



CIO OFFICE MORNING MARKET WRAP – Monday October 4, 2021. ALSO AVAILABLE ON ALEXA

UAE markets on their first day of extended trading yesterday, an extra hour, had a positive close from the Abu Dhabi Index with ADNOC Drilling gaining 28% on its first day of listing. Dubai shares were down less than half a percent with real estate stocks trading down and banks up. In Asia this morning, Japan equities are down a percent, India markets up, Mainland China markets are closed for a week-long holiday and the Hang Seng Index is trading down 2%, at its lowest level in 2021. Evergrande shares are suspended as well as those of its property management unit as we write as there is a possible acquisition of a 51% stake in its property services by Hopson Development. Bloomberg reported another \$260 million note matured Sunday from an entity guaranteed by Evergrande. Notes risk of cross-default for other Evergrande bonds, adding an element of uncertainty into the situation and that China is taking measures

to ring fence the fallout with a focus on 1.6 million home buyers with deposits in Evergrande apartments and less focus on repayment of restructuring the offshore debt. To limit the real estate contagion, central bank officials told financial institutions to cooperate with local governments to “maintain the steady and healthy development of the real estate market” while safeguarding homeowners, according to a statement by the People’s Bank of China last week.

On the geopolitical front US-China tensions in focus with the Biden administration weighing possible additional tariffs citing Beijing is not complying with the phase one deal, having failed to increase purchases of US goods by \$200 billion and China Taiwan tension in focus too. US markets had a positive close on Friday, but an overall negative week with a mix of bullish and bearish themes. We have a year-end Fair value of 4400 for the S&P 500 and still expect trading around that level. Higher-for-longer inflation, an energy spike, China slowdown, and supply chain headwinds are pitted against optimism about the US Q3 earnings season. It is a long runway until rates lift off, there is an improving Covid backdrop, with a downtrend in the delta variant and stabilizing economic indicators, specially manufacturing. The 10-year US Treasury yield is steady at 1.46% and with tapering firmly on the table we expect to achieve our 1.75% year end fair value. President Biden concedes the figure for the social spending bill will likely have to be closer to \$2 trillion well below the original \$3.5 trillion, by eliminating proposed programs or letting them expire. House speaker Pelosi has set a new 31-Oct target date to pass the stalled bipartisan infrastructure bill.

The global economy is facing stagflation headwinds from persistent supply chain disruptions, with shortages of energy, labour and transport. Factories in Asia i.e. China/ Vietnam are struggling on account of energy shortages. Meanwhile labour shortages in Europe and US are worsening port congestion and causing transportation delays. Supply-demand imbalance could leave inflation higher-for-longer against a backdrop of slowing global growth. India is the latest country to face severe power crisis with authorities warning power plants running low on coal. In the Nordic region power prices were five times higher in September than a year ago as the global shortage of natural gas and coal, with dwindling water reserves curbing the region’s most important source of electricity.

OPEC+ meeting today. Brent futures are trading at \$79 barrel. The OPEC+ cartel's production policy will be the main factor influencing oil prices over the coming months, according to Vitol Group. The Reserve Bank of India rate decision is due Friday and we expect no change. Wednesday's U.S. ADP numbers expected to show employers added 430,000 positions while estimates for Friday's non-farm payrolls are for 470,000 jobs added last month, double that of August, with the unemployment rate ticking down to 5.1% from 5.2%. Stay safe.

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