

# Market Snapshot

## Markets rise on optimism on Biden's administration

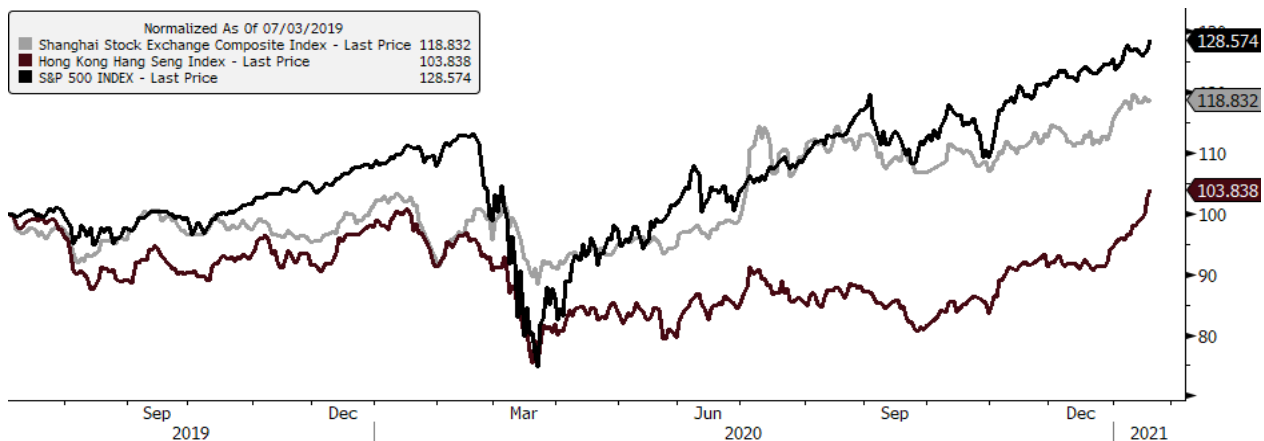
### THE DAY AHEAD

- The Euro Area announces ECB's interest rate decision.
- The US releases its initial jobless claims for the week ending 16 January.

### OVERVIEW

- US equities rise to record on hope for new aid bill.
- Europe stocks advance on boost from tech and luxury earnings.
- China blows past clean energy record with wind capacity jump.
- Biden revokes Keystone XL pipeline permit to cross US border.
- Dollar kicks off Biden era with losses as short bets are back.

### Market Indices Relative Performance (1-Year)



Source: Bloomberg

### DEVELOPED MARKET EQUITIES

#### US

US stocks rallied to all-time highs as investors grew optimistic that recent federal spending will revive growth and bolster corporate earnings. Treasuries were little changed while the dollar weakened.

The Nasdaq 100 Index jumped more than 2% and the S&P 500 Index posted the best first day reaction to a newly elected president's inauguration. Netflix Inc surged more than 17% after a jump in subscribers. Chipmaker ASML Holding NV (ASML US) rallied on solid results. Morgan Stanley (MS US) gained after reporting record full year results.

Investors looked past a fresh stumble in the rollout of vaccines and elevated infection rates, and eyed the promise of more stimulus and an expanded federal effort to get shots to more Americans quickly under President Joe Biden.

Investors are counting on more spending to help propel economic growth under Biden, who is planning a flurry of executive orders on his first day. Still, it will not be all smooth sailing, with Janet Yellen encountering early Republican resistance to Biden's relief plan in her confirmation hearing to become Treasury secretary. – Bloomberg News.

The S&P 500 Index ended Wednesday (20 January) 1.39% higher at 3,851.85. The Dow Jones Industrial Average climbed 0.83% to 31,188.38 and the Nasdaq Composite Index added 1.97% to 13,457.25.

#### EUROPE

Europe equities were boosted by positive earnings reports, ranging from chip gear maker ASML Holding NV (ASML US) to luxury products company Richemont (CFR SW).

The Stoxx Europe 600 Index added 0.72% to 410.84 at the close. Tech shares rallied after ASML posted results that beat forecasts and announced a share buyback plan. High-end goods makers also climbed after Richemont reported a surge in Chinese revenue and Burberry Group Plc (BRBY LN) said it was encouraged by a strong performance in full price sales.

