Weekly Economic Review - Week ending March 07, 2020

	Current Week	Previous Week	% Change			Current Week	Previous Week	% Change
DFM	2,460.54	2,590.00	**-5.00%**		**USD/INR**	74.00	72.53	**+2.02%**
ADX	4,643.09	4,901.43	**-5.27%**		**EUR/USD**	1.1285	1.1025	**+2.36%**
SENSEX	37,576.62	38,297.29	**-1.88%**		**USD/JPY**	105.30	108.07	**-2.56%**
NIFTY	10,989.45	11,201.75	**-1.90%**		**USD/CNY**	6.9298	6.9906	**-0.87%**
DOW	25,864.78	25,409.36	**+1.79%**		**Gold**	1,673.85	1,584.74	**+5.62%**
NASDAQ	8,530.34	8,461.83	**+0.81%**		**US 10-year**	0.7070	1.1260	**-37.21%**
S&P 500	2,972.37	2,954.22	**+0.61%**		**Crude - Brent**	45.27	49.67	**-8.86%**

UAE Central Bank cuts interest rates by 0.50%

On Tuesday, The Central Bank of the UAE (CBUAE) announced a cut in the interest rates on certificate of deposit by 0.50%. The decision was made following the announcement of US Fed to cut their policy rate by 0.50%

The UAE central bank said its repo rate for borrowing short-term liquidity had also been cut by 0.50%.

Certificates of Deposit, which CBUAE issues to banks operating in the country, are the monetary policy instrument through which changes in interest rates are transmitted to the UAE banking system.

Other than UAE, central banks of Saudi Arabia and Bahrain also have announced the similar cuts.

Saudi Arabian Monetary Authority (SAMA) has cut the repo rate from 2.25% to 1.75% and reverse repo rate from 1.75% to 1.25%.

Repo rate is the rate at which the central bank lends to banks, whereas reverse repo rate is the rate at which the central bank borrows money from commercial banks.

The Central Bank of Bahrain (CBB) decided to cut its key policy rate on the one-week deposit facility from 2.25% to 1.75%.

OPEC+ fails to agree on supply cuts, oil falls to 2017 lows

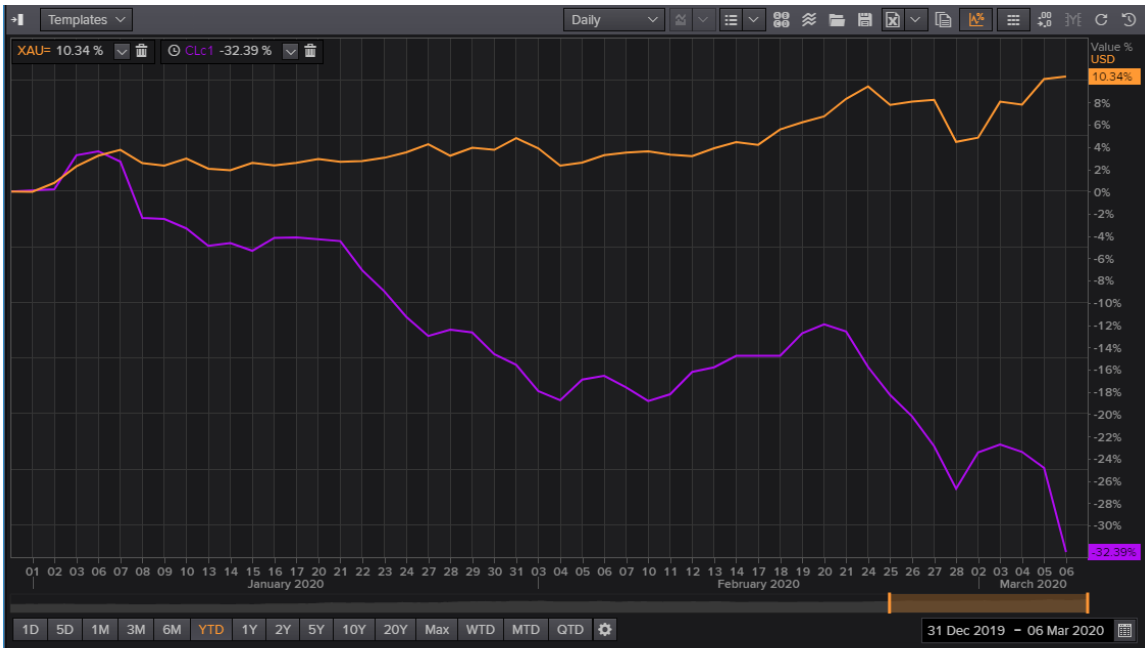
OPEC and non-OPEC allies failed on Friday to agree on how much oil production to cut amid the coronavirus outbreak, with Russia reportedly refusing to give the green light to the deepest supply cuts since the global financial crisis.

