CIO OFFICE MORNING MARKET WRAP – Monday 8th March 2021.
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Volatility was the name of the game last week, as a stream of good fundamental news pushed interest rates and inflation expectations higher, sending shockwaves across markets.

Good news continued in the meantime. First, the US Senate passed President Biden’s stimulus bill, leaving the enormous $1,900bn envelope unchanged. The plan will go back to the House of Representatives for a final vote. Second, China released spectacular trade numbers for the period January-February. Exports in particular were 60% higher than a year ago, when Covid related restrictions started. Still, with two consecutive months showing more than 7% sequential growth, the underlying message on the global cycle is unambiguous, and is consistent with recent numbers from Korea and Taiwan. The recovery is here.

The early hours of trading session in Asia display a mixed reaction, however. The brighter, and brighter-sooner economic outlook keeps on pushing interest rates higher, with the US 10-year Treasury yield approaching 1.6%. As a result, bonds are down,
and stocks are mixed. They are up only in Japan, while Hong-Kong, Korea and domestic China are currently negative by -0.3% on average as we write. Futures contracts on Western indices are also slightly in the red. The geopolitical climate doesn’t help: a top Chinese diplomat reminded the US that there was “no room for compromise or concessions” with regards to China’s claim to sovereignty over Taiwan. Energy is clearly up: futures on Brent crude oil gain 2.5% this morning in Asia, clearly above the $70 mark. After the OPEC+ decision to keep output unchanged, and continuous good indications for the trend in demand, oil prices are also reacting to yesterday’s attack on a Saudi Aramco facility. The Houthi rebels in Yemen claimed responsibility for the drone and missile assault which made no victim and no material damage.

As we wrote yesterday, our take on the current situation is simple: we do not think that inflation pressures are sustained and that they could detail our reasonably constructive outlook. We keep on expecting volatility to be very significant, and are prepared to stomach it, and at some point to take advantage of potential exaggerations.

Today we will get Industrial Production numbers in Germany for January and a gauge of investor confidence in Europe. The annual session of China’s National People’s Congress will continue and we will get Japan’s GDP tomorrow. We wish a very happy International Women’s Day to all ladies.

Stay safe.

MAURICE GRAVIER
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