After rallying about 20% since the end of October on vaccine bets and Joe Biden's US election victory, Europe stocks have traded near their highest level in almost 11 months. Although tighter coronavirus spurred restrictions have tempered bullishness, investors are seeking clues about the longer term recovery as the earnings season gathers pace. They are also betting on more stimulus after Biden was sworn in as president.

In Italy, the benchmark FTSE MIB Index rose 0.9% after Prime Minister Giuseppe Conte survived a crucial Senate vote but fell short of an outright majority.

Among Stoxx 600 industry groups, carmakers and miners also outperformed, while utilities and consumer staples lagged, signalling an ongoing rotation into more economically sensitive cyclical shares and out of defensives. – Bloomberg News.

## JAPAN

An energy crisis plaguing Japan has propelled its top power producer to become one of the nation's best performing stocks of 2021.

Tokyo Electric Power Co Holdings Inc (9501 JP) has rallied 38% so far this year, outperforming every other company on the Nikkei 225 Stock Average. Wholesale power prices have spiked to an eye-watering record high on the back of colder winter weather and dwindling fuel supplies.

A cold blast sweeping North Asia has upended energy markets, sending prices for electricity, fuel, and vessels surging. Japan's power producers are bound to benefit from the spike in wholesale power rates, which have outstripped the price rally in imported fuels, like liquefied natural gas and oil products.

Electric Power Development Co Ltd (9513 JP), Japan's top power wholesaler, has also gained 20% so far this year. Meanwhile, companies most dependent on the spot market to secure supply, like retailers without any power generating capacity, are likely the worst-hit by the jump in wholesale prices.

Tepco shares have also been supported by local reports that its nuclear power plant in Niigata prefecture may be closer to receiving local approval to resume operations. A panel evaluating the restart of nuclear reactors at Tepco's Kashiwazaki-Kariwa plant in Niigata will replace two members who had voiced concern about the move, Mainichi reported. – Bloomberg News.

The Nikkei 225 Index jumped 1.07% to 28,829.42 at the open on Thursday (21 January), adding to the previous close down of 0.38% to 28,523.26.

## ASIA EQUITIES

### MAINLAND CHINA & HONG KONG

China blew past its previous record for renewable energy installations last year with a massive – and surprising – addition of wind power.

The National Energy Administration (NEA) said in a press release on Wednesday (20 January) that China added almost 72 gigawatts of wind power in 2020, more than double the previous record. The country also added about 48 gigawatts of solar, the most since 2017, and about 13 gigawatts of hydropower.

China's previous record for new renewables capacity across all technologies was about 83 gigawatts in 2017, according to BloombergNEF.

The wind and solar installations were unexpectedly high, especially as they imply massive additions in the last weeks of 2020. The China Electricity Council had previously reported that, as of the end of November, China had installed 24.6 gigawatts of wind and 25.9 gigawatts of solar for the year.

The wind and solar figures were so high that analysts questioned whether the government adjusted the way it calculated capacity. The cut-off date for some onshore wind and solar subsidies was 31 December, and given that projects were delayed for months because of the pandemic, it may have allowed partially completed installations to count their entire capacity, a market watcher said.

The NEA did not immediately respond to a fax requesting comment on the high installation figures.

The surge in installations is the latest helping of good news for Chinese renewable energy firms, which have been riding a tailwind since President Xi Jinping's September announcement that the country will aim to be carbon neutral by 2060. China Longyuan Power Group Corporation (916 HK) jumped as much as 19% on Wednesday, and China Datang Corporation Renewable Power Co Ltd (1798 HK) rose as much as 12%. – Bloomberg News.

The benchmark Hang Seng Index rose 1.08% to 29,962.47 (20 January), and the Shanghai Composite Index climbed 0.47% to 3,583.09.

### REST OF ASIA

Malaysia kept its benchmark interest rate unchanged Wednesday (20 January), saving its policy ammunition as the country grapples with a surge in COVID infections that could take months to subside.

Bank Negara Malaysia maintained the overnight policy rate at a record low 1.75% at its first meeting of the year, as expected by 12 of 23 economists surveyed by Bloomberg. The rest had forecast a 25 bps cut.

