



CIO OFFICE MORNING MARKET WRAP – 5th January, 2022. ALSO AVAILABLE ON ALEXA.

After a strong Monday, Tuesday was tepid on financial markets. The +0.5% average intraday rise in global stocks was mostly due to Europe and Japan catching-up, while the US turned negative in the late session, closing on a -0.2% retreat. Technology led the decline, as the sector, which is priced on long-term cash-flows, saw its valuation impacted by higher interest rates. On that front, the US 10-year Treasury yield increased 2 basis points to 1.65%. The price of Brent crude oil was sharply up, adding +1.6% to close above \$80. This happened after the OPEC+ approved, as expected, the 400,000 barrel-a-day increase in output for February. The group said that crude demand hasn't been affected by the omicron variant so far. The trade-weighted dollar was overall stable, with the yen, down -0.6%, being the only significant mover.

With regards to news, the US ISM Manufacturing index for December came out weaker than expected at 58.7, which compares to a median forecast of 60 and a November number of 61.1. Its price component was also much lower than forecast, which cannot be seen as a negative as it suggests an easing in the supply bottlenecks. All other components declined compared to November, except for employment. It's overall not a bad report, as 58.7 remains a very strong absolute level.

On the virus front, despite record high infection numbers, hospitals are seeing significantly lower pressure from omicron – this can be read from data in the US, UK and South Africa. This supports the idea that large scale lockdown should not happen everywhere. There are of course risks, and exceptions. Mumbai Mayor said that a lockdown could be imposed in India's financial capital if the daily cases cross the 20,000 mark, which is roughly twice the current level. Latvia has also announced a probable extension of the current heavy restrictions.

As we write this morning, Asian stock markets are overall in the red, except Japan, flat, benefitting from a weaker yen. China, Hong-Kong and Korea are all down between -0.8% and -1.5%. Technology shares are sold off: apart from a reflection of yesterday's underperformance of the Nasdaq, tech is affected by Chinese tech giant Tencent having sold shares in Singapore based Sea Ltd. This raises concerns of more divestments to come from Chinese internet giants amid the current regulatory crackdown. Tencent holds a portfolio worth almost \$200bn in various tech companies. JD.com, Meituan or Bilibili are sharply down, dragging the Hang Seng tech index, currently down -4%. Staying in Hong-Kong, the shares of bad debt asset manager Huarong resumed trading after a 9 month suspension and a \$6bn bail-out, orchestrated by the authorities. Shares are tumbling more than -40% as holders are rushing out. There is no notable move in interest rates and oil this morning in Asia.

The IHS Markit UAE PMI for December has just been released as we write, firmly in expansion territory at 55.6, a level comparable to November despite the omicron breakout. Later today we will look at similar measures for India at 9am and the Eurozone at 1pm, before getting the US ISM Services tomorrow.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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