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## Markets correct as manufacturing numbers show contraction

◆ Manufacturing numbers in Asia and Europe suggest a recession is already underway in both continents.

◆ Stocks across the world start the month with a negative tone after their worst quarter since 2008.

◆ West Texas Intermediate crude prices test US\$20/barrel as Saudi Arabia's production increases to nearly 12 million.

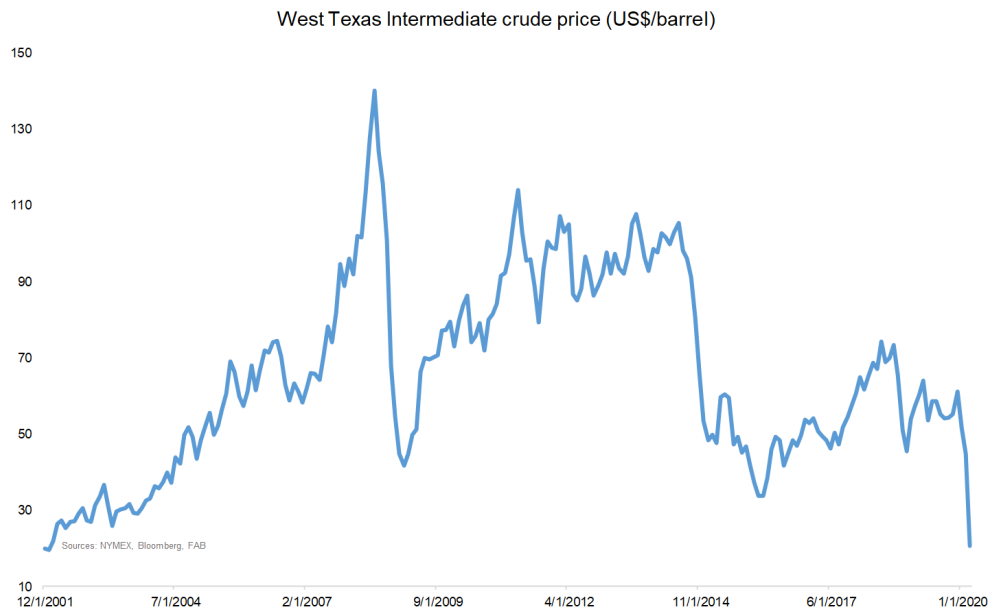
◆ British banks join European counterparts in suspending dividends to conserve cash, exacerbating selloff in European stocks.

◆ Fed opens repo facilities for central banks without direct swap lines to address global demand for dollars at quarter-end.

◆ FAB AAC remains underweight in equities and overweight in gold.

Another day, another set of scary economic data. Almost all of the purchasing manager surveys from Asia and Europe showed manufacturing going into a deep contraction.

Italy had the worst numbers, with their manufacturing PMI coming at 40.3, worse than all economist estimates. Any PMI number below 50 indicates a contraction. France, Germany, Greece and Spain were not much better, coming in respectively at 43.2, 45.4, 42.5 and 45.7. For the Eurozone as a whole, the number was 44.5. Those numbers came shortly after PMIs in South Korea, Indonesia, Malaysia, Thailand, Philippines and Australia all came in well below the level that indicates that manufacturing is contracting.



Perhaps the scariest report was the Dallas Fed manufacturing activity index, which economists expected to print at -10 but came in at -70. That, however, has more to do with low oil prices than the coronavirus. The Dallas Fed's survey captures the state of the health of the American oil industry, which is heavily concentrated in Texas.