The decision comes as Malaysia has imposed fresh lockdowns across nearly the entire country and unveiled a new USD3.7b aid package to help people weather the curbs. The restrictions, put in place after infections pushed the health system to a breaking point, were intended to last two weeks but may be extended, the government said.

The ringgit held its gains after the decision, rising 0.1% to 4.0450 per dollar, while short end government bonds extended losses. The country's benchmark stock index pared some of its advances, rising 0.4%, with bank shares among the biggest gainers.

Analysts have shaved as much as 1.5 %pts from their 2021 gross domestic product forecasts because of the renewed curbs. While less severe than the two month lockdown enacted last March, the restrictions will mean a loss of about MYR600m (USD148m) per day, Bernama reported, citing Finance Minister Tengku Zafrul Abdul Aziz.

The MYR15b aid package unveiled Monday aims to help households and businesses weather the restrictions. The announcement is mainly a "re-packaging" of budget measures and extension of last year's economic stimulus measures, Maybank said in a note Tuesday, maintaining its growth forecast of 5.1% for this year.

Australia's S&P/ASX 200 Index opened 0.78% higher at 6,822.90 on Thursday morning. The benchmark closed 0.41% lower at 6,770.40 on Wednesday.

South Korea's Kospi Index opened 0.96% higher at 3,144.44 in early-Thursday trading after increasing 0.71% to 3,114.55 on Wednesday.

The Taiwan Stock Exchange Weighted Index fell 0.45% to 15,806.18.

### COMMODITIES

Joe Biden cancelled the Keystone XL oil pipeline hours after becoming president, killing once again a cross border project that had won a four year reprieve under his Republican predecessor, Donald Trump.

In one of his first major environmental actions, Biden on Wednesday (20 January) revoked TC Energy Corporation's (TRP CN) pipeline permit, according to a person familiar with the orders Biden signed.

The move brings Keystone's fate full circle, repeating a decision made in 2015 by President Barack Obama to keep the pipeline from crossing the border. Trump reversed that in 2017 on his fourth full day in office over the objections of environmental groups.

TC Energy shares closed down 1.15%, to CAD55.92 in Toronto trading.

Environmentalists are counting on the latest rejection – coming more than a dozen years since the pipeline was first proposed – to stick. They argue the project would provide an outlet for heavy Canadian oil sands crude extracted in Alberta through particularly energy intensive processes that ratchet up its carbon footprint.

The US Chamber of Commerce was critical of the decision.

Biden promised the action on the campaign trail, yet his formal step still provoked outrage from oil industry leaders, some Canadian interests and labour unions that support the project.

Construction of Keystone XL already began last year, jump started with a USD1.1b investment by the province of Alberta. Whole segments of the line, including one that crosses to US-Canadian border, have already been built.

TC Energy has worked to make the project more palatable to a Democratic administration, inking labour agreements with four major pipeline unions last August, agreeing to sell an equity stake in the line to indigenous communities along the route and promising to power it entirely with renewable energy.

Still, Keystone XL has been a lightning rod for controversy and a litmus test for environmentalism almost since it was first proposed in 2005. The 1,179 mile segment is designed to move oil from Alberta through Montana, South Dakota, and Nebraska, then connect with an existing network feeding crude to the Gulf Coast. The line would carry as much as 830,000 barrels of oil a day.

Opponents argue it will stimulate oil sands development, contributing to climate change.

Years ago, proponents of the controversial crude pipeline argued that more of Canada's cheaper, heavy crude would help fuel producers on the US Gulf Coast wean off supplies from countries like Venezuela or the conflict-prone Middle East.

But refiners in Texas and Louisiana have become increasingly flexible, using more of the abundant light oil from shale fields. Plus, Canadian crude's price advantage has narrowed, and imports from the country have roughly doubled in a decade to a steady flow of more than 3.5m barrels a day, without Keystone XL.

