level in NY trading. Last week Dr Fauci's optimism on a vaccine development continued, saying that it is likely going to be ready by year end. At the same time, 65% of respondents of a September YouGov poll published by CBS News on Sunday thought that a vaccine "was rushed through" if made available this year. Of course, the devil is in the details, since ready is by far not the same as being distributed to the general public. Yet, this goes a long way in highlighting people's distrust towards fast solutions in spite of the lingering pandemic.

Stay safe.

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