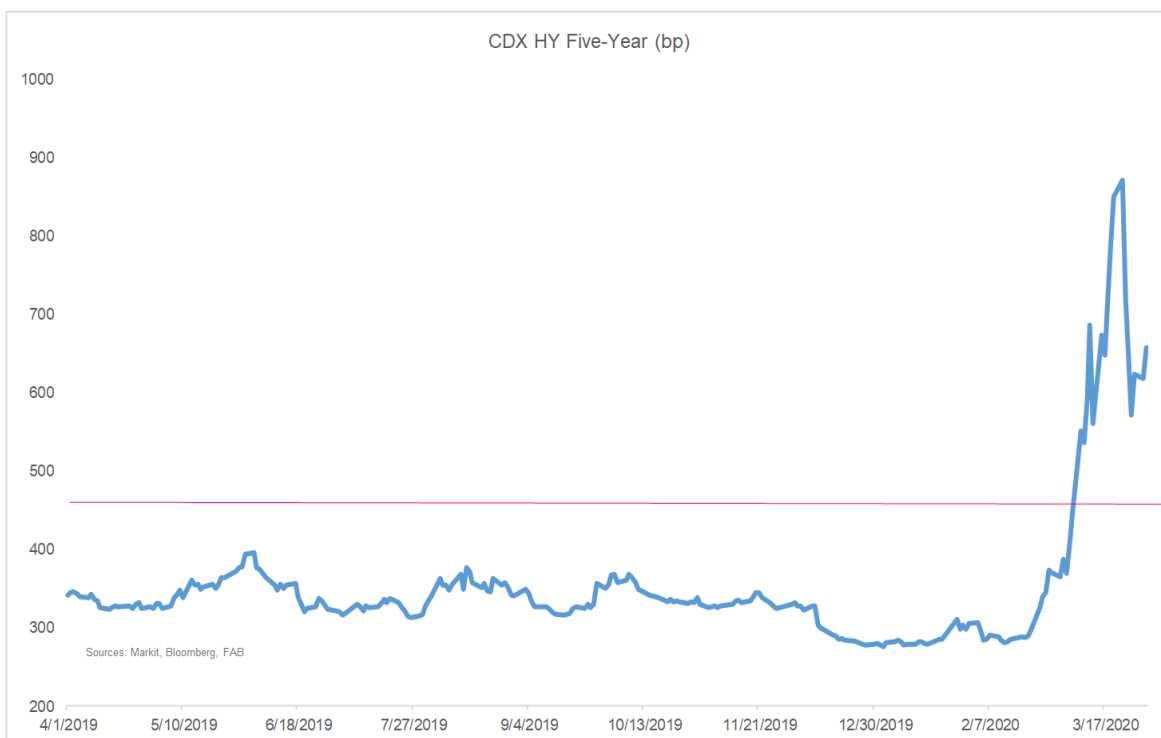
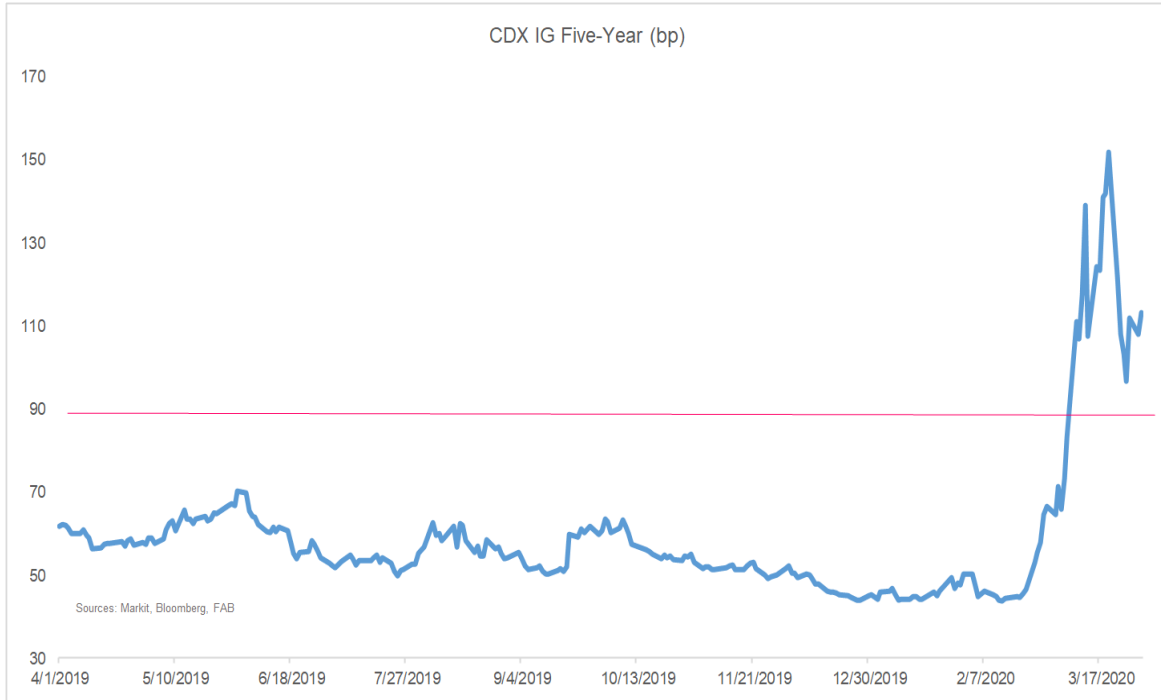
West Texas Intermediate crude, the oil produced in the state, fell briefly below US\$20/barrel today, the lowest level in 18 years. This came amid news that Saudi Arabia had increased its output to nearly 12 million barrels/day in the last week of March from 9 million just three weeks ago. Such low oil prices are likely to hit shale oil companies in the US, which have production costs closer to US\$35-US\$40/barrel. While many of them have hedged their expected production for this year, these hedges are soon expiring and the economics of their operations is in question amid low prices.

