Global equities fell 2.7% yesterday, one of their worst days in the past year as US and Western allies debated whether to ban Russian commodity imports with inflation concerns around energy, agricultural and key metals rising. Ukrainian and Russian officials met for a third round of talks, but both sides expressed limited progress as heavy fighting engulfed towns outside of Kyiv. Asian equities are trading down this morning following yesterday’s fall of over 3%, from Japan, Hong Kong, domestic China and India markets to the US. The European indices managed a late day recovery to close down 1%. Several major benchmark gauges across Europe have dropped more than 20% from their recent highs, while the S&P 500 is hovering around a 10% correction. The S&P 500 closed at 4,201 which has been a support recently so we may some sideways trading from here. Value outperformed with consumer discretionary and growth sectors such as technology the worst performers. Commodity producers including the UAE and KSA maintain strong year to date gains. The UAE markets fell 0.7% yesterday, below global equities close to 3% drop. Safe haven assets remain in demand though bonds were steady, with the US 10-year yield up at 1.79%. JPMorgan will remove Russian bonds from all of its widely-tracked indexes. This follows the removal of Russian equities from major global benchmarks. Analysts fee that Russia may default on its foreign debt as soon as April 15 (Morgan Stanley) The US Dollar is stronger versus the euro, sterling, and Japanese yen. Gold traded above $2000, the highest since August 2020 and is at $1987 this morning.
The geopolitical crisis has upset a very resilient growth backdrop with record strong labour markets, retreating COVID lockdowns and an improving China policy stance. Near-term, the Ukrainian War creates a risk-off market with commodities at record highs. However, as long as economic growth remains positive earnings growth should follow and while estimates are being revised down for Europe and other oil importing regions, they still indicate above trend growth. Naturally the length of the Ukraine Russia war will continue to impact global growth though our scenario calls for a de-escalation.

Extreme trading volatility in commodities with Brent crude reaching a high of $139 per barrel yesterday, a level last seen in 2008. This morning Brent futures are trading at $127. The price spike came after the U.S. administration signaled that it was open to a ban on Russian oil imports. Russia threatened to cut natural gas supplies to Europe via the Nord Stream 1 pipeline in retaliation for sanctions. The EU announced that it will try to reduce 80% of its dependence on Russia gas this year with plans to be released today. Negotiations between Iran and the International Atomic Energy Agency, continue and while that could lead the return of the country’s oil to global markets by the third quarter this year, a final deal has yet to be secured. The OPEC+ cartel has so far resisted calls from importers including the U.S. for faster production increases. The 23-nation group, led by Saudi Arabia and Russia, is raising output only gradually after historic cuts at the start of the pandemic. Agricultural commodities hit records with Chicago wheat futures rising 5% to a fresh 14-year high. Supply concerns rise as Russia and Ukraine account for almost 30% of global wheat exports, China also raised concerns about its domestic wheat supply after its agriculture minister said winter wheat conditions could be the worst in history. London copper, aluminum and palladium rallied to record highs while nickel prices almost doubled to then retreat. Russia accounts for around 6% of global aluminum production, 7% of global nickel and 3.5% of copper.

Impacting revenue and profitability of some large global corporates is withdrawal of business/products from Russia. This includes Visa, Mastercard, Samsung, Apple, the major global automakers, European oil companies. The exits reverse 30 years of investment by foreign businesses as sanctions, the closure of transport links and the financial restrictions on SWIFT and capital controls have made it difficult for many companies to make payments and deliver goods to and from Russia.

On the macro front, China expects GDP growth of around 5.5% for 2022, above consensus expectations. No changes to other metrics though signalled scope for small fiscal and monetary policy shifts. Strong Germany macro data but for a period before the Ukraine crisis. The ECB looks set to leave policy on hold later this week given geopolitical developments. Key events this week include EIA crude oil inventory report today, Thursday sees ECB President Christine Lagarde briefing after the policy meeting and the key U.S. CPI and initial jobless claims.

Stay safe.

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