

THE NIGHT OUTLOOK

Tuesday, 24th November 2020

GRAPHIC OF THE DAY



(1) US: November consumer confidence 96.1 vs 97.9 expected (SOURCE : BLOOMBERG).

(2) GERMANY: Q3 final GDP +8.5% vs +8.2% q/q prelim (SOURCE : BLOOMBERG).

US

Consumers' views of the economic outlook soured in November as coronavirus cases soared across the country, according to survey data released Tuesday.

The Conference Board, a private research group, said its index of consumer confidence fell to 96.1 this month, from a revised 101.4 in October. Economists surveyed by The Wall Street Journal had expected a reading of 98.0. Tuesday's report comes amid other mixed data showing the U.S. economic recovery is continuing, but growth in retail sales and employment has slowed. Initial claims for jobless benefits, a proxy for layoffs, rose last week. (Chart 1)

GERMANY

- **Germany's gross domestic product grew by a record 8.5% in the third quarter** as Europe's largest economy partly recovered from an unprecedented plunge caused by the first wave of the COVID-19 pandemic in spring, the statistics office said on Tuesday. The stronger-than expected rebound was mainly driven by higher household spending and soaring exports, the office said.

The reading marked an upward revision to an earlier flash estimate of 8.2% growth, and followed a 9.8% plunge in the second quarter. (Chart 2)

- German business morale fell for the second month in a row in November, suggesting that Europe's largest economy will shrink in the fourth quarter due to curbs to slow a second wave of coronavirus infections, the Ifo institute said on Tuesday. **Ifo's business climate index fell to 90.7 from a downwardly revised 92.5 in October.** **The two monthly drops in a row** followed five months of rises. The drop was **mainly driven by companies' considerably more pessimistic expectations for the next six months**, but their view on the current situation was also somewhat worse. (Chart 3)

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(3) GERMANY: November Ifo business climate index 90.7 vs 90.2 expected (SOURCE : BLOOMBERG).

(4) UK: November CBI retailing reported sales -25 vs -35 expected (SOURCE : BLOOMBERG).

UK

The CBI distributive trades survey's retail sales balance dropped two points from the previous month to negative 25 in November from negative 23 in October. According to the CBI's survey of 114 firms - of which 57 were retailers - overall retail sales volumes fell in the year to November at a similar pace to the previous month, as a result of tighter lockdown restrictions.

However, internet sales grew at the fastest pace since October 2018, suggesting a substitution in spending away from in-store retailing during the month-long lockdown in England that started on November 5 and which shuttered all non-essential retail stores, the CBI noted. (Chart 4)

MARKET MONITOR

Source: Investing.com

EQUITY INDICES

Name ↕	Last	Open	High	Low	Chg. % ↕
Dow Jones [▲]	30,046.24	29,746.11	30,116.51	29,746.11	+1.54%
S&P 500	3,635.20	3,606.10	3,641.28	3,596.29	+1.61%
Nasdaq	12,036.78	11,939.33	12,049.88	11,863.45	+1.31%
S&P/TSX	17,278.79	17,203.00	17,311.14	17,190.85	+1.08%
Bovespa	109,954.70	107,377.95	109,956.18	107,360.58	+2.40%
Euro Stoxx 50	3,507.98	3,476.61	3,510.62	3,476.61	+1.30%
FTSE 100	6,432.17	6,333.84	6,432.42	6,333.72	+1.55%
CAC 40	5,558.42	5,546.07	5,574.69	5,536.11	+1.21%
DAX	13,292.44	13,254.42	13,296.76	13,192.32	+1.26%
IBEX 35	8,143.20	8,052.40	8,143.20	8,045.30	+2.03%
FTSE MIB	22,145.06	21,985.33	22,149.55	21,953.33	+2.04%
Topix 100	1,132.88	1,127.35	1,137.43	1,127.26	+2.07%
Nikkei 300	367.06	365.06	368.34	365.02	+2.09%
Hang Seng	26,588.20	26,630.34	26,630.34	26,409.77	+0.39%
Shanghai	3,402.82	3,407.41	3,413.93	3,396.24	-0.34%

