Weekly Market Update

15 Nov 2020

US Equity markets : Optimism continues

- U.S. equities finished the last trading session of a wild week on a positive note, but were unable to secure a sweep of weekly gains. The markets have seen some large swings since Monday's rally, with optimism of a COVID-19 vaccine sparking some rotation into the hampered cyclically-natured and value stocks to the detriment of the high-flying mega-cap growth issues.
- However, there have been Growing signs that the pandemic would worsen seemed to drain the market's gains over the next few days .Case counts and hospitalizations continued to rise significantly in nearly every state, with some cities reporting new strains on their hospital systems. News on Thursday that Chicago was considering reinstating stay-at-home orders and that New York might shut down its school system seemed to particularly concern investors
- The earnings front continued to paint a positive picture. However, economic news was mixed, showing that November consumer sentiment unexpectedly fell and headline wholesale price inflation was hotter than forecasted.
- The broader political backdrop also remained uncertain. Trump refused to concede the election, while reports emerged that the White House was dropping out of negotiations over a new stimulus package. President also issued an executive order banning U.S. investments in firms declared to have ties to the Chinese military.

S&P 500 Average Annual Performance Under Partisan Control Scenarios						
	1933 - 2019		1945 - 2019		1965 - 2019	
Political Scenarios	% Change	# Years	% Change	# Years	% Change	# Years
Unified Government	**10.03%**	**42**	**10.63%**	**30**	**8.79%**	**18**
Democratic President	9.34%	34	9.79%	22	7.76%	12
Republican President	12.95%	8	12.95%	8	10.86%	6
Unified Congress	**7.42%**	**32**	**7.42%**	**32**	**7.50%**	**24**
Democratic President	12.96%	10	12.96%	10	16.28%	8
Republican President	4.91%	22	4.91%	22	3.11%	16
Split Congress	**10.38%**	**12**	**10.38%**	**12**	**10.38%**	**12**
Democratic President	13.60%	4	13.60%	4	13.60%	4
Republican President	8.77%	8	8.77%	8	8.77%	8
All Years	**9.11%**	**86**	**9.20%**	**74**	**8.57%**	**54**