Oil prices initially slipped Friday afternoon on reports that Moscow said it wasn't prepared to approve a further reduction in production. Later, Reuters also reported that OPEC and its allies had even failed to agree on rolling over existing cuts, further weighing on crude prices. Then a statement by the oil group said it would continue discussions and made no mention of any cuts.

OPEC on Thursday recommended additional production cuts of 1.5 million barrels per day from the beginning of next month until the end of the year. The 14-member group had scheduled a meeting on June 9 to review the policy. The proposal was conditional on support from non-OPEC producers, including Russia.

Oil is at a crucial level as you can see from the chart above (WTI Monthly chart). WTI ended the week at $41.28/barrel. It has already broken below the lows of 2019 and now threating to go even below a $40 mark. That could further cascade into more weakness as the next important support level is only seen around $35 to $35 mark.

The oil has weakened by about 32% this year so far.



HISTORICAL PRICE CHANGE

Instruments	Instrument Names	High Date	High	Low Date	Low	Average	Net Change	Percent Change
XAU=	Gold Spot Multi-Contributor Commodity Cash Spot	06-Mar-2020	10.34%	01-Jan-2020	-0.01%	4.25%	10.34%	10.339%
CLc1	NYMEX Light Sweet Crude Oil (WTI) Electronic Energy Future Continuation 1	06-Jan-2020	3.62%	06-Mar-2020	-32.39%	-12.51%	-32.39%	-32.394%

FDI inflow dips 1.4% to $10.67 bn in October – December

Foreign direct investment into India dipped marginally by 1.4% to $ 10.67 billion (about Rs 76,800 crore) during October-December period of 2019-20, according to government data.

Inflow of foreign direct investment (FDI) during October-December of 2018-19 stood at $ 10.82 billion. FDI inflows in July-September period of the current financial year stood at $ 9.77 billion.

During April-December period 2019-20, foreign investments into the country grew 10% to $ 36.76 billion as against $ 33.49 billion in the same period of 2018-19, according to the data.

Sectors which attracted maximum foreign inflows during the nine-month period include services ($6.52 billion), computer software and hardware ($6.35 billion), telecommunications ($4.29 billion), automobile ($2.50 billion) and trading ($3.52 billion).

Singapore continued to be the largest source of FDI in India during April-December period of the current financial year with $11.65 billion investments. It was followed by Mauritius ($7.45 billion), the Netherlands ($3.53 billion), Japan ($2.80 billion) and the US ($2.79 billion).

State Bank of India steps into bailout Yes Bank

State Bank of India chairman Rajnish Kumar on Saturday said survival of Yes Bank was critical for the financial system and that it will invest ₹2,450 crore immediately, which can later balloon to over ₹10,000 crore depending on the due diligence and final valuation, to pick up 49% in the bank.

The Reserve Bank of India (RBI) on Friday announced a draft rescue plan for Yes Bank, saying that SBI has expressed willingness to invest in the troubled private sector lender.

The central bank also superseded the board of the private sector lender, which is now being headed by former deputy managing director and chief financial officer of SBI Prashant Kumar.

According to the draft 'reconstruction scheme', Yes Bank's authorized capital will be increased to ₹5,000 crore from ₹600 crore and paid-up capital will be enhanced to ₹4,800 crore, comprising 24 billion shares of ₹2 face value. This will be effective from the day the government notifies the scheme in the Gazette.

