28 APRIL 2020

MID-MONTH INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

MARKET COMMENTARY

- **A sharp global recession is widely expected.** The scale of the economic damage caused by steps taken to slow the spread of the coronavirus is increasingly coming into focus as economic data are released. While China reported its first quarterly drop in GDP growth since 1992, business activity in the Euro-area dropped to a record low in April and global flash PMIs fell to record lows, highlighting the depth of the global downturn in economic activity as a result of the pandemic. Although swift action by monetary and fiscal authorities has been supportive of markets, the global economy will not fully recover until an effective treatment or a vaccine becomes available.

- **China crawls back to normalcy.** After a historic contraction in Q1, China has been trying to regain some sort of normalcy in economic activity since March. After initial signs of pickup as industry gingerly returned to business, the earliest indicators showed domestic demand was still weak and companies remained cautious of the overseas demand outlook. While the country is back in business in theory, China's problems have reversed from having orders but no production capacity to now having excess capacity but no orders. In response, the PBoC and the government have stepped up support for the economy, cutting interest rates and releasing funding to banks to lend more.

- **Oil faces its worst nightmare.** The oil industry has been grappling with both demand destruction and infighting among producers about reducing output. Despite a historic OPEC+ production cut to reduce output by almost 10mio barrels/day, oil futures crashed deep into negative territory amid concerns that traders are quickly running out of room to store crude, should they receive physical delivery on their futures contracts. Meanwhile, the outbreak of the coronavirus, strict social distancing and lockdown measures are leading to an unprecedented fall in energy consumption. Brent has lost almost 70% year-to-date.

Sovereigns	Yield % (31/03)	Yield % (27/04)
Abu Dhabi 2027	2.76	2.31
KSA 2029	3.27	3.07
Dubai 2029	4.96	4.00
Qatar 2029	2.96	2.77
US 10Y	0.67	0.66
German 10Y	-0.47	-0.45

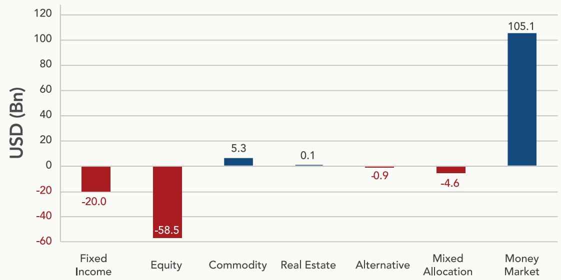
Equities	Last Price	Period *	YTD Chg
MSCI World	2,022	9.2%	-14.2%
MSCI BRIC	282	5.0%	-17.1%
MSCI EM	895	5.5%	-19.7%
USA - S&P 500	2,878	11.4%	-10.9%
UK- FTSE 100	5,847	3.1%	-22.5%
France - CAC40	4,505	2.5%	-24.6%
Germany - DAX	10,660	7.3%	-19.5%
Japan - Nikkei 225	19,783	4.6%	-16.4%
Dubai	1,986	12.1%	-28.2%
Abu Dhabi	4,170	11.7%	-17.8%
Saudi	6,828	5.0%	-18.6%
Oman	3,525	2.2%	-11.5%
Kuwait	4,073	-0.2%	-17.1%
Egypt	10,376	8.2%	-25.7%
Qatar	8,531	3.9%	-18.2%
Commodities			
Gold ($/oz)	1,714	8.7%	13.0%
Silver ($/oz)	15	8.8%	-14.8%
Platinum ($/oz)	766	5.9%	-20.8%
Oil – Brent ($/bbl)	20	-12.1%	-69.7%

* Refers to the period from 1st - 27th April 2020

FUND FLOWS

- The demand shock caused by the COVID-19 pandemic and overwhelmed oil storage facilities saw Brent fall by a massive 25% on 21st April. Extreme volatility in oil prices saw investors pulling out of equities, especially emerging market equity funds and boosting their flows into safer money market funds.
- A sharp fall in oil prices created excitement in the energy space and drew a lot of retail participation into energy sector funds. Meanwhile, gold's safe-haven status continues to garner attention and flows into gold ETFs may continue to gain traction as a hedge against general market uncertainty.