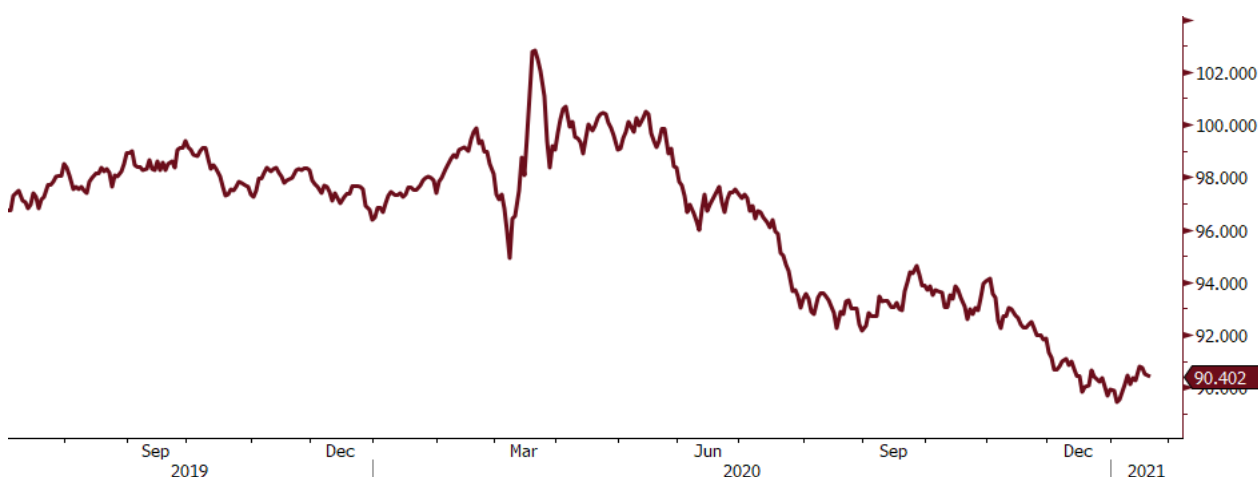
Canadian Prime Minister Justin Trudeau expressed disappointment in the pipeline decision.

Keystone XL was one of only a handful of energy and mining projects Biden took an explicit stand against while on the campaign trail. Environmentalists emboldened by his move on Keystone are already pressuring him to revoke a critical authorisation allowing continued operation of Energy Transfer LP's (ET US) Dakota Access oil pipeline and take action against Enbridge Inc's (ENB US) plan to replace and expand its aging Line 3 pipeline from Alberta to Superior, Wisconsin. – Bloomberg News.

West Texas Intermediate for February delivery gained 0.49% to USD53.24 on Wednesday. Brent for March settlement added 0.32% to USD56.08 a barrel.

## CURRENCIES

### DXY Performance (1-Year)



Source: Bloomberg

Joe Biden's administration may not be targeting a drop in the US currency, yet his pick for Treasury secretary appears to have started one.

The dollar is heading for a third day of declines, its longest losing streak in a month, as Biden is set to start his presidency on Wednesday (20 January). The Bloomberg Dollar Spot Index is edging lower in the wake of Janet Yellen's nomination testimony on Tuesday, which invoked an enduring era of low interest rates and the need for additional government spending. On Wednesday, the gauge slid as much as -0.3%.

The declines have reversed a rebound in the dollar at the start of the year that was making many investors nervous given shorting the currency was one of the most popular trades for 2021. Markets have taken Yellen's comments as a green light to bet against the dollar again.

Those currencies were among the biggest gainers Wednesday, led by the Canadian dollar, with sterling touching its highest since May 2018. The greenback is resuming a trend that saw the dollar gauge slide more than 5% last year. Hedge funds boosted net dollar short positions to the highest in nearly three years in the week to 12 January, according to data from the Commodity Futures Trading Commission.

Yellen's remarks also marked a shift away from the currency policy advanced by the Trump administration, according to a Wednesday note by Brown Brothers Harriman strategists Win Thin and Ilan Solot.

Funds that bought the dollar as it rebounded in the last couple of weeks were doing more of a rebalancing exercise rather than taking a real shift in view, according to traders in Europe.

Contrarians see prospects for more spending and distribution of vaccines as helping to buoy US growth prospects and ultimately boosting the greenback. – Bloomberg News.

The US Dollar Index fell 0.03% to 90.475, the euro decreased 0.19% to USD1.2106, the pound rose 0.18% to USD1.3654, and the yen strengthened 0.35% to 103.54 per dollar.

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