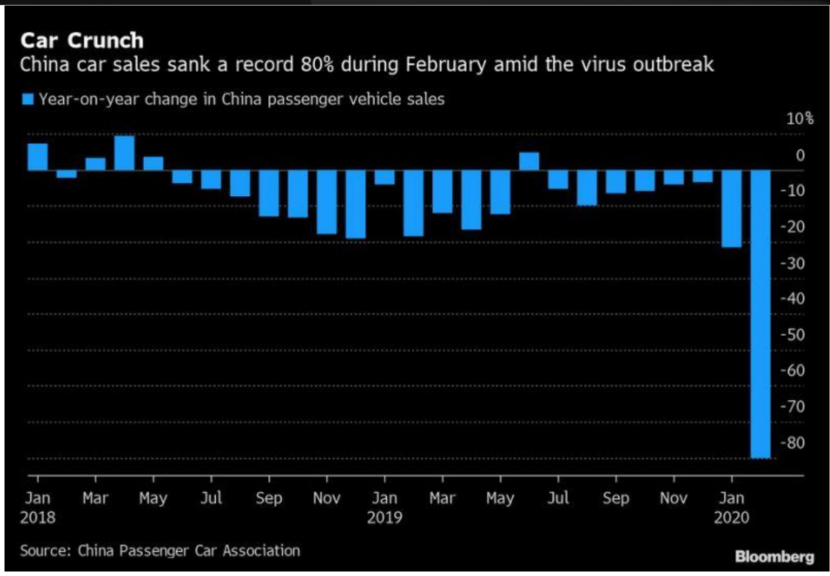
INR weakens against USD, moving into uncharted territory

Weak global trends and Yes Bank crisis impacted INR this week. The INR has fallen against USD and got traded at levels of 74.08 on Friday, finally settling at 74.00 at the close. USDINR has moved up by about 3.72% since the beginning of 2020. While it is quite possible that INR may weaken further given the weak sentiment in the domestic market, RBI's stance will be crucial and can be seen in the coming week itself.

China car sales drop record 80% as virus empties showrooms

According to the preliminary numbers from the China Passenger Car Association released Wednesday, the car sales have fell 80%, the biggest monthly drop ever.

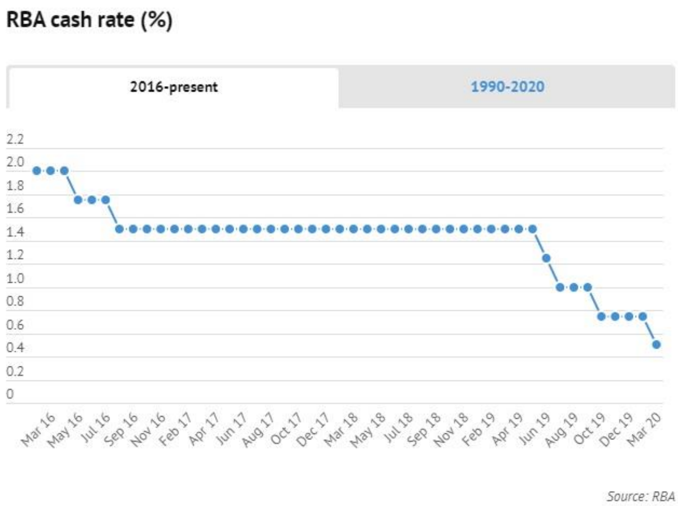
The outbreak has paralyzed the industry just as it was looking to gradually halt a two-year decline, with manufacturers now left with little visibility into when sales might recover.



RBA cuts rates to record 0.5%

The Reserve Bank of Australia (RBA) has cut the official cash rate by 0.25% to a record low of 0.5%. The cut happens to be the fourth in less than 12 months, following a turmoil in the financial markets over the past week, driven by fears about the global impact caused by the outbreak of coronavirus.

RBA is the first major central bank beyond the China to ease in response to the coronavirus outbreak. It had already forecasted that the virus would wipe 0.2% off Australia's economic growth in the first quarter, but now says it thinks that hit to the economy will be more substantial.



The decision to cut leaves the central bank just one 0.25 percentage point cut away from what RBA governor Philip Lowe has said would be the point it would consider quantitative easing.

The central bank also acknowledged the federal government's plan to increase fiscal stimulus in response to the virus outbreak hit to the economy.

To put the things in perspective, it will be important to note that, exports to China constitute 38% of Australia’s total exports, and exports account for nearly 22% of Australia’s GDP.

