

BANKING ON KNOWLEDGE

Geopolitical developments spike volatility across financial markets

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International Monetary Fund predicts global growth at 3.0% for 2019, its lowest level since 2008-09 and a 0.3 percentage point downgrade from the April 2019 World Economic Outlook. Growth is projected to pick up to 3.4% in 2020 (a 0.2 percentage point downward revision compared with April), reflecting primarily a projected improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. IMF has highlighted the risks from US-China trade war, manufacturing slowdown and Brexit. The financial markets witnessed a surge in volatility post the US president threatened



to impose sanctions in Iraq amid escalating tensions with Iran and the US killed a top Iranian military general.

Iran said it will take "severe revenge" against the US for killing its top commander.

The US markets opened down by 1% but recovered later on to close up, European indices also opened down on the news by 1% to 1.2% but later on next day it recovered. Emerging markets witnessed higher volatility and closed down by 1.8% to 2% on the day of the event, the markets inched up but outlook remains wobbly.

The Middle East markets also opened down by 1% to 2% across GCC, but next day the markets inched up. S&P Index is up YTD by 0.5%, Dow Jones is up YTD by 0.6%, Nasdaq is up YTD by 1.1%, Germany's index is up YTD by 0.1%, UK Index is up YTD by 0.5%, France is up YTD by 1.1%, Shanghai is up YTD by 1.8%, Nifty is down YTD by 1%, Russia is up by YTD 2%. Hang Seng is up YTD by 0.5%.



The WTI crude and Brent crude moves up by 5% to \$64.8 and \$70.1 per barrel during the first week of 2020. Gold prices moves up to \$1,590 per ounce during intraday trading which is at seven year high. Silver prices also moved up \$18.55 per ounce almost to three month highs. The dollar index has inched up from 96.389 as on December 31, 2019, to 96.785 as on January 7, 2020. The tensions in the Middle East coupled with demand for safe haven assets have pushed gold and crude prices up. Chicago Board Options Exchange

(CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility, the index inched up from 13.78 as on December 2019 to 14.02 on January 3, 2020, it retracted back to 13.95, but volatility continues to play vital role in the financial markets. US 10 year G-Sec Yield came down to 1.8055 levels as on January 7, 2020 from 1.9175 as on December 2019, the recent developments enhanced the appeal of safe haven assets. Globally the bond yields across the countries also came

down on account of demand for safe haven assets. USD/EUR is currently at 0.8949 as on January 7, 2020 from 0.8906 as on December 2019; USD/GBP stands at 0.7599 as on January 7, 2020 from 0.7549 as on December 2019, USDJPY stands at 108.39 as on January 7, 2020. Oil importing nations like India witnessed weakening against USD whereas Oil exporting nations like Russia saw strength in currency against USD.

The current geopolitical development will continue to keep the VIX index upwards resulting in an increase in volatility across financial markets, the volatility may give an opportunity to pick selective names in the market space.

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