RATES

Name ↕	Last	Open	Chg. % ↕
Italy 10Y	0.572	0.583	-0.17%
U.S. 10Y	0.882	0.872	+2.63%
Germany 10Y	-0.561	-0.562	+0.97%
Japan 10Y	0.020	0.017	-4.76%
France 10Y	-0.329	-0.331	+0.60%
U.K. 10Y	0.326	0.331	-1.81%
Spain 10Y	0.074	0.071	-1.33%

CURRENCIES

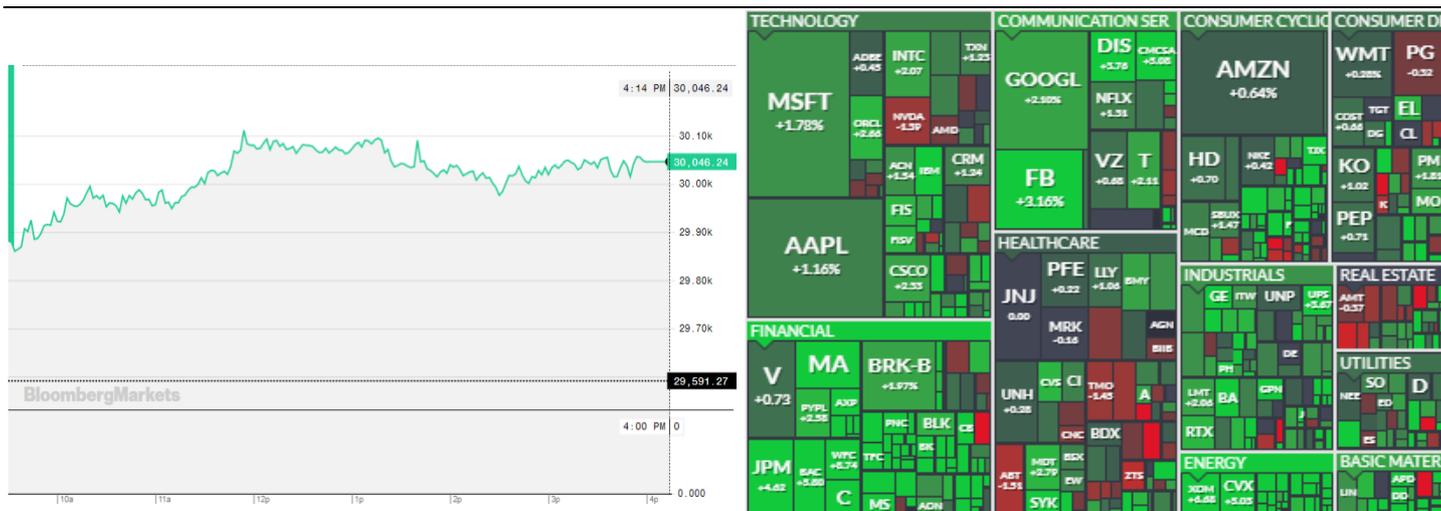
Name ↕	Last	Open	Chg. % ↕
USD/CAD	1.3002	1.3077	-0.58%
EUR/USD	1.1890	1.1840	+0.42%
USD/JPY	104.45	104.54	-0.09%
USD/CNY	6.5915	6.5755	+0.10%
EUR/CAD	1.5458	1.5483	-0.16%
GBP/USD	1.3363	1.3322	+0.30%
EUR/GBP	0.8899	0.8884	+0.14%
EUR/JPY	124.19	123.78	+0.33%
EUR/MXN	23.8054	23.8742	-0.28%

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US – Dow Cruises Past 30,000 as Vaccine-Led Rally Continues

Source: Investing.com



(5) Dow Jones Industrial Average (1D) (SOURCE : BLOOMBERG).

(6) S&P 500 map (Change 1 day) (SOURCE : FINVIZ).

The Dow closed above 30,000 for the first time ever Tuesday as value stocks continued to ride the wave of positive vaccine news and easing uncertainty over the U.S. presidential transition.