**Data excludes 2001 due to Sen Jeffords changing party mid-year*

Source: Strategas

US Data – Mixed Picture

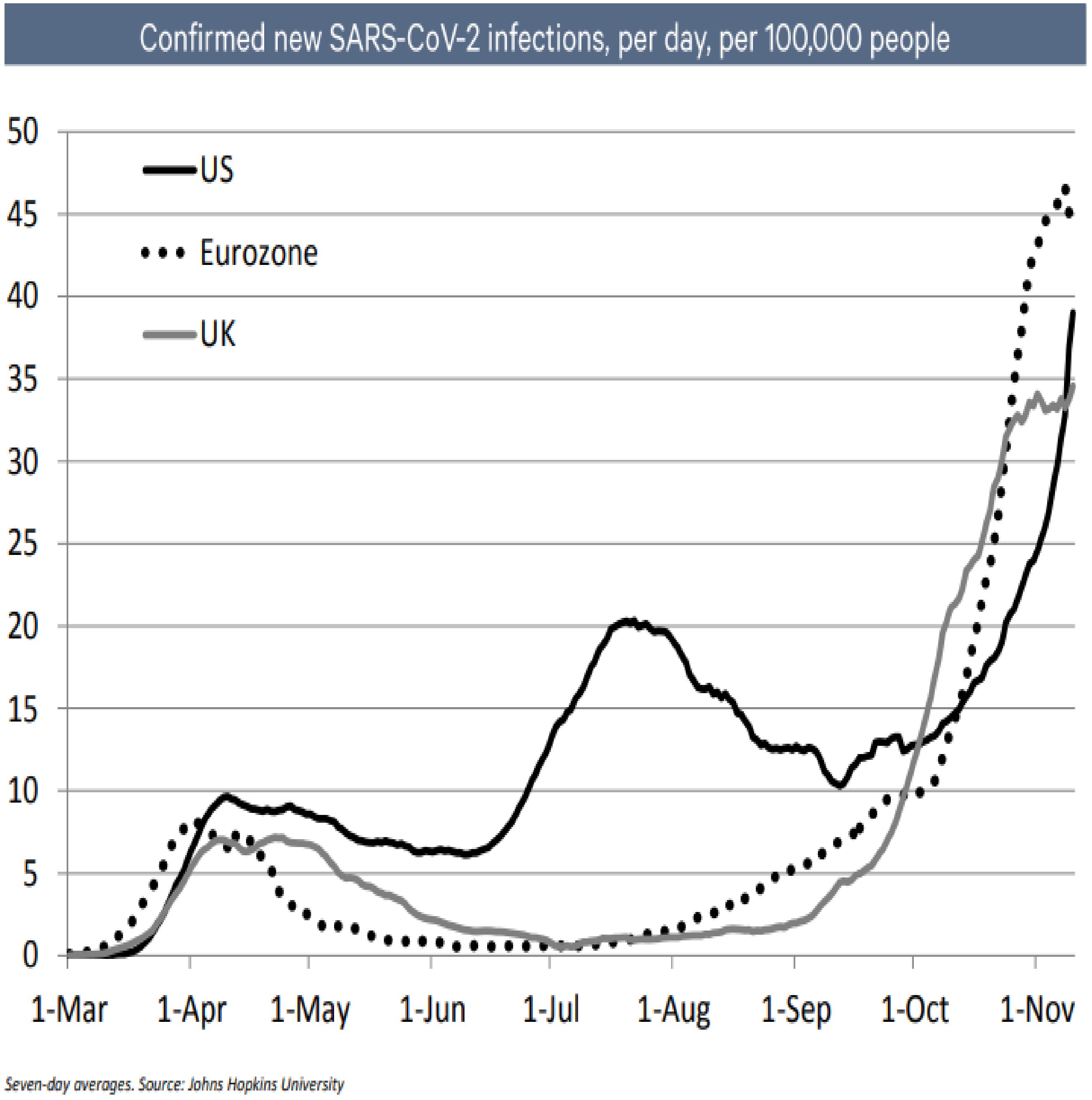
- The week's relatively light economic calendar offered a mixed picture. Weekly jobless claims fell more than expected and reached a new pandemic low (709,000), while continuing claims fell below 7 million for the first time since March.
- The National Federation of Independent Business's measure of small business sentiment surprised investors by remaining steady at pandemic highs, but the University of Michigan's preliminary measure of consumer sentiment in November missed expectations and fell to a three-month low.
- Producer Price Index showed prices at the wholesale level in October rose 0.3% month-over-month (m/m), versus forecasts calling for a 0.2% gain
- The earnings front continued to paint a positive picture, courtesy of results from Dow members Walt Disney and Cisco Systems, along with Applied Materials.

