



## CIO OFFICE MORNING MARKET WRAP – Friday 3rd June, 2022.

Risk appetite was strong this Thursday. The MSCI World jumped +1.6%, led by the US snapping a two-day slide to close +1.8% higher. Europe followed at +0.6%, but emerging market stocks were down -0.6%. Interest rates were steady, with both the 5 and 10-year Treasury yields at 2.91%. Gold was on the rise, approaching \$1870. Oil made headlines: the OPEC+ decided to raise the size of production increases for July and August to 648,000 barrels a day, which is about 50% more than the previous monthly increases. The group was under strong diplomatic pressure, especially from the US, as the so-called driving season has just started. However, the OPEC+ decided to keep Russia's status unchanged within its quota system and of course governance – the group resisted pressure on that topic. The US White House immediately welcomed the larger hikes in a press conference – elections are fast approaching and gasoline prices are a major concern for voters. According to the New York Times, President Biden will visit Saudi Arabia to meet with Crown Prince Mohammed bin Salman. The market reaction was interesting with an initial drop in prices, which quickly evaporated as the market remains anyway tight. Brent crude oil ended the day at \$117.6.

The rationale behind a sudden 2% rally in US stocks is not obvious. We keep on pointing out that with investors' sentiment having reached extremely pessimistic levels, one doesn't need real catalysts to see some rebound. The only real catalyst will be an inflection in inflation. Comments from Fed officials yesterday were as hawkish as ever, with Mrs Brainard saying that the case for a pause in September is "very hard to see". US economic data was relatively tepid, with factory orders materially decelerating in April to 0.3%, from 2.2%. Durable good orders were by contrast robust at +0.5%, marginally exceeding expectations. It still doesn't look too hot, but today's economic data will matter. In Europe, money markets now implicitly price-in a 50 basis point increase in policy rates from the ECB by the end of the year. Such a move has not happened since the early days of the common currency in a totally different context in 2000. Meanwhile in the corporate world, Microsoft adjusted down their earnings guidance, blaming currency fluctuations – the stock price didn't suffer as tech was buoyant yesterday. Goldman Sachs President joined JP Morgan's Dimon earlier this week in warning about the state of the economy. While the latter recommended to prepare for a "hurricane", the former said that the current environment was "among, if not the most complex he had ever seen".

As we write this morning, markets are closed in both Hong-Kong and China so they do not benefit from the good mood of Western markets, nor from the recent reiteration from officials that stimulus is coming. The Nikkei is up +1% and Korea +0.4%. Interest rates are marginally higher. Gold and oil prices are stable and major crypto currencies are well oriented.

Today the focus will be on the US monthly job report released at 4.30PM Dubai time. The US economy is expected to have created 320k new positions in May which would be a -100k drop compared to April. It obviously matters as any better number would potentially mean an even more radical Fed tightening. Then the ISM Services will be released at 6PM, expected to moderate to 56.5 from 57.1 – still stellar levels, The equivalent gauges will be released for India at 9AM and for the Eurozone at 12.

Stay safe.

Chief Investment Office  
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