

Market Recap 31/10/2020

United States

Many US markets have seen the roughest week since March; the Dow and S&P 500 indices are down 7.5% and 6.4% respectively and the Nasdaq fell over 6% (following a sharp selloff in technology stocks due to mixed earnings results, with Apple falling 5.5% after a 20% decline in iPhone sales and Twitter losing more than 15% after reporting user growth that fell short of expectations) – each of their biggest weekly losses since March. Wednesday specifically saw the Dow and S&P fall 3.4% and 3.5% respectively, the biggest one-day losses since June (over 95% of the stocks that make up the S&P 500 declined.) These downturns can largely be attributed to soaring coronavirus cases (the seven-day average of coronavirus cases in the US exceeded 70,000 for the first time on Tuesday) and Congress' failure to put together a stimulus package before the election. Energy stocks were among the worst hit with Brent crude closing -5% at \$39.12 a barrel - its lowest level since June – on expectations of weakening fuel demand in a coronavirus-constrained economy. US fuel inventories are once again rising as they did in April (leading to the notorious negatively priced futures on WTI for May.) The upcoming election is expected to be a source of further volatility in equities, with the VIX trading as high as 40.7 this week, well above its long-term average of 20 and at its highest point since June.

Treasuries often provide some cushion for a drop in stocks but this has not been the case with yields on 10-year Treasuries remaining relatively low and unchanged at 0.77%. Though, the US commerce department reported that the US economy grew at a quarterly rate of 7.4%, rebounding to within 3.5% of its level at the end of last year, while in September personal income rose 0.9% and consumer spending rose 1.2%, above forecasts.

The dollar weakened, with EUR/USD sinking to 1.16; as the dollar depreciated against major currencies investors started looking more closely at Gold, which concluded the week surpassing the 1,900 USD/oz threshold and finishing at 1,930.33 USD/oz.

Europe

The main reference index for European equities, the EuroStoxx 50 dipped and remains below 3000 (at 2964.12 to be exact) from 3182 at market open on Monday, EuroStoxx 600 is down 5%, leaving it nearly 7.5% below its level at the end of last week and at its lowest since May. Italian and German markets suffered the worst, with the FTSE MIB and the DAX falling more than 4% each Wednesday alone. This is tied to the steep rise in coronavirus cases and the return of restrictions in France, Germany, Italy, and Spain. Though, EuroStoxx 600 managed to close up by around 0.2% for Friday, with oil and gas shares climbing 1.9% to lead the gains. This comes after the eurozone's four biggest economies exceeded expectations for growth in the third quarter, though output remained well below pre-pandemic levels of course. Quarterly growth rates ranged from 8.2% in Germany to 18.2% in France while Italy reported 16.1% and Spain reported 16.7%. German retail sales fell more than expected in September (2.2%), fuelling fears that the country's consumer sector was losing steam even before the new semi-lockdown.

Corporate earnings remain on investors' radar; notably, Credit Suisse posted a 38% fall in net profit for the third quarter while Royal Dutch Shell reported better-than-expected quarterly earnings of \$955 million and announced plans to increase its dividend to shareholders.

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The latest statement from the ECB suggests that monetary policy will be adjusted based on upcoming forecasts due in December though no action will be taken for now - the interest rate on the ECB's main refinancing operations, marginal lending facility and deposit facility will remain at 0%, 0.25% and -0.5% respectively, and the Pandemic Emergency Purchase Program created in the wake of the pandemic will also remain unchanged.

UK

Officials in the UK reported more than 300 coronavirus deaths on Wednesday for the second day in a row while the FTSE 100 declined almost 5% this week, the worst since March, ending up at 5577 amid a resurgence of coronavirus cases and new lockdown measures. On the bright side, Standard Chartered joined HSBC in providing some hope after strong profits (\$745 million for the quarter) led them to consider resuming dividend pay-outs.

The Medicines and Healthcare Products Regulatory Agency said it has started speeding up its vaccine review process, with the potential jab being developed by Oxford University in partnership with AstraZeneca leading the charge. Earlier this month Pfizer said its vaccine candidate was expected to be ready for submission to the authorities in the third week of November, though it has not yet conducted an analysis of the efficacy of the vaccine. Trial data from the Oxford vaccine is also anticipated in the coming months.

Not much change in this week's FOREX; GBP/USD fell 0.8% to 1.30 while EUR/GBP fell 1.1% to 0.90.

Rest of the World

The sustained increase in coronavirus cases seen in the U.S. as well as across Europe weighed on investor sentiment in Asia-Pacific. Stocks in Australia led losses among the region's major markets as the S&P/ASX 200 dropped almost 4% to close off the week at 5,927.60. South Korea's Kospi fell 3.8%, closing at 2,267.15. Hong Kong's Hang Seng index finished 1.95% lower at 24,107.42 and the Shanghai composite declined around 1% to 3,224.53 while the Shenzhen component actually increased 1.3% to 13,236.60 this week.

In Japan, the Nikkei 225 slipped 2.5%, closing at 22,977.13. According to a preliminary government report, Japan's industrial output rose 4% in September from the previous month, though its retail sales fell 8.7% compared to a year earlier. The Yen traded at 104.23/dollar, having strengthened from levels above 104.8 earlier this week. The Bank of Japan has decided to keep monetary policy unchanged in a widely expected decision. Its median forecast for real GDP was revised to a 5.5% decline in 2020 compared to the expectation of 4.7% offered in their previous report in July.

Shares of Apple suppliers in Asia fell on Friday after the release of Apple's earnings report. In Japan, Taiyo Yuden fell 1.92% and Murata Manufacturing slipped 2.91%, in Hong Kong AAC Technologies slipped 2.74% and the Taiwanese company Largan Precision dipped 0.33%.

In China, the ruling party announced Thursday that its next five-year development plan (starting next year) will emphasize self-reliance in technology but gave no further details.

The Turkish central bank defended its approach as the lira sunk to another record low. TRY fell about 28% against the dollar this year due to geopolitical tensions, the pandemic and other factors. On Wednesday it fell as much as 1.6% to set its weakest level yet at 8.3211/dollar. The central bank also conceded that inflation would be much higher at the end of 2020 than the previous forecast predicted just three months earlier - increasing their forecast by 3.2 percentage points to 12.1%.

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