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ASSET MANAGEMENT

Latest From the Markets

13 May 2020

Overview

- Yesterday was characterized by uncertainty in the Asian and European markets. US markets were also spooked by fears the reopening of activities is happening too fast, with the risk of a resumption in contagion.
- Looks like we may be in a "Catch 22" situation, where reopening too quickly could open up to a risk of a second "lockdown", but not reopening could result in a worsening of the current recession.

Economy and Markets Update

After Trump's statement that he was unwilling to renegotiate the "Phase 1" agreement with China, in a reconciliatory gesture, China decided to suspend the tariff regime on 79 products imported from the US until May 2021. According to "Phase 1" of the agreement, China should import an additional USD 200 billion of US goods over two years, with USD 77 billion more this year and USD 123 billion next year. China had already suspended tariffs on 696 US products in February. In addition, yesterday, in a further attempt to ease tensions, the Chinese Foreign Ministry said that the first phase agreement should be good for both countries.

On the macroeconomic front, inflation in China fell in April for both producer and consumer prices. In fact, the PPI index is down by -3.1% year-on-year compared to the expected -2.6%. The CPI is also slowing down to 3.3% compared to the expected 3.7%. In India, manufacturing production was down by -20% for March. Also in the US, consumer prices excluding the most volatile components grew less than expected in April by +1.4% year-on-year compared to 1.7% expected and +2.1% in March.

Yesterday's Market Roundup

Negative closures for most Asian markets with the exception of China, which closed unchanged. The Japanese Nikkei 225 closed slightly down at -0.12% and Australia at -1.07%. Hong Kong lost -1.45%, while South Korea and India fell by -0.6%. It was uneventful day for European markets with the Eurostoxx50 index unchanged.

The German DAX also remained virtually unchanged, while the French CAC 40 fell by -0.4%. The European periphery was more positive with the Italian FTSE MIB up by +1% and the Spanish Ibex by +1.36%. London also performed well at +0.9%. The US stock market closed down sharply with the S&P 500 index down by -2.05%, under pressure from small and medium capitalization companies with the Russell 2000 down by -3.5%.

Yields on the 10-year US Treasury fell to 0.67% (-4 bp), while those on the 10-year Bund remained unchanged at -0.51%. The Italian spread with Germany widened slightly to 243 basis points (+5 bp).

In Commodities, Brent crude oil fell to -1.7% at 29.5 dollars a barrel, while the WTI rose by +4.3% to 25.4 dollars a barrel. Gold rose by +0.4% to \$1,704 an ounce. The US dollar weakened against the Euro at 1.085.

Today's Opening Bell

Uneven openings in Asia after Wall Street closed negative last night. The Japanese Nikkei 225 fell by -0.3% and Australia lost -0.24%. China is almost unchanged, while Hong Kong is up +0.2%. South Korea is up slightly +0.16% and India up +2.3%.

The price of oil remained unchanged, with Brent oil at 29.5 dollars a barrel and WTI at 25.6. Gold at 1,702 dollars an ounce is stable. USD against Euro also remains stable at 1.085. European futures fell -1.4%, while those on the United States were slightly positive at +0.2%.

IMPORTANT INFORMATION

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