The Dow Jones Industrial Average rose 1.54%, or 454 points, and is up more than 60% since its March lows. The S&P 500 was up 1.61%, while the Nasdaq Composite added 1.31%.

Investor hopes for an orderly transition of power were given a boost after the General Services Administration informed President-elect Joe Biden that federal resources will be made available for his transition into the Oval Office.

The news comes as market participants appear to approve of **former Federal Reserve Chair Janet Yellen as Biden's Treasury Secretary nominee.**

Value stocks – those hitched to the performance of the economy – **continued to rack up** gains as investor bets on a quick roll out of vaccines, speeding up the reopening of the economy. Pharmaceutical companies including Pfizer, Moderna and AstraZeneca have released positive vaccine news over the past three weeks.

Financials, industrials, and energy paved the way for the broader market rally, with the latter closing up more than 5% on rising oil prices.

Oil prices jumped 4% to their highest since the pandemic began, on optimism over the demand outlook for 2021.

Industrials, meanwhile, were pushed higher by an ongoing rally in the airlines, with American Airlines Group and United Airlines up more than 9%. Boeing was up 5%.

The backdrop of mixed economic data and further signs the U.S. consumer, the backbone of the economy, is in trouble did little to thwart the rally on Wall Street.

The consumer confidence index fell to 96.1 in November from an upwardly revised 106.2 in October and came in below the consensus of 98.0. Pantheon Macroeconomics warned that this was "likely not the bottom," though forecast a rebound to take hold in spring.

Housing activity, however, continues to strengthen as home prices rose at the fastest pace in six years.

Tech also powered the broader market higher as the Fab 5 bounced back from weakness seen a day earlier. Apple, Amazon.com, Facebook, Alphabet and Microsoft were higher.

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In other news, **Ambarella reported third-quarter results that topped Wall Street estimates, sending its shares up 15%.**

MARKETS – Tesla’s market value soars to \$500bn ahead of S&P 500 debut

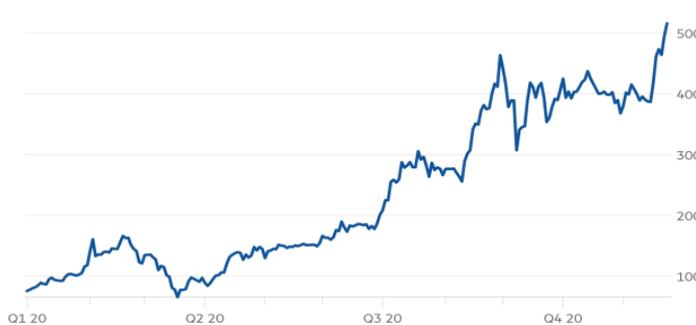
Source: Ft.com

Tesla’s market value has surged to \$500bn after a fresh wave of buying ahead of the electric carmaker’s debut on the blue-chip S&P 500 stock index next month.

Shares in the company founded by Elon Musk have risen more than six-fold this year, **hitting \$540 on Tuesday.** S&P Dow Jones Indices last week said it would include the group on the US stocks benchmark, which has stoked the price rise as institutions and index tracking funds adding the shares. The stock has jumped a third in the past eight days.

Mr Musk’s net worth has climbed in tandem with the stock, swelling by \$100bn since the end of last year to \$127.9bn, according to Bloomberg data.

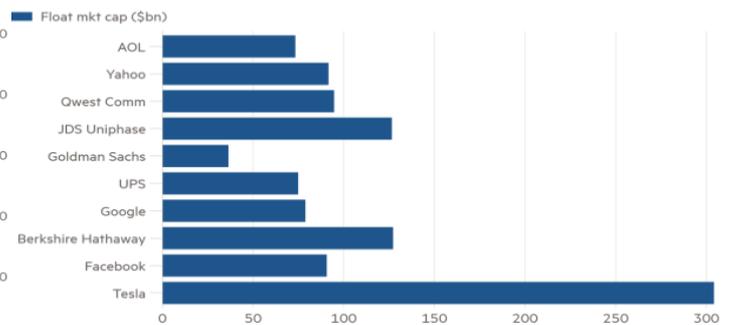
Tesla’s market value surges to half-a-trillion dollars
\$bn



Source: FactSet
© FT

Tesla exceeds past S&P 500 entrants

Size of major S&P additions since 1999



Source: S&P Dow Jones Indices
© FT

Tesla’s gains came amid a broad rally in global equities that propelled the Dow Jones Industrial Average to 30,000 for the first time. The rise has been driven by optimism about the development of coronavirus vaccines and Donald Trump allowing the formal transfer of power to Joe Biden to begin.