### US oil prices dropped briefly below US\$20/barrel today as Saudi production rose

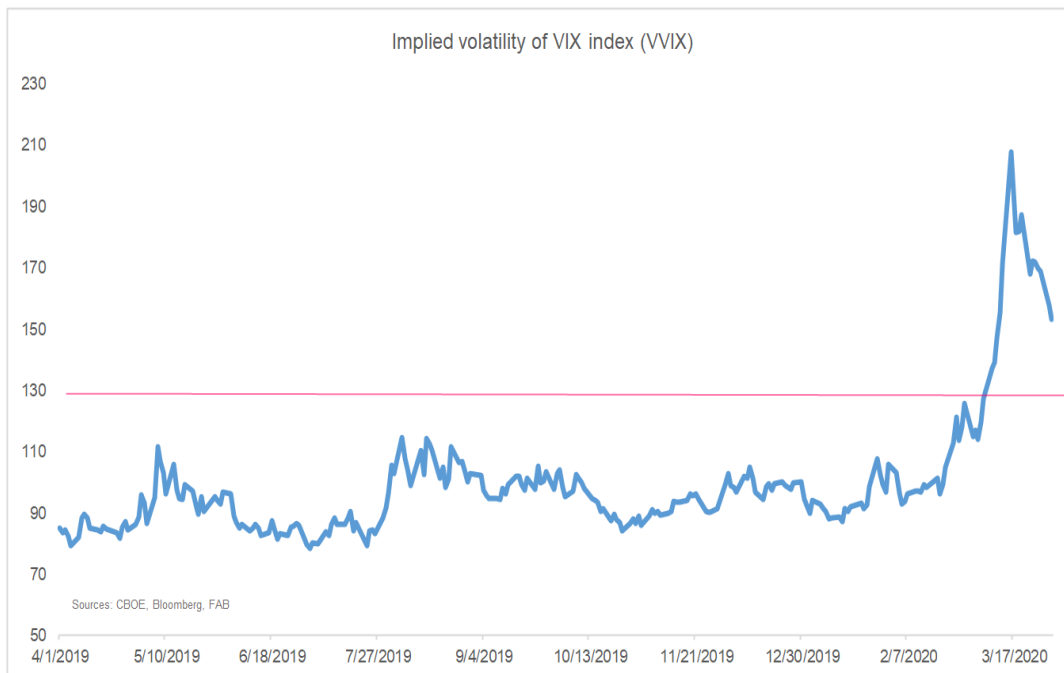
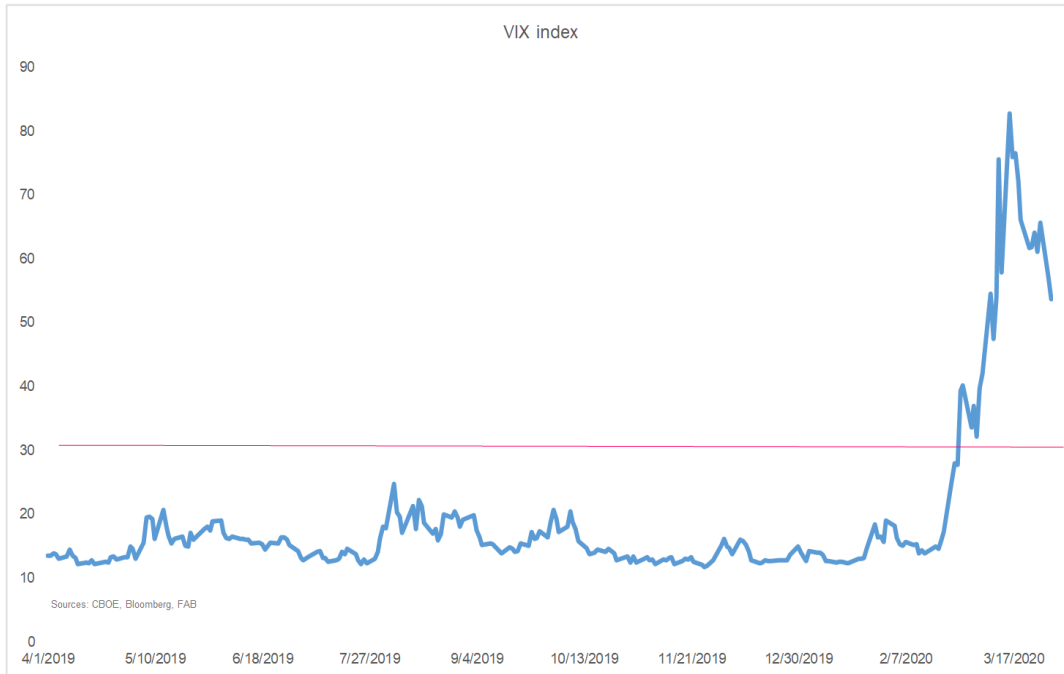
The drop in manufacturing activity in Texas offers evidence that the decision by Saudi Arabia and Russia to keep pumping oil is already having the expected effect of shutting down US production. Texas is the second largest state in the US by GDP, second only to California. Hence, a slowdown in oil activity there could add to the economic recession the US is facing as a result of the lockdown to combat the spread of the coronavirus.

Unfortunately, as the economic numbers begin to show the true impact of the coronavirus on the global economy, and earnings growth expectations are adjusted to them, market sell-offs such as today's are likely to continue. It may still be a while before the end of this bear market.

## Indicators to watch - Credit



## Indicators to watch - Stocks



# Investment Strategy Update

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