



CIO OFFICE MORNING MARKET WRAP – 8th July, 2021. ALSO AVAILABLE ON ALEXA.

The minutes of the June FOMC meeting were released last night, and they confirmed that the committee officially began talking about tapering asset purchases. The conversation is open, but the overall tone was less hawkish than the immediate market reaction in June suggested. Indeed, the consensus was that the conditions for tapering had not been met yet. In addition, the change in projected median rates, which surprised markets at the time, also appears to have been the result of a few members' view rather than a unanimous agreement. Our own scenario, based on our economists' views, is for tapering to start in 2022 and rate hikes in 2023. We will know more in the upcoming meetings and probably at the Jackson Hole summit in late August.

Staying with Central Banks, the ECB strategy review is about to be published, and the key change should be a change in the inflation goal. It should be set at 2% instead of the previous "below, but close to 2%". This sounds like pure rhetoric, but this could come with an explicit tolerance for a temporary overshoot, which would set the stage for sustained stimulus despite rising inflation. Price pressures are for the moment not an issue for the Euro area anyway. The ECB will publish its review today at 3PM Dubai time.

The mood was favourable on global markets on Wednesday, with stocks adding 0.3% on average. Interest rates kept on trending lower after the Fed minutes were released: the 10-year Treasury yield lost 3 basis points to close at 1.32%, down for a sixth trading day in a row. The price of Brent crude oil moved down 1.5%, just below \$73.5 and the trade weighted dollar was 0.2% firmer. As we write this morning, Asian markets are not well oriented, with most of stock indices in the red. Japan is down 0.5%, affected by a probable new state of emergency being declared in Tokyo just days before the Olympics. Hong-Kong stocks lose 2%. They keep on adjusting to the regulatory pressure on tech companies. Onshore China and Korea are down half a percent. China's central bank is said to consider a liquidity injection to boost lending and ultimately growth, through a cut in the reserve ratio rate. On the virus front, the number of global covid deaths surpassed 4 million and the delta variant is becoming the predominant source of contagion everywhere. The reinsuring element is that hospitalizations are rising much slower than new cases in countries where vaccination rates are high. Elsewhere in the news, Donald Trump sued Facebook, Twitter, Google and their respective CEOs, asking for his social media accounts to be restored and for a financial compensation. Closer to us, a container ship caught fire at Dubai's Jebel Ali Port last night, causing an explosion heard through the city. The fire is under control and no casualties have been reported.

Yesterday at market close, we implemented the changes decided to our tactical asset allocation in our July meeting. They are fine tuning rather than a full switch: we take profits on our overweight position on high yield, now back to neutrality for valuation reasons. We reallocate half of the proceeds to emerging markets debt, now our preferred segment within the fixed income asset class. The other half is spread between hedge funds and cash. The overall positioning isn't dramatically changed: after having been very bullish risk in H1 we are now constructive. We remain overweight equity, underweight fixed income, neutral cash and slightly overweight in both hedge funds and global listed real estate.

Today we will look at the ECB's review and listen to Mrs Lagarde press conference. Inflation numbers in China will be released Friday, before the Q2 earnings season really kicks off next week.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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