GALT & TAGGART

CREATING OPPORTUNITIES

GLOBAL MARKET WATCH

18 September, 2020

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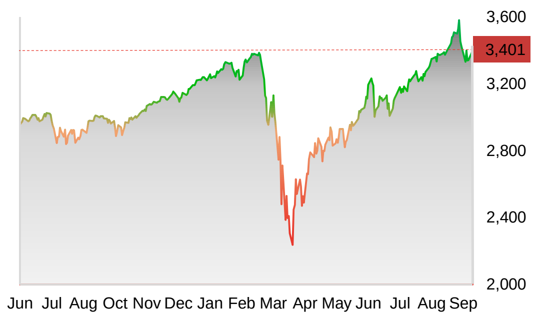
Global Market Watch

Global markets
Periodic
September 18, 2020

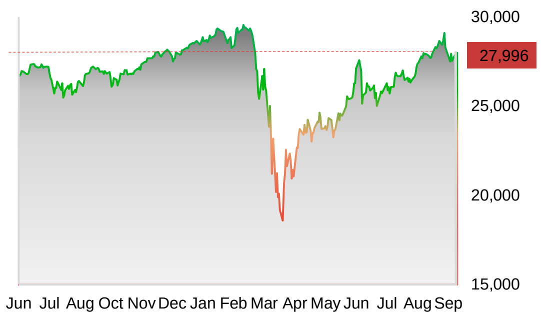
What's moving markets

- The OECD updated its economic outlook, and expects **the world economy to shrink 4.5% this year, less than 6% forecasted in June.** The upgrade came in after the strong rebound in activity in major economies including US, Europe and China. However, OECD also stressed the importance of continuation of government and central bank support into 2021 as pace of recovery is slow.
- **FOMC held its policy meeting on 16 September and signalled to maintain near zero rates through 2023.** In addition to keeping interest rates unchanged, the Fed pledged to maintain accommodative policy until the US gets back to maximum employment and inflation is 'moderately above 2% for some time'. This is in line with the Fed's new - average inflation targeting - monetary policy strategy announced on 27 August. The Fed also maintained current US$ 120bn monthly purchases unchanged. US economic forecasts were also updated, Fed now expects 3.7% contraction in 2020 vs. -6.5% forecasted in June, while 4Q20 unemployment is expected to go down to 7.6% (vs. 9.3% June forecast).
- ECB held a policy meeting on 10th of September and **main deposit rate (-0.5%) and the COVID-19 related bond-buying program (EUR 1.35tn) were kept unchanged**. ECB's Christine Lagarde outlined that appreciation of Euro (strengthening more than 10% against USD since March) and related pressure on prices, will be 'carefully' monitored. Notably, inflation in the Eurozone turned negative for the first time in four years, with headline CPI coming in at -0.2% in August, mostly related to lower oil prices, VAT rate cut in Germany and slower summer sales in France, Italy and Belgium. The ECB also expects economic contraction to ease to -8.0% in 2020 from -8.7% forecasted in June.
- August 2020 was the best August since 1986 for US equity markets. **US stocks hit all-time highs on 2 September,** before pulling back to mid-August levels. S&P 500 index retreated to 3,400 by mid-September, wiping out the gains achieved in the last week of August. The drop was more severe for the tech-heavy NASDAQ composite, which was down 6.3% compared to end-August level, trading at 11,190 by 15 September. European stocks have remained mostly flat in the first two weeks of September.