The RBA cut the official interest rate three times last year in part to keep the Australian dollar from appreciating, helping to drive exports and boost the economy.

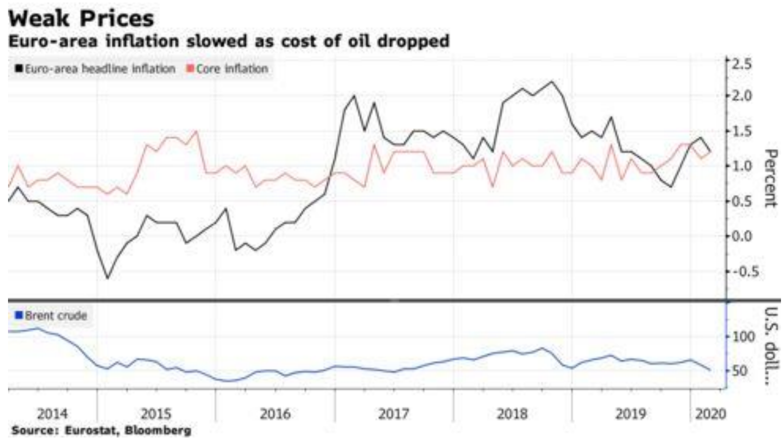
The cuts were also directed at powering the housing market, boosting job growth and wages and returning inflation back to its target range of between 2 to 3 per cent.

Euro zone inflation slows in February due to lower energy prices

Euro zone consumer prices grew at a slower in February than in January, as expected, data from the European Union’s statistics office showed on Tuesday, as the spread of the coronavirus around the world depressed oil prices.

The consumer prices (CPI) rose at 1.2% YoY in February after posting a rise of 1.4% in January.

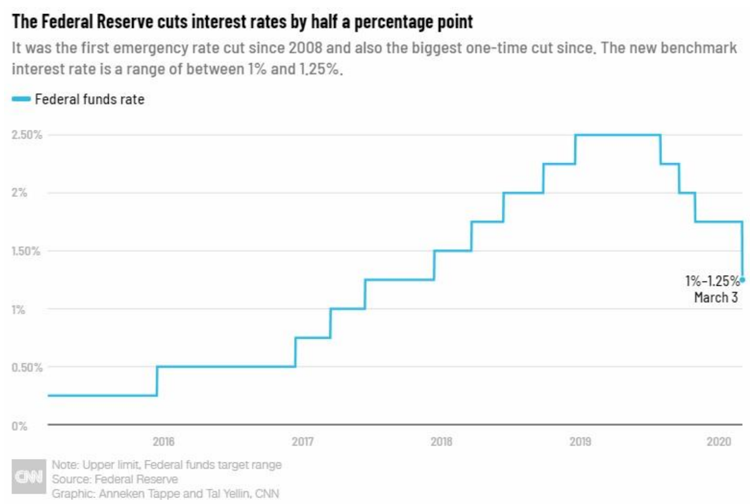
The slower growth was mainly due to -0.3% year-on-year fall drop in energy prices. Without it, and excluding the volatile unprocessed food prices, inflation accelerated to 1.4% year-on-year from 1.3% in January.



US Fed announces an emergency rate cut, others may follow

The Federal Reserve slashed interest rates by half a percentage point on Tuesday, a bold attempt to give the US economy a jolt in the face of concerns about the coronavirus outbreak.

It was the first unscheduled, emergency rate cut since 2008, and it also marks the biggest one-time cut since then. The new benchmark interest rate is a range of between 1% and 1.25%.



Equity markets jumped in an immediate reaction to the news, but quickly pared the gains as worries mounted that if the rate cut of 0.50% is going to be enough. The market is clearly nervous about the ammunition the central banks may have been left with. There are some serious worries that if the Fed's emergency cut does not work, what else will!

OPEC and its allies have also started reviewing their estimate of the damage to oil demand from the coronavirus, laying the ground for ministers to discuss production cuts at a crucial meeting later this week. Oil jumped after US Fed announced the rate cut.