Eurozone : From Rebound to Relapse

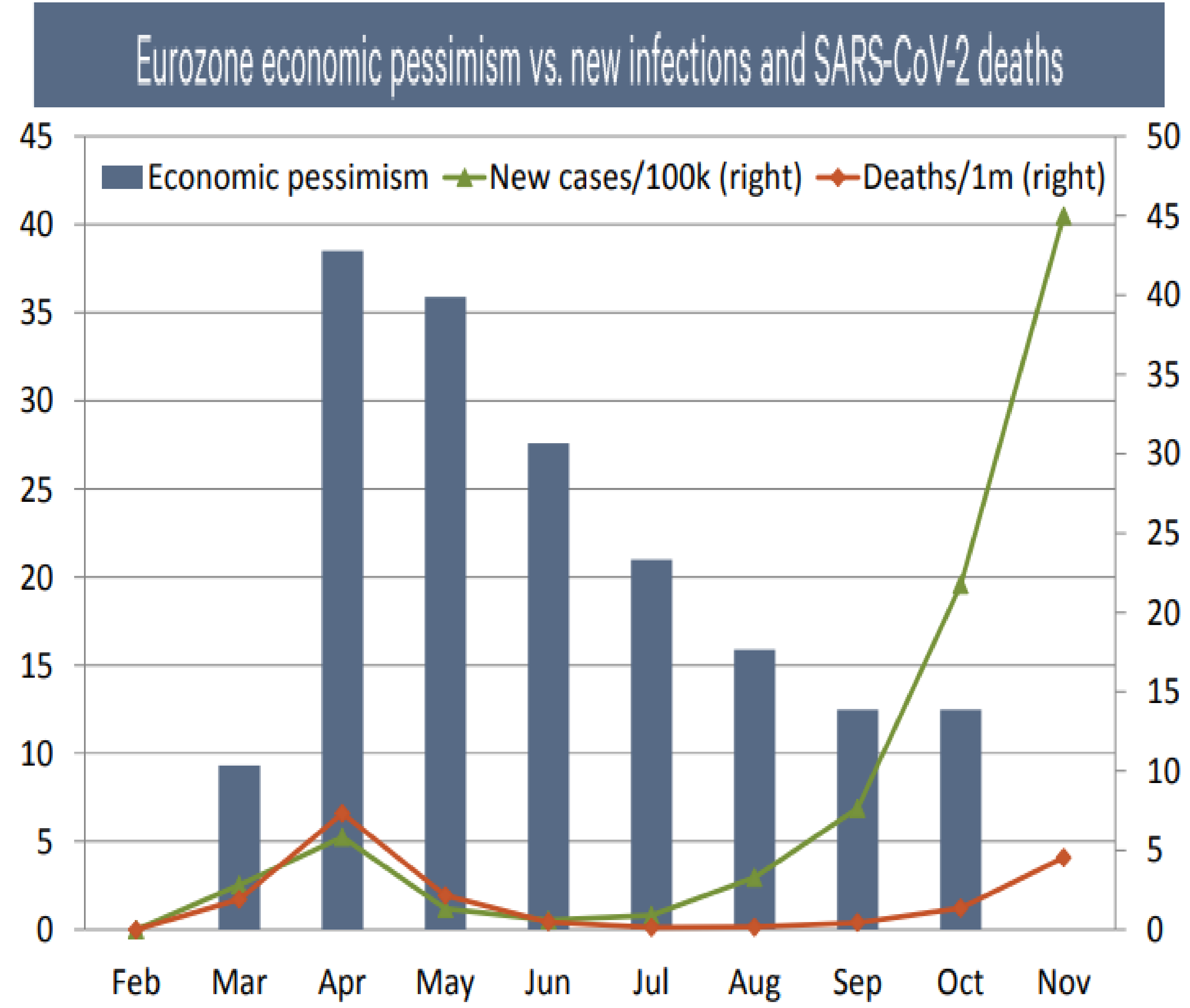
- Eurozone's macroeconomic environment remains highly uncertain in the midst of a resurgence of the pandemic. New health restrictions, though generally less severe than in the first wave of the Covid-19 pandemic, constitute another drag on the region's economic recovery
- EU member states and the European Parliament finally struck a deal on the bloc's next seven-year budget and the 'Next generation EU' package. Although this clears two crucial stumbling blocks that held up the approval of the EU recovery fund, it might not be the end of the story yet: further discussion still looms over the terms and conditions of the recovery and resilience facility that lies at the heart of the recovery fund and the ratification in national parliaments could also prove a hurdle, with Hungary threatening to veto the package over the inclusion of the rule of law
- Lagarde's speech at the ECB Forum gave a clear indication that the ECB's upcoming recalibration of the monetary policy instruments will focus on the PEPP programme and TLTROs.
- Brexit negotiations will continue this week. After months of deadlock, the outlook for post-Brexit trade talks had started to look decidedly more positive over the past month. But as another week of negotiations comes and goes, it's clear we're not there yet, and th e same set of core issues that have divided talks for much of this year remain, for the time being, unresolved.