Fund Flows (April 02-15, 2020)



Source: EIBank, Bloomberg

FX, RATES & COMMODITIES

- What a deja-vous! On April 10th in our Monthly Investment Overview with EUR/USD at 1.0830 we accurately forecasted a downside move to 1.0780 followed by a reversal closer to 1.1000, and today we are again at 1.0830! Market hurdles persist in the US with rising record unemployment, while Europe reports 22 Years-low PMIs, plummeting Consumer Confidence and still no unified EU Council Ministers agreement on Single Market support. FED and ECB meetings this week should hold no surprises. EUR/USD short-term pressures towards 1.0750 persist, with a medium-term recovery to 1.1000 still on the cards.
- Similarly, our view on GBP/USD rangebound trade between 1.2300 and 1.2500 was confirmed. This range should hold for the next fortnight: While downward pressures continue due to deteriorating UK PMIs, unemployment, wage growth, longer term GBP should rise being massively undervalued. EUR/GBP is holding at 0.8715, with moderate -+60 pips movements and Brexit negotiations on the backburner due to the Covid-19 crisis.
- USD/CHF and EUR/CHF which are at the very same levels as 2 weeks ago (0.9750 and 1.0560), traded as forecasted in ultra-tight ranges. Short-term, CHF may weaken slightly towards 0.9800 and 1.0600 respectively.
- USD/JPY's balanced trading around 107.20 is expected to continue short-term. While the JPY strengthens on BOJ's stimulus pledge for unlimited bond purchases, Japan's deteriorating trade deficit, manufacturing PMIs and inflation weaken the JPY.
- Gold indeed rallied towards our target of $1,700/oz, reached $1,742/oz and has consolidated at $ 1,713. Upward short-term pressure towards $1,750/oz should resume amidst worsening economic indices and corporate earnings.
- WTI is currently at $13 and Brent $ 20/barrel. The agreed daily OPEC+ production cuts equal about a third of daily reduced demand, hence oil storage facilities are rapidly filling up. With producers desperate to sell oil no one wants, WTI hit recently historic lows of -$40/barrel. The downward pressure is expected to continue in May and June, as supply needs to reduce faster while demand will only rise once lockdowns are removed more widely.
- With unprecedented central banks' stimulus, US 3M Libor finally dropped to 0.84%, normalizing closer to longer dated US Swap rates of 2Y 0.39%, 5Y 0.47%, 10Y 0.68% and 30Y 0.83%. Despite short-term liquidity improving, longer term recessionary pressures persist.

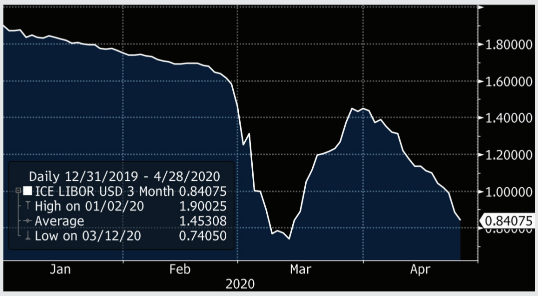
MAIN CROSS RATES

€ 1 → $ 1.0830

£ 1 → $ 1.2425

$ 1 → ¥ 107.20

ICE LIBOR USD 3 Month



Source: Bloomberg

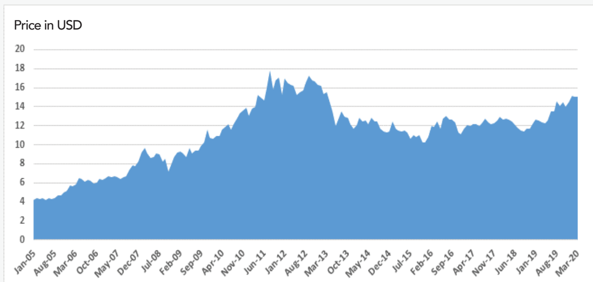
Crude Oil, WTI

Source: Bloomberg

INVESTMENT THEME: GOLD AS A HEDGE

We continue to believe that equities are not reflecting the poor economic realities today and we should expect poor news flow over the coming weeks as companies announce their Q1 results. Additionally, the options markets for several industrial conglomerates such as General Electric, which can be seen as proxies to the global economy, continue to price in lower valuations. As such, we believe that it makes sense to add exposure to gold in your portfolios, not only as a hedge against general market uncertainty but also as a hedge against currency depreciation, given the huge amounts of economic stimulus pledged by global central banks.

ISHARES Gold Trust



Source: EIBank, Bloomberg

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IMPORTANT INFORMATION