



CIO OFFICE MORNING MARKET WRAP – 4th March, 2022. ALSO AVAILABLE ON ALEXA.

Sentiment is versatile, and risk aversion came back on Thursday. Global stocks fell -0.5% on average, with the US closing down -0.8% while Europe had a more severe -2% drop. The US 10-year Treasury yield decreased -4 basis points to 1.84%, and the price of Brent crude oil consolidated just above \$110.

The war in Ukraine remains the dominant driver, with the latest headlines reporting a fire at a large nuclear power plant in Ukraine, said to have followed shelling by Russian troops. This triggered a spasm of panic on stock markets, with European futures instantly dropping by -3% before partially recovering. The levels of radiation in the area surrounding the Zaporizhzhia plant did not spike. This however illustrates both the determination of Russian troops and the understandable nervousness of market participants. Joe Biden and Volodymyr Zelensky urged Moscow to cease fighting in the area which is reasonable but probably a bit candid in a war context where Russia has no reason to ease the pressure, except if it reaches its objectives, militarily or diplomatically. On the other side, pressure is also mounting. The US imposed sanctions and visa restrictions on 27 Russians. Boris Johnson called for an emergency UN Security Council session and G-7 foreign ministers will meet today. Russian oil exports remain out of the scope of the sanctions, including in the US. Talking about oil prices, JP Morgan

warns that the Brent could end the year at \$185 if supply from Russia doesn't come back to normal.

February monthly economic data continued to be released this week, grabbing little attention from market participants. The US ISM Services clearly disappointed: at 56.5, it came out way below the median forecast for 61.1 and the January level of 59.9. It has now been down for three straight months. Components such as new orders and employment are consistent with a deceleration, but it's important to keep in mind that it started from, and remains at, high levels. This however adds comfort to the fact that the Fed should not be too aggressive in March as they highlighted data conditionality to shape their tightening trajectory. As Chairman Powell reiterated on Thursday, the Fed "will proceed carefully along the lines" of its plan. Carefully is the important word. Similar activity indices in the Eurozone and in the UK were broadly in line with expectations, confirming that the European economy was on a good foot in February. The unemployment rate in the Euro area was reported at 6.8%, a monthly -0.2% drop and a historically low level for the zone. This tightening of labor markets should theoretically encourage the ECB to be more hawkish, but given the context, they certainly won't.

As we write this morning, the war is pushing Asian markets into risk aversion. While oil prices are up, with the Brent trading just above \$112, stocks are materially down everywhere: -2.6% in Hong Kong, -2% in Japan, -1.2% in Korea and -0.8% in China onshore. Safe havens are sought after: treasuries rally, with interest rates sharply down. The US 10-year yield sheds as much as -7 basis points to 1.77%. Gold is up +0.3% to \$1940 while cryptocurrencies are down with bitcoin trading around \$41,000.

Today will bring the theoretically important monthly US job report. The median forecast is for 423k new jobs having been created in February, after the very strong 467k from January. It shouldn't have the impact it usually has, as the war logically dominates market action and as the Fed gave a fresh update on their current state of mind, barring a shocking divergence. Markets should anyway remain extremely volatile, especially with a nuclear scare happening before the weekend.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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