Covid Contrast

- Without the election drama, last week would have commanded repeated headlines about record breaking daily infection numbers. The US has been recording 100k+ daily cases for the last few days, while reported cases have soared in the UK and EU.
- On pandemic management, the contrast between Asia and the Western economies is stark. With the exception of Malaysia, all countries in Asia have reported a decline in daily infections over the past month.
- Those that have struggled the most, India, Indonesia, and the Philippines, are by no means out of the woods, but infection rates are no longer rising, and health systems don’t appear to be stretched
- At the other end of the success spectrum, daily reported cases in China, Singapore, Taiwan, Thailand, and Vietnam have fallen to single digits. Unsurprisingly, these countries are also reporting encouraging rebound in sentiment, production, and exports.



- **Virus trends remain the top global risk to watch.**
- As the days are getting colder and shorter, confirmed infections have risen well beyond the March/April levels in the Northern hemisphere.
- **Continental Europe:** the rise is flattening
- **UK:** some signs that increase is stabilising
- **US:** after a lull in August, recent infections numbers are surging again, mostly in rural areas.
- **The key question:** can medical capacities cope?
- Some regions in Europe are now under strain again.



Economic pessimism is fall in economic sentiment relative to February 2020, in points. Daily new cases per 100,000 people. Daily deaths per 1 million people. Cases and deaths as seven-day rolling averages. Source: Johns Hopkins University, European Commission

- The Pessimism about Eurozone economy has been easing off with the increased lifting of lock down restrictions and the rapid bounce in Chinese Economy
- Even in case of increased restrictions coming into force in Eurozone in the context of the current second wave , the economic pessimism may not be so intense as was in April 2020 mainly because of the improved global demand for European goods -especially China

Central bank Balance sheets

- Major central banks have stepped up their efforts to attenuate the economic impact of the pandemic, raising the question whether there is a limit to balance sheet expansion.
- There are strong reasons to believe that there will be no return to the pre-QE configuration of balance sheets. Together with the pro-recovery motivation for central bank policies, structural and regulatory factors have contributed to their balance sheet dynamics, and made central banks not just market regulators, but also quasi-market makers.
- The Fed's balance sheet has increased by about 72.5% to $7.175 trillion as of November 11. It was less than 20% of GDP at the end of last year and now is closer to 34%.
- Since the end of February, the ECB's balance sheet has risen by almost 45% to around 6.80 trillion euros as of November 6. It is near 62% of GDP, up from 39% at the end of last year.
- In comparison, the BOJ's balance sheet stood at 133% of GDP at the end of October. It was 103.5% of GDP at the end of last year
- The real challenge of such a strategy in EM is to keep inflation under control even when the out put gap is not closing

Weaker EMs : Lesson for the Stronger

- Turkey has a new central bank governor and a new treasury minister. President Erdogan has signaled a monetary regime change. Recall that CBRT cut rates aggressive from 12% at the end of last year to 8.25% by May. Despite the currency's depreciation, the loss of reserves, and higher inflation, officials under pressure from the president did not raise rates repo rate until September. It did tighten other lending facilities, but like last month, investors' confidence was not won back.
- The CBRT will set the one-week repo rate on November 19. The median estimate sees a 4.75% hike to 15%. There is a great dispersion of survey responses. There is a cluster around 14.00%-14.25% and another cluster of forecasts around 15.00%-15.25%. There is only one forecast for an unchanged rate. It is probable that any thing less than 300 bp will disappoint the market, which now expects the CBRT Governor Agbal to lead in a more orthodox fashion.
- The Turkish lira jumped nearly 11% last week, paring this year's loss to about 22.5% year-to-date, leaving Brazil real (-26.3%) and the Argentine peso (-24.9%) at the bottom of the EM currency table.
- In the face of a jump in inflation (3.8% month-over-month and 37.2% year-over-year), Argentina's central bank hiked rates, including the Leliq by 200 bp to 38%, and the peso's depreciation accelerated ahead of the weekend.
- The takeaway may be that the credibility of policy, broadly understood, maybe as important as the substance.

