



CIO OFFICE MORNING MARKET WRAP – 7th January, 2022. ALSO AVAILABLE ON ALEXA.

Thursday's session on global stock markets saw Europe and Asia falling, following the previous close of the US, while Wall Street had a better end to its session, roughly unchanged. In aggregate, developed markets fell -0.9% while emerging ones lost -0.5%, in what is clearly a bad start to the year. We are not unlucky so far to have cut our overweight in stocks during our TAA committee last Friday. Interest rates continued to grind higher, with the US 10-year Treasury yield adding 2 basis points to 1.72%. The price of Brent crude oil added 1.4% to close at \$82, and the trade-weighted dollar kept on rising, moving up 0.3% especially against the Yen.

The December US ISM Services came out yesterday at 62, way below forecast of 67 and the November print of 69. This added to the broad picture of December: manufacturing activities are rebounding due to evidence of easing in supply-chains bottlenecks, while the service sector is losing momentum due to the spread of the omicron variant. The balance is negative with more decline in services than acceleration in manufacturing, confirming the easy prediction that the current wave has an economic impact. This was also seen in the weekly initial jobless claims in the US, which unexpectedly and materially rose. We keep on thinking that the drag on activity should be reasonably short-lived, affecting Q1, and it will be interesting to see if it has any impact on inflation. Theoretically it could, due to the higher price elasticity of services – like hotel rooms. This shouldn't be material in December but could moderate January numbers.

In other potentially market moving news, Saint Louis Fed Chief Bullard said that the Fed may start hiking interest rates as soon as March before starting to shrink their portfolio of assets, cementing further the recent narrative from the last FOMC meeting – which was before omicron really started to hit the US. That sounds a bit like a communication strategy: the more hikes are priced-in by markets, the more the Fed has leeway to moderate its action if needed without compromising the overall tightening direction. Time will tell, and the next FOMC meeting is on January 26th. In Kazakhstan, protests are not rare but the current ones are unprecedented in terms of magnitude and level of violence. Government forces have opened fire in the streets of Almaty, reportedly killing “dozens”, and Russia has deployed troops to help. The President said that order was restored today, and in the meantime, markets have been concerned about consequences on commodities, especially uranium. An unexpected consequence has also been a shortage of bitcoin miners globally, as internet was shut down in the country which is very active in the field, accounting for 10% of global bitcoin computing. This may be part of the reasons behind the ugly start of the year for major cryptocurrencies. Bitcoin and ether are so far down around -10% in 2022.

As we write, equity markets are overall reasonably well oriented in Asia, with Japan, down -0.3%, the only exception. Stocks are up 1% in Hong-Kong and +0.3% in onshore China. Korea adds 1%, helped by Samsung: the giant conglomerate reported Q4 numbers slightly below expectations, but expressed a positive guidance for chips in 2022. Interest rates are stable, while future contracts on oil prices and Western stock markets are edging slightly higher. Bitcoin trades just below \$42,000.

Today will provide the important US employment data. The consensus of economists expects 447K new jobs to have been created in December. Before that, we will look at the December CPI estimate for Europe, expected to reach +4.8% year on year.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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