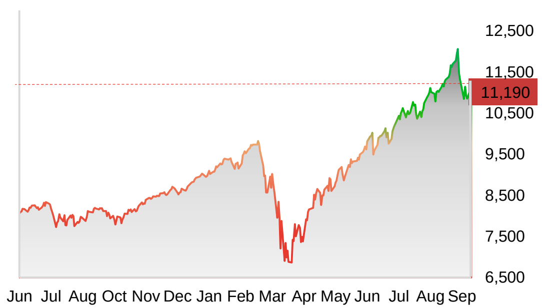
S&P 500



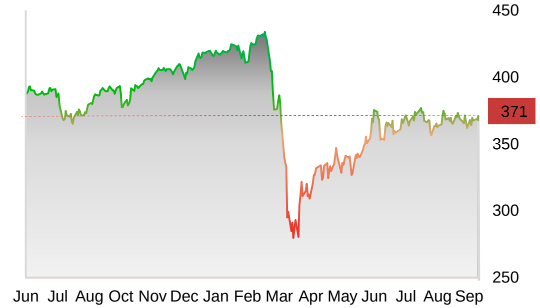
Dow Jones Industrial Average



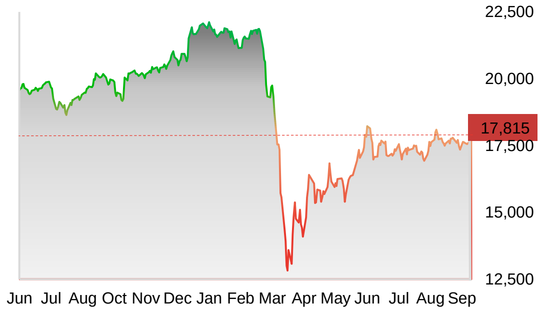
NASDAQ



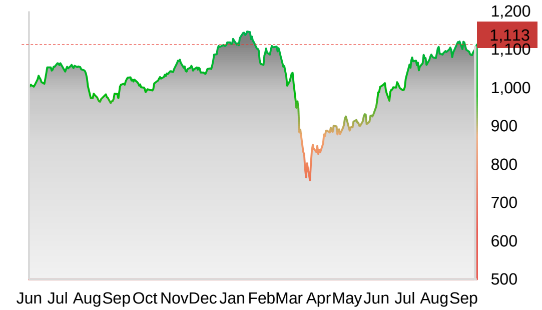
STOXX 600 Europe



FTSE 250



Emerging Markets Index



Source: Bloomberg

- **Fresh data on China's retail spending boosted stock markets on 15 September.** Retail sales increased for the first time year to date (+0.5% y/y), positively surprising the markets and proving that the Chinese economy is on track for fast recovery from COVID 19 economic slump. China's renminbi hit 16-month high (up 0.5%) on the news. Despite the positive economic data, Chinese stocks experienced biggest weekly drop since mid-July amid US-China trade tensions. China's, Shanghai Composite Index was down 3.2% by 15 September, compared to end-August level.
- **Japan has a new prime minister.** Yoshihide Suga was elected in a parliamentary vote on 16 September, succeeding the country's longest-serving prime minister Shinzo Abe, who stepped down due to health issues. Suga was chief Cabinet secretary for Abe's government and acted as Mr. Abe's right-hand man. Suga has promised to remain committed to 'Abenomics' and no major changes are expected in Bank of Japan's policies. The news was already priced in by Japanese stock markets, with Japan's Nikkei 225 index remaining stable in the first two weeks of September (+0.9%).

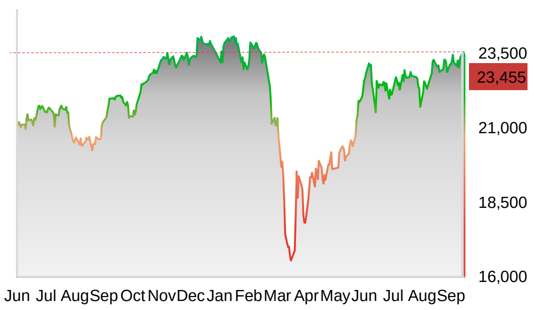
Commodities

- The International Energy Agency (IEA) cut its 2020 oil demand forecast on 15 September. EIA expects global oil demand to be 91.9mb/d in 2020, which is 8.4mb/d lower compared to 2019. Lower demand is related to reduced air travel due to the coronavirus pandemic. This came in after the similar sentiment from OPEC, which expects 9.5% y/y fall in demand in 2020. Despite the two hurricanes hitting the gulf coast, leaving more than 25% US oil & gas operations shut down, **crude oil prices have been on the downward trajectory in the first two weeks of September**. WTI oil was trading at US$ 38.3/barrel by 15 September, down 10.5% compared to end-August level. Brent oil also edged down 8.8% to US$ 40.5/barrel in the same period.
- After hitting the all-time high level of above **US$ 2,000 in August, gold price slightly retreated, trading at** US$ 1,965/ounce by 15 September.