EM experience of QE

- **The lack of a clear framework on the size and length of ongoing and planned EM 'QE' programs could be a concern.**
- While the central banks of the 16 EMs analyzed all stated reasonable objectives (mainly to provide liquidity and ensure a smooth functioning of domestic government bonds markets) for their bond-purchase programs, most of them neither announced a maximum amount that they intend to buy nor a definitive time-frame for their programs.
- Hence, there is a risk that the QE programs would not be tapered once the objectives have been lastingly reached.

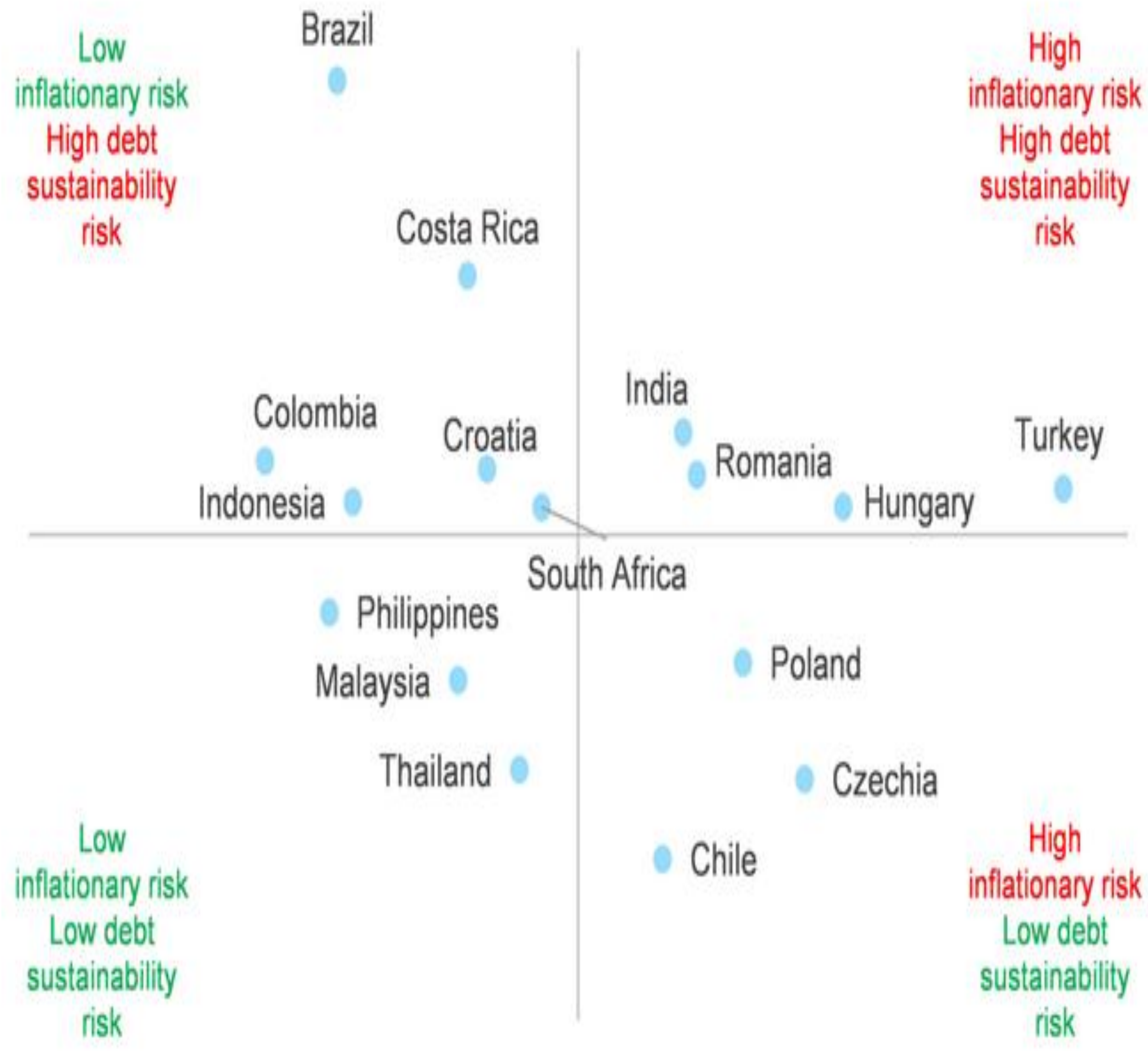
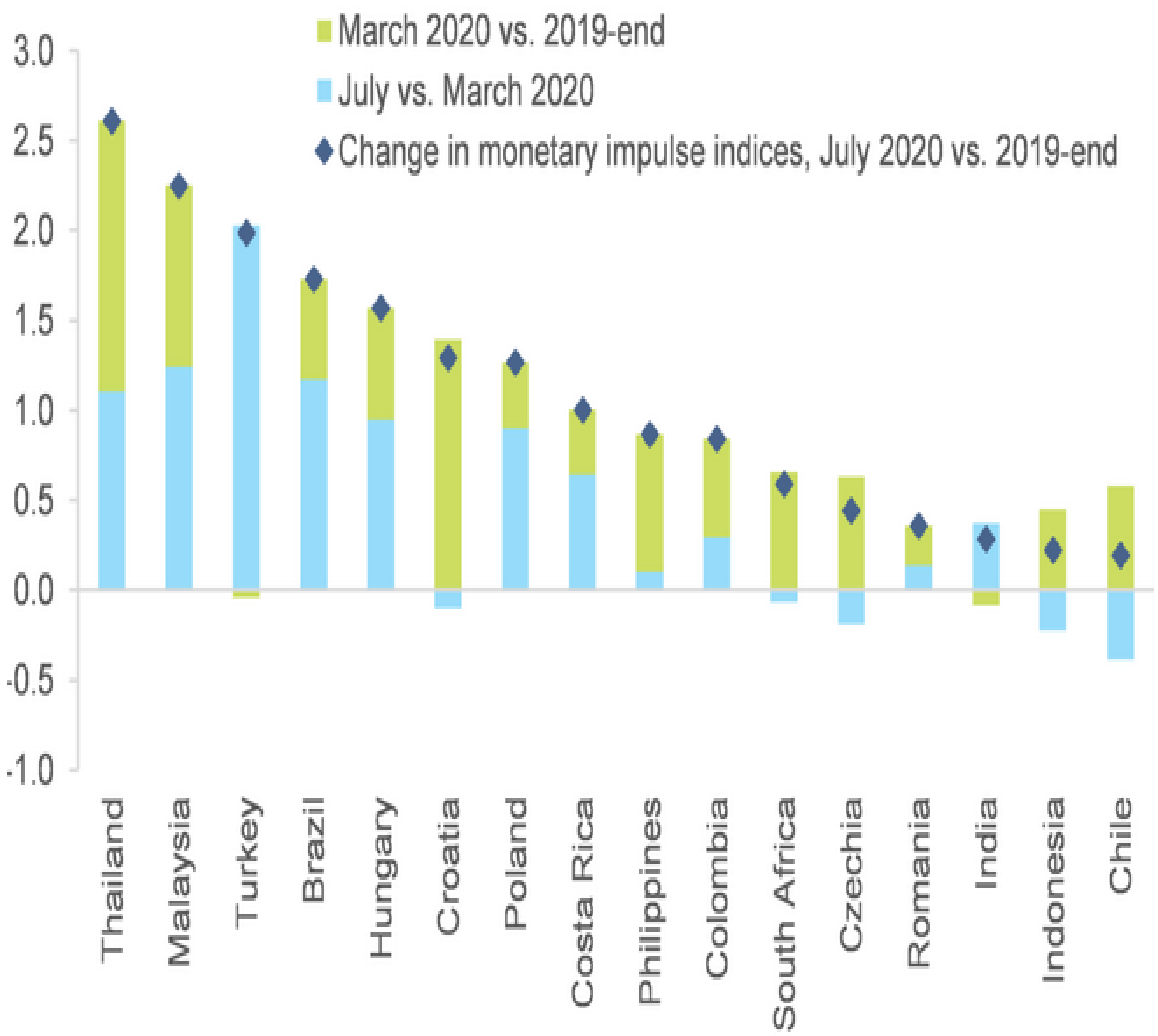


