



## CIO OFFICE MORNING MARKET WRAP –1st June, 2022.

Global stocks lost -0.4% on average in developed markets Tuesday, with the US closing -0.8% lower, as trading resumed after a holiday. The US 10-year Treasury yield closed at 2.84%, which is +11 basis points higher than Friday. Energy prices were steady and so was gold, trading at \$1830.

In the news, monthly inflation numbers for Europe came out above expectations, with an acceleration in May. The Consumer Price Index shows a year-on-year increase of +8.1% of which +0.8% month-on-month, both being materially higher than their respective forecast of 7.8% and 0.6%. The annual increase in core inflation is more contained at +3.8%, highlighting a difference with the US situation. The proportion of energy and food in Europe's inflation is much higher, the job market is less tight and growth less vigorous. In other words, Inflation in Europe is more about the war and the sanctions against Russia, and less about what the ECB can influence. With regards to energy, according to the Wall Street Journal, some OPEC members are considering the possibility to exempt Russia from their obligation to fill their quota, which could allow others, with spare capacity, to produce more. The group will hold their meeting tomorrow to decide output for July. Finally, the Federal Reserve is set to start shrinking its \$8.9 trillion balance sheet today 1st of June. At this stage, the process is simply not reinvesting the proceeds from maturing securities. It doesn't involve any actual asset sale and should have no immediate market impact. President Biden had a meeting with Jerome Powell in which he unsurprisingly highlighted the Fed's independence – apart from being a

fundamental principle, this may be a way to stress that the fight against inflation is not the administration's but the central bank's responsibility.

Moving on to Asia, markets are mixed this morning, without however large price swings. Stocks are up +0.7% in Japan and Korea, but marginally lower in onshore China and down -0.5% in Hong-Kong where the technology sector weights negatively, without any clear catalyst. A weaker than expected Caixin PMI in China, just released at 48.1, certainly didn't help. It didn't shock as well, as market focus is now on a more constructive future enabled by receding COVID cases. Interest rates are steady with the US 10-year adding +2 basis points to 2.86%. On the shorter maturities, markets have no doubt that the Fed will decide half-point hikes at least two times, and potentially three. Prices of oil and gold are flat, and major crypto currencies stabilize around \$31,500 for bitcoin and \$1,940 for ether.

Today will be rich in terms of economic data, culminating with the US ISM manufacturing index at 6PM Dubai time, expected to slow from 55.4 in April to 54.5 in May. Equivalent PMI gauges will also be released for the Euro area and UK. Russia will also publish theirs as well as retail sales and industrial production.

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Chief Investment Office  
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