MID-MONTH INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

MARKET COMMENTARY

- **Global economy comes to a standstill.** With the coronavirus epidemic continuing to paralyze all economies, the global financial markets endured massive sell-offs, causing liquidity to dry up in the fixed-income markets and volatility to rise in the equity markets. With countries in lockdown to contain the virus, there is increasing fear that the adverse economic impact on businesses and individuals can potentially morph into a credit crisis if a short-term solution is not found. In order to avoid this from happening, governments and health regulators have embarked on a global campaign to find a treatment plan in the interim period before a full-fledged vaccine is found.
- **Governments and central bankers have swung into action to minimize the impact.** Governments and central banks have stepped in on the fiscal and monetary side to ensure the flow of credit and liquidity in the economy and the financial markets. There is a drastic need to keep businesses afloat and for workers to be employed over the next couple of months until a treatment for Covid-19 is found. While further research will need to be completed over the next couple of weeks, the formal announcement of a potential treatment plan will help contain the virus, and eventually calm markets and spur economic activity.
- **Chinese economic releases provide an insight of what's to come.** Meanwhile, the Chinese economy reeled under the pressure of inactivity and provides an indication for the poor Q1 numbers that many economies are expected to report over the coming weeks. China registered a year over year drop of 13.5% in its Industrial Production (IP) in January & February, while the unemployment rate increased to 6.2% in February, up from 5.2% in December and it's highest on record. The jump in unemployment led to a steep decline in retail sales of 20.5% despite the onset of the Chinese New Year shopping season. With fixed asset investment tumbling 20.5% year over year in the first two months of the year, the Chinese economy is expected to register a GDP decline of at least 10% during the first quarter as Chinese exports are likely to bear the brunt of global economic hibernation.

Sovereigns	Yield % (28/02)	Yield % (25/03)
Abu Dhabi 2027	2.04	3.05
KSA 2029	2.58	3.52
Dubai 2029	3.18	5.14
Qatar 2029	2.28	3.30
US 10Y	1.15	0.87
German 10Y	-0.61	-0.26

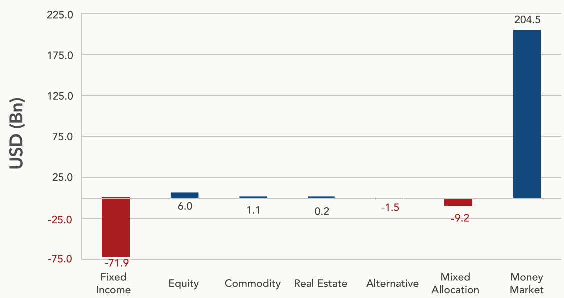
Equities	Last Price	Period *	YTD Chg
MSCI World	1,786	-16.6%	-24.3%
MSCI BRIC	266	-15.3%	-21.9%
MSCI EM	837	-16.8%	-25.0%
USA - S&P 500	2,476	-16.2%	-23.4%
UK- FTSE 100	5,688	-13.6%	-24.6%
France - CAC40	4,432	-16.5%	-25.9%
Germany - DAX	9,874	-17.0%	-25.5%
Japan - Nikkei 225	19,547	-7.6%	-17.4%
Dubai	1,823	-29.6%	-34.1%
Abu Dhabi	3,921	-20.0%	-22.7%
Saudi	6,209	-18.6%	-26.0%
Oman	3,556	-13.9%	-10.7%
Kuwait	4,156	-12.9%	-15.4%
Egypt	9,866	-24.2%	-29.3%
Qatar	8,534	-10.1%	-18.1%
Commodities			
Gold ($/oz)	1,617	2.0%	6.6%
Silver ($/oz)	14	-13.1%	-18.9%
Platinum ($/oz)	742	-14.3%	-23.2%
Oil – Brent ($/bbl)	27	-45.8%	-58.5%

* Refers to the period from 1st - 25th March 2020

FUND FLOWS

- Global money market funds have recorded significant inflows as investors cash out of other asset classes, especially fixed-income. Global bond funds and ETFs saw record outflows, with nonstop selling in HY and IG corporate bonds, as investors start to question credit fundamentals. High quality IG bonds seem to have been oversold and are trading at attractive levels.
- Over the short-term, our trading desk expected a snap-back rally in equities and the USD2 trillion US stimulus may have provided that impetus. However, they remain structurally bearish as there is a major risk of another credit default cycle in the not-too-distant future. Should a credit default materialize, markets can continue to head lower in the coming months.