Figure 2 – Debt Sustainability and Inflationary Risk Scores (Sources: National statistics, IMF, IIF, Bloomberg, IHS Markit, Allianz Research)

Monetary Impulse index

- The monetary impulse indices are constructed as follows:
- 1-year change of the 1-year change in M2 money supply (i.e. second derivative), as a share of nominal GDP.
- They are thus similar to credit impulse indices, but M2 money supply is used for ease of comparison across economies.
- **These indices signal how the monetary policy is changing, and tend to lead economic activity.**

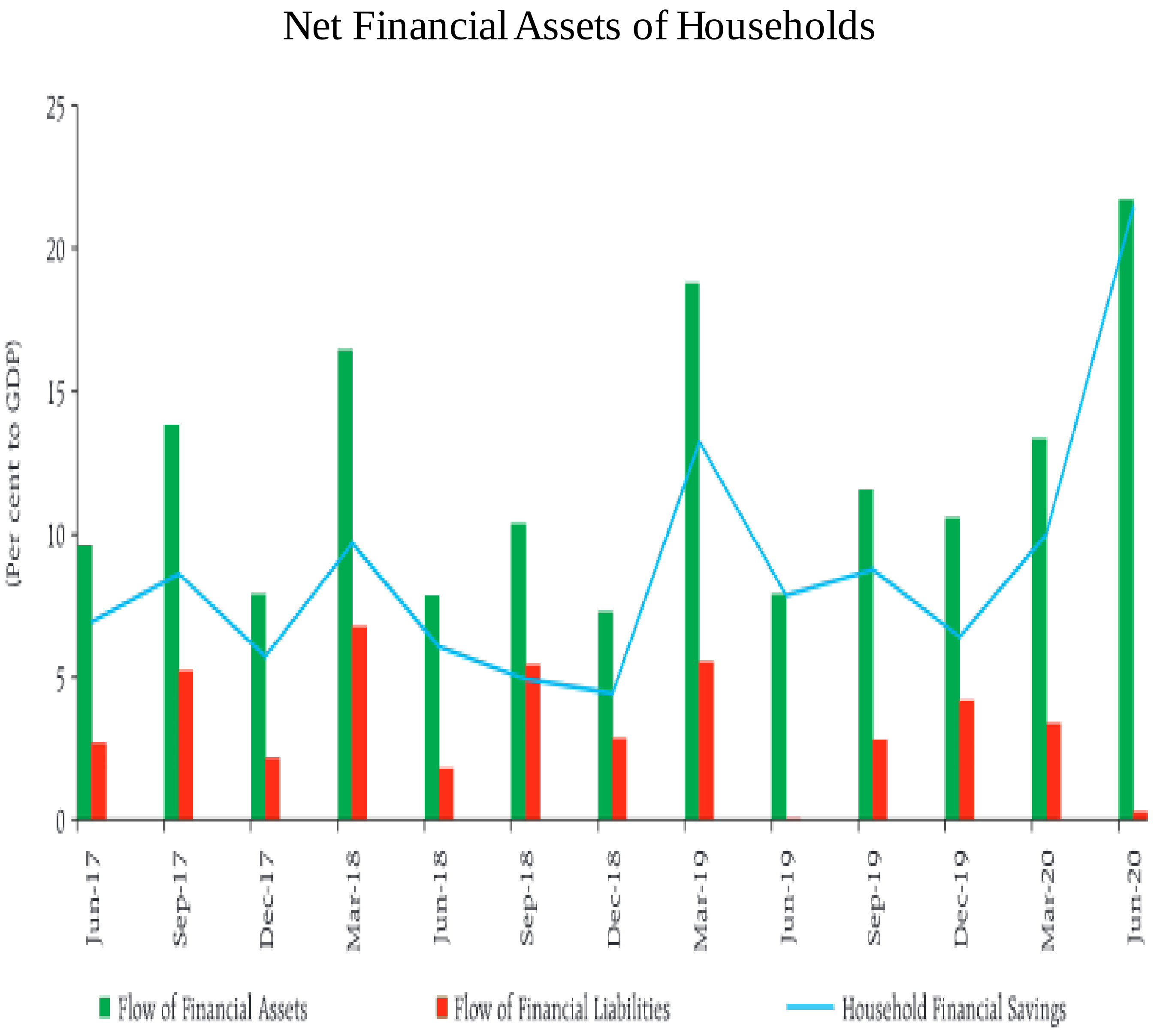


Q2 20-21 Growth Projection

- An Economic Activity Index for India has been constructed by RBI from twenty-seven monthly indicators using a dynamic factor model. The economic activity index can be used to gauge directional movements in GDP growth well ahead of official releases
- It suggests that the economy rebounded sharply from May/June 2020 with the reopening of the economy, with industry normalising faster than contact-intensive service sectors.
- The index tracks GDP dynamics closely and nowcasts GDP growth at (-) 8.6 % in Q2:2020-21.
- India has entered a technical recession in the first half of 2020-21 for the first time in its history with Q2:2020-21 likely to record the second successive quarter of GDP contraction.
- The contraction is ebbing with gradual normalisation in activities and expected to be short-lived.

Household Financial Savings

- The significant increase in household financial assets and moderation in household financial liabilities led to an increase in household financial savings in Q1:2020-21.
- The unprecedented increase in household financial savings in Q1:2020-21 is expected to taper off in course of time, especially as the COVID curve begins to flatten allowing households to spend and economic activities to revive in the coming quarters.



India : Data Highlights

- CPI inflation has soared upwards to 7.6% Y-o-Y (consensus: 7.3%) vs 7.3% for September, thereby printing the highest number since 2014.