G7 may have a coordinated response to the situation

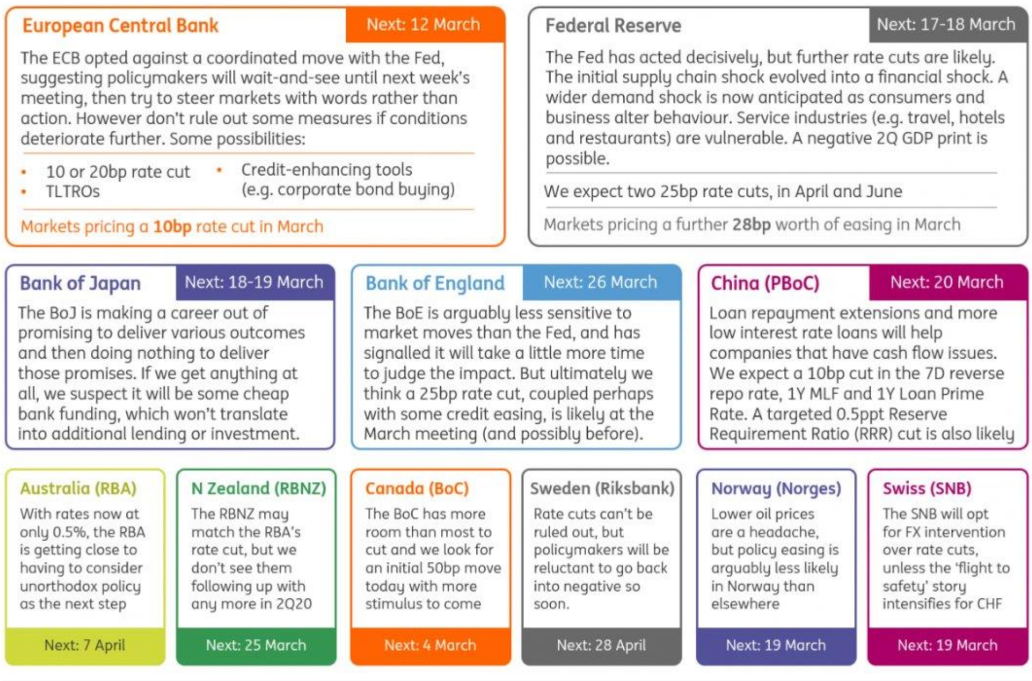
Group of Seven finance chiefs said they're ready to act to shelter their economies from the spreading coronavirus, though they stopped short of spelling out what specific measures they would put into place.

The statement from the G-7, which includes the U.S., Japan, Germany, U.K., France, Italy and Canada, said "central banks will continue to fulfil their mandates, thus supporting price stability and economic growth while maintaining the resilience of the financial system."

Bank of England Governor Mark Carney said policy makers are crafting a "powerful and timely" defence of the world economy against the spreading coronavirus as those from the Group of Seven (G7 counties) held an emergency conference call on Tuesday. This was shortly before the US Federal Reserve delivered an emergency rate cut of 0.50%.

Market is expecting a 0.10% cut from European Central Bank and 0.25% cut from Bank of England.

Here is a quick view on what other central banks are likely to do in the days to come –



Source: ING, Bloomberg (for market pricing)

US Treasury yields hit a 150-year low

Following the Federal Reserve's emergency cut to overnight rates, the 10-year Treasury yield — which is taken as the notional "risk-free" benchmark rate for financial transactions across the globe — dropped below 1%.

According to historical work by Robert Shiller, the Nobel laureate economist at Yale University who has reconstructed the 10-year interest rates available in the U.S. back to 1871, it has never dropped this low. Many momentous events have shaken the U.S. since Ulysses S. Grant's presidency, but none of them were sufficient to drive long-term money down to such levels.

Lower yields signify higher bond prices. Yields tend to move in accordance with the policy rate changes and future expectations on the same. Market clearly sees a rate cut as a measure of desperation.

What to expect in coming week?

Date	Country / Region	Event
9th March	Japan	GDP
10th March	Eurozone	GDP
11th March	UK	GDP and Trade Balance
	US	CPI and Crude Oil Inventories
12th March	UK	Industrial Production
	Eurozone	ECB Policy Rate decision

Compiled and Researched by:

Shantanu Ghate

Fidelis Macro Global Fund

Source: Bloomberg.com, Investing.com, reuters.com, thehindubusinessline.com, livemint.com, ft.com, cnbc.com, oilprice.com, gulfnews.com, Bloomberquint.com, cnbctv18.com