



CIO OFFICE MORNING MARKET WRAP – Tuesday December 7, 2021. ALSO AVAILABLE ON ALEXA

Some risk appetite came back on global markets this Monday. Stocks from developed markets added +0.6% on average, with Europe outperforming, followed by the US. Emerging markets and Japan were modestly negative as Asia was closed when the trend turned firmly positive in the West. The yield curve saw a significant “bear steepening” yesterday: the 5-year Treasury yield added 7 basis points to 1.21%, the 10-year added 9 basis points to 1.43% and the 30-year gained 10 basis points to 1.77%. The price of Brent crude oil jumped almost 5% to close just above \$73.

There were two main reasons behind this more positive mood. First, early data from South Africa receded concerns about the severity of the Omicron variant – despite a rise in infections, hospitals are not overwhelmed. Second, China’s authorities moved in the direction of supporting the economy: the PBOC announced a cut in banks’ reserve requirement ratio, and government officials said they will ease real estate

curbs and stabilize the economy in 2022. After two difficult weeks around the dual concern of the new variant and a more hawkish Fed, this was enough to see dip buyers coming back to the market.

China continues to make headlines. Trade data have just been released for November and they are simply spectacular. The year-on-year increase of exports is +22%, which is 2 points above forecast and confirms the robust state of the global economy, at least pre Omicron. Even more impressive is import growth, at +31.7% year-on-year. It is a massive improvement from October's +20.6% and a total surprise as the median expectation was for +21.5%. Robust imports are an indication of an uptick in the domestic economy, at a time when policymakers pledge support and -finally- seriously tackle its Evergrande giant debt problem. On the latter, the group is planning to include all its offshore creditors in its restructuration - coupons due on dollar instruments were not paid after their grace period expired yesterday. Kaisa Group, another indebted developed, has also received a formal proposal from bondholders to engage in negotiations aiming at avoiding a default.

The mood is unsurprisingly good in the morning session of Asian markets as we write. Stock indices are well oriented, from Japan, up +1.3%, to China's onshore indices, up 0.5%, and South Korea, at +0.1%. Hong-Kong is the main outperformer, up 1.5% as we write, with a rebound in tech stocks led by Alibaba after the company announced changes in their management. Future contracts on Western indices are holding yesterday's gains, while interest rates are stable. Oil prices are modestly up, with the Brent future trading at \$73.3. Meanwhile, crypto assets remain extremely volatile, still shaken by the shockwaves from Friday night's crash. As we write bitcoin is up +1.5% to 50,900.

No doubt, this week starts better than the previous one ended. However we still expect elevated volatility: we need more clinical cases and statistically relevant data to gauge the infectiousness, severity and resistance of the new variant. In the meantime, new restrictions may be put in place: New York City called for a vaccine mandate, and Hong-Kong expanded the list of countries requiring quarantine on arrival. Geopolitical tensions are also resurfacing: Presidents Biden and Putin will speak today about Ukraine, while US government officials have said that the country could boycott the Beijing Winter Olympics. Finally, we will soon enter a period of the year with low volumes of trading. Don't get us wrong: we are still reasonably pro cyclical and overall constructive, but the short-term is as always unpredictable. Everything else being equal, we would tend to consider buying on any material correction.

In other interesting news, Saudi Aramco has signed a \$15.5 billion deal with a group of investors to fund a major increase in their gas pipelines capacity. Tesla dipped after news of potential defects in some of the parts used in their cars, namely solar panels

and repeater cameras. Moderna, so far 2021's best performing stock in the S&P500, saw significant profit taking yesterday. Finally Samsung has reshuffled its management, replacing all its business division heads.

Today, apart from the just released China's trade numbers, we will look at Germany ZEW economic survey and various economic data from Europe, including Euro area GDP for Q3. The end of the week will be more active with China inflation on Thursday and US CPI on Friday. Stay safe.

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