Tesla’s debut on the S&P 500 next month will be the biggest on record, instantly making the company one of the largest weights on the index.

A boom in passive investing — in which funds seek to reflect the performance of an index — has magnified the effect the move will have on the broader market, traders said.

Passive funds with \$4.59tn in assets, such as those run by Vanguard and Fidelity, track the S&P 500, according to data compiled by Howard Silverblatt, senior index analyst at S&P Dow Jones Indices. **Tesla’s inclusion on the index would create some \$51bn of demand for shares from these investment vehicles,** he said.

Another \$6.7tn in actively managed funds use the S&P 500 as their benchmark. Analysts at Goldman Sachs estimated that of the 189 large-cap funds they tracked, 157 with \$500bn of total assets did not own Tesla at the start of the fourth quarter.

Tesla’s sheer size means the normally pedestrian index rebalancing process has become more complicated. Almost \$400bn of Tesla shares are available for trading, dwarfing shares in Berkshire Hathaway and Facebook when they were added to the index, at \$127bn and \$90bn respectively, according to S&P Dow Jones Indices. Trading houses, market makers and fund managers said **they were expecting extraordinary volumes on December 18, the last trading day before Tesla formally joins the S&P 500.** The date is typically busy for

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markets even without the Tesla addition since it is one of the last days for making big trades before markets slow down ahead of the winter holidays.

S&P is debating how to add Tesla to the index, given that the stock’s large weighting will also reduce the influence of the other 504 constituents. It may end up adding Tesla in two steps to slow down the process, it has said.

Market makers, which hold inventories of stocks in order to facilitate trading, are also pondering when to add to their holdings of Tesla shares as they balance expectations that the stock will be highly volatile against what they see as assured demand. For big trading houses and brokers, it means large trading gains or losses are on the line.

Complicating matters for market makers and passive fund managers is how other investors are getting ahead of the impending inclusion, which has pushed the stock price higher. Tesla is up 540 per cent this year. For market makers, hedging the risk of any decline in the carmaker’s price before its inclusion in the S&P 500 next month may prove tricky, traders said.

Typically when a stock is added to an index like the S&P 500, passive funds seek to buy as many shares as they can at the close of trading on the day before the addition to avoid tracking error. Market makers will often agree to guaranteed end-of-day trades. But Tesla’s size has complicated that plan. Some **money managers are now debating buying Tesla stock before the 4pm New York close or on the following trading day, even though it could increase their tracking error.**

ETF providers had until last week to give feedback to S&P on the move, with a decision from the index provider on how to proceed expected by November 30. Whether it was split or done in a single shot, they said they did not expect any hiccups, regardless of what could shape up as a hectic close to the trading day.

ECONOMIC CALENDAR FOR TOMORROW (GMT +1:00)

Source: Investing.com

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
Wednesday, November 25, 2020						
14:30	USD	★ ★ ★	Core Durable Goods Orders (MoM) (Oct)		0.5%	0.8%
14:30	USD	★ ★ ★	GDP (QoQ) (Q3)		33.2%	33.1%
14:30	USD	★ ★ ★	Initial Jobless Claims		730K	742K
16:00	USD	★ ★ ★	New Home Sales (Oct)		970K	959K
Tentative	GBP	★ ★ ★	Autumn Budget			
16:30	USD	★ ★ ★	Crude Oil Inventories		0.127M	0.768M
20:00	USD	★ ★ ★	FOMC Meeting Minutes			

Source : Ft.com/Reuters/ Bloomberg/Investing/Daily FX/ Deutsch Bank/ Boursorama/ JP Morgan

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