- The sequential uptick is driven by Food and Beverages, while most other categories have remained sticky at elevated levels., keep ing the core inflation high at 5.8% vs 5.7% in September 2020.
- The supply side shocks have now been coupled with weather related disruptions leading to higher food prices.
- IIP grows at 0.2% in September, enters positive territory after a six-month contraction
- October fuel demand marks first y/y gain in 8 months
- Moody's revises India's 2020 GDP forecast to -8.9% from -9.6%
- Capacity utilization currently stands at 47.3 – lowest ever in the OBICUS survey and the Industrial Survey paints a continued grim outloo k.
- RBI buys net $8.17 billion in FX market in September

India : Fiscal Stimulus 3.0

- Government announced another stimulus package, called Atmanirbhar Bharat Abhiyaan 3.0, totalling Rs 2.65t (and Rs 3.2t including PLI scenes for mobile industry).
- The package included boost to formal employment, the Production Linked (PLI) Scheme, increase in the fertiliser subsidy and rural employment program called MGNREGA.
- Calculations suggest the actual fiscal outgo in FY21 could be a maximum of Rs. 1.1t (0.5% of GDP).
- This, along with the previous announcements, total fiscal package amount to Rs. 17.7t (8.7% of GDP).
- However, our calculations suggest the actual fiscal outgo in FY21 could be a maximum of Rs. 4.7t (2.3% of GDP).

Nifty : Outlook

- Nifty presently is testing a stiff resistance zone . This resistance zone has acted as supply zone for the last 5 times and this is the sixth time it is testing it.
- The first time it entered this zone on Oct 2007, kept consolidating and finally failed on Jan 2008
- Second time in Jan 2018 - touched and got rejected
- Third time tried again on late Aug 2018 and failed on Sept 2018
- Fourth time again on May 2019 and failed in July 2019.
- Last time it again entered this zone on Dec 2019 and finally failed on Jan 2020
- Interestingly - again it entered the same zone. Will it fail again ?
- 12770 should continue to resist for decline into 12430