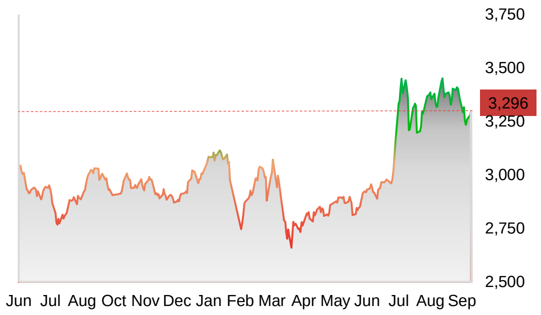
Volatility

- After turbulence in the first week of September, when Cboe Volatility Index, VIX, the gauge of fear in S&P market, hit the two-month high of 31.5 by 8 September, the index retreated down to 25.6 by 15 September.

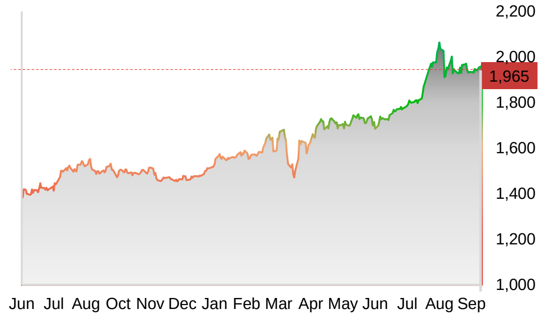
Nikkei 225



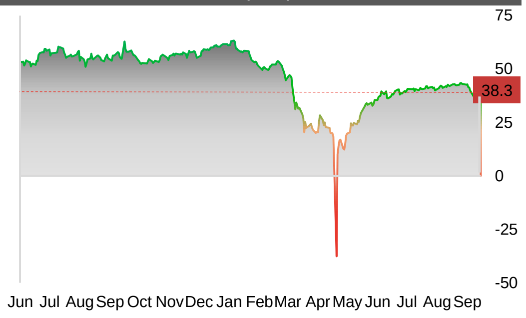
Shanghai Composite Index



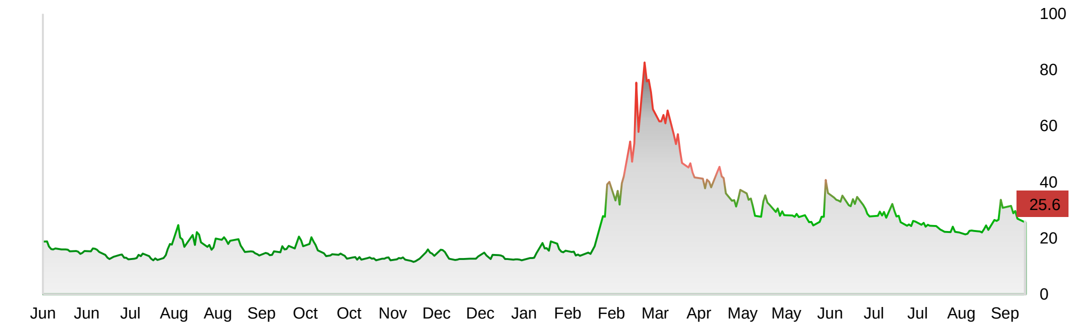
Gold



Oil (WTI)



Vix



Source: Bloomberg
Note: Data as of 15 September 2020

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