MID-MONTH INVESTMENT OVERVIEW

EMIRATES INVESTMENT BANK

MARKET COMMENTARY

- **Coronavirus impacts US economy.** The US economy failed to avert the impact of the coronavirus as business activity in both services as well as manufacturing dropped during February. The flash Services Purchasing Manager's Index (PMI) declined to its lowest level since October 2013 to 49.4 from 53.4 in January, while the Manufacturing PMI decreased to 50.8 in February from 51.9 in January. Despite the adverse coronavirus impact, the macro-economic trends in the US continue to signal moderate growth, for now.
- **Eurozone registers mild recovery.** The Eurozone economy continued its path to recovery on firmer domestic demand as the flash Composite PMI reading came in at 51.6 in February, up from 51.3 in January. Though the Manufacturing PMI remained in contraction at 49.1, it registered an improvement from its previous mark of 47.9.
- **Chinese banks seek to boost economic confidence.** In a bid to tackle the economic brunt due to the coronavirus outbreak, Chinese policymakers reduced benchmark interest rates for borrowers as it lowered the one year loan prime rate (LPR) by 10 bps and the five year LPR by 50 bps. Chinese banks continue to flood the economy with bank credit as the amount of credit extended in January equated to the entire credit advances in 2007. Upbeat on these policy moves, the Shanghai Stock Exchange Composite Index surged 10.4% from its February lows.
- **Japanese economy slumps at fastest pace in 6 years.** Adversely impacted by the sales tax hike that hit consumer as well as business spending, the Japanese economy shrank 6.3% during the last quarter of 2019, the fastest pace in six years. The Japanese economy is at risk of a recession as the coronavirus outbreak further aggravates economic conditions during the first quarter of 2020.

	Yield % (24/02)	Yield % (31/01)
Abu Dhabi 2027	1.94	2.21
KSA 2029	2.40	2.58
Dubai 2029	2.91	3.04
Qatar 2029	2.18	2.37
US 10Y	1.37	1.51
German 10Y	-0.48	-0.43

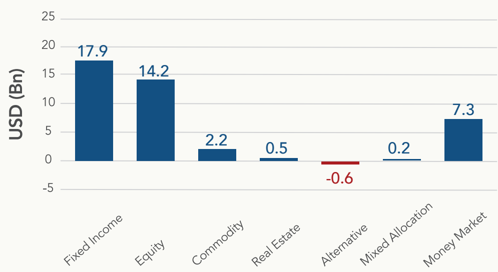
Equities	Last Price	Period *	YTD Chg
MSCI World	2,331	-0.5%	-1.2%
MSCI BRIC	329	1.2%	-3.3%
MSCI EM	1,055	-0.7%	-5.3%
USA - S&P 500	3,226	0.0%	-0.2%
UK- FTSE 100	7,157	-1.8%	-5.1%
France - CAC40	5,792	-0.2%	-3.1%
Germany - DAX	13,035	0.4%	-1.6%
Japan - Nikkei 225	23,387	0.8%	-1.1%
Dubai	2,696	-3.4%	-2.5%
Abu Dhabi	4,931	-4.4%	-2.9%
Saudi	7,747	-6.1%	-7.7%
Oman	4,156	1.9%	4.4%
Kuwait	4,769	-3.1%	-2.9%
Egypt	13,442	-3.4%	-3.7%
Qatar	9,770	-6.4%	-6.3%
Commodities			
Gold ($/oz)	1,659	4.4%	9.4%
Silver ($/oz)	19	3.3%	4.4%
Platinum ($/oz)	966	0.6%	0.0%
Oil – Brent ($/bbl)	56	-3.2%	-14.7%

* Refers to the period from 1st - 24th February 2020

FUND FLOWS

- Over the past few weeks, global bond funds and bond ETFs saw their highest inflow since 2015, driven by both investment grade (IG) corporate bonds and high yield (HY) bonds, as some investors seek safety while others continue to chase yield.
- Meanwhile, equity funds and equity ETFs also saw a significant amount of inflows, entering their 7th consecutive week of inflows, as central banks keep easy monetary conditions on the table. The equity inflows may be reversed in the coming weeks as investors digest the impact of the novel coronavirus on global GDP growth.