Fund Flows (March 05-18, 2020)



Source: EIBank, Bloomberg

FX, RATES & COMMODITIES

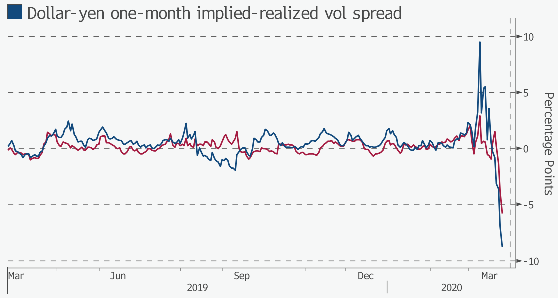
- At times of extreme market volatility, there's overwhelming structural demand for the USD. In our March 19th publication we forecasted EUR would break key support levels due to ECB's massive EUR 750 billion stimulus package: Indeed EUR fell to 1.0641. Consequently, the US $2 trillion fiscal stimulus package combined with an oversold EUR as the Options Market showed, helped a recovery to 1.0900. Nevertheless, further negative virus-related news plus the horrific German Business Confidence numbers could resume the flight to quality, with EUR conversion into USD, the world's reserve currency: Short-term target is 1.0650 while further drop would point to 1.0500.
- Post the US fiscal stimulus plan announcement, the GBP extended gains to 1.1900+, recovering from 35-years low of 1.1514 hit a few days ago. The combination of a UK rate cut to 0.10%, the massive UK stimulus package and the UK country-wide lock-down could have the GBP trade short-term rangebound between 1.1700 to 1.1960. Meanwhile, GBP/USD Options volatility continues to be sky-high.
- As for the USD/CHF, we observe rangebound trade around the 0.98 handle, while the EUR/CHF has pushed slowly back up towards 1.0600.
- USD/JPY will continue to remain firm around the 111.00 level as long as Covid-19 related funding stress remains. JPY may recover lost ground overtime but for now Japan is also reeling from the blow of postponing the Olympics for a year.
- Gold suffered as positions were exited to cover margin calls in equities. It has consequently recovered around the $1,600/oz levels. Massive stimulus packages and rates next to zero, should push safe-haven Gold higher again to test $1,700/oz medium-term.
- With increased Oil supply expected in April after the OPEC+ agreement breakdown, combined with world-wide lock-downs restricting people's movement, air-travel and crushing retail business, market consensus forecasts for WTI and Brent are lowered for the end of 2020 between $25 and $30/barrel.
- US Swap rates have remained subdued: US 2 Years at 0.53%, 5Y at 0.60%, 10Y at 0.75%, even 30Y at 0.83%. The US 3 Month Libor is resilient though at 1.23%, despite FED rates being almost at 0% : A partial explanation is that at so low rates - and hence margins – Banks find it hard to lend, while they also struggle to attract deposits to strengthen their liquidity in view of the coming storm.

MAIN CROSS RATES

€ 1	→	$ 1.0900
£ 1	→	$ 1.1850
$ 1	→	¥ 111.20

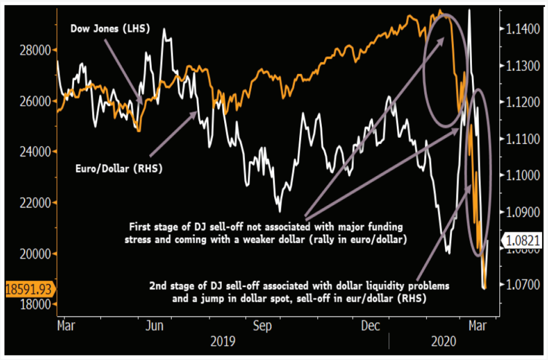
Bargain Prices?

Options are now most underpriced in nearly a decade



Source: Bloomberg

Euro-Dollar at Risk when Liquidity Lacking

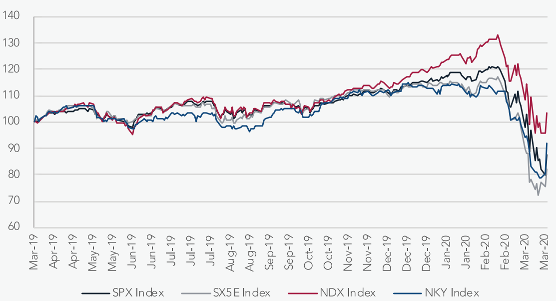


Source: Bloomberg

INVESTMENT THEME: GEARED PUT STRIKE ON GLOBAL EQUITY INDICES

Although we believe that equity markets will continue to drop from these price levels, some investors are eyeing a potential entry point. The S&P500 is currently down 23% on a year-to-date basis, the Eurostoxx50 is down 27%, while the Nasdaq100 is down 15% and the Nikkei225 is down 17% over the same period. With volatility at elevated levels, we can price a one year worst-of product that provides a cushion against a further drop in these indices by 40% - 50%. Such a product would be expected to pay a guaranteed coupon of approximately 8% - 10% per annum.

Performance of Global Equity Indices



Source: EIBank, Bloomberg

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