Fund Flows (February 01- 21, 2020)



Source: EIBank, Bloomberg

FX, RATES & COMMODITIES

- The EUR dropped to a 3 Year low of 1.0777 last week but recovered to 1.0875. The short-term downward pressure remains, with a possible break of 1.0777 pushing EUR lower all the way to 1.05, on the back of overall USD strengthening. Nevertheless, with strong PMIs from the Eurozone and Germany, we can expect higher EUR levels closer to 1.10 – 1.12 in the medium term.
- GBP related sentiment was strong after the UK Cabinet re-shuffle, however the overall USD strength meant the GBP lost ground and closed the week at 1.2950. EUR/GBP currently trading at 0.8400, also saw little movement, as both the EUR and GBP respectively lost ground to the USD. Expectations are for short term GBP/USD and EUR/GBP to be range-bound.
- The JPY saw an explosive move above 112.00 to the USD, its worst performance since 2017, before consolidating lower at 110.60. Growing concerns on the health of Japan's economy are to blame, hit by supply chain disruptions, soft global demand for Japanese cars and last year's sales tax hike. Currently expectations look bleak for next quarter, putting further downward pressure on the JPY.
- EUR/CHF has fallen to 1.06, the bottom of its long term trading range of 1.06 to 1.20, established when the Swiss National Bank broke the EUR/CHF peg in Jan 2015. Unless the SNB intervenes to weaken the CHF, EUR/CHF may trade all the way down to parity, with negative repercussions on Swiss inflation, growth and overall economy. Meanwhile USD/CHF has traded sideways, closing at 0.98 with expectations for this to continue short-term.
- Gold jumped to 7 year highs at $1686/oz on market sentiment deterioration, targeting $1,700/oz in the next couple of weeks, reflecting a typical flight to safety. Plunging 10-year Treasuries, an inverted yield curve and slowing business activity across the US services sector can support Gold's gains further.
- Oil strengthened overall, despite the Covid-19 risks, with Brent closing last week at 58.50/b and WTI at 53.38/b. The OPEC+ meeting scheduled for early March may give guidance if an oil production cut is possible to support prices, on the back of waning business activity.

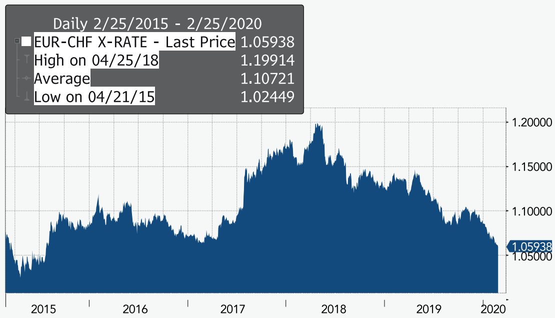
MAIN CROSS RATES

€ 1 → $ 1.0875

£ 1 → $ 1.2950

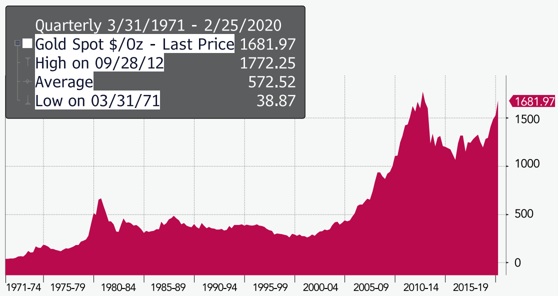
$ 1 → ¥ 110.60

EUR - CHF EXCHANGE RATE



Source: Bloomberg

XAU CURRENCY (GOLD SPOT $/OZ)

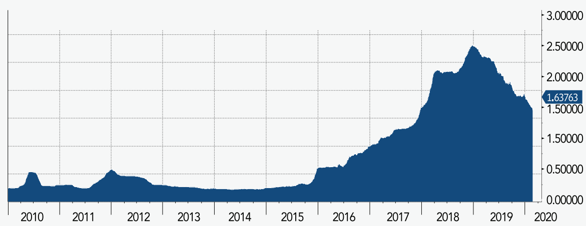


Source: Bloomberg

INVESTMENT THEME: CORONAVIRUS MARKET WORRIES

Global GDP growth has the potential to be temporarily impacted as a result of the spread of the coronavirus. Supply chains are being disrupted, oil demand is down, and the tourism industry has already taken a hit. In such an environment, the Fed may be under additional pressure to cut interest rates. However, some rates' markets are pricing-in over four rate cuts of 25bps each over the next 12 months. While 1 or 2 rate cuts may materialize, we believe that the global macro environment does not warrant this level of monetary easing. As such, we can price an investment product that is expected to provide an attractive return, should 3-Month LIBOR not drop by approximately 1% to 0.65% from the current levels of 1.62%.

3-Month LIBOR



Source: EIBank, Bloomberg

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