



CIO OFFICE MORNING MARKET WRAP – Wednesday November 10, 2021. ALSO AVAILABLE ON ALEXA

This is the week of monthly inflation indices around the world, and it started yesterday with the US October PPI - Producer Price Index. The monthly +0.6% increase was close to what the consensus was expecting, leading to a year-on-year increase of +8.6% for the headline index, including all underlying contributions, and +6.8% for the core index which excludes oil and energy. The latter was the largest contributor to October's increase, with a +4.8% monthly jump, followed by construction prices, while food prices were unchanged in October. The releases continued this morning with China's PPI and CPI. The first one saw the factory-gate prices increase by a spectacular +13.5% year-on-year, materially higher than the +12.3% median forecast. This is not only impressive in absolute but also historically, being the fastest pace in 26 years. CPI however was much more contained at +1.5% compared to October 2020, close to

expectations. This is not inconsistent with the current situation in China, where the economy is supported by external demand and exports of goods rather than a vigorous domestic economy. We will get today the probably most important CPI in the US, which is expected to rise by 5.9% year-on-year. If forecast is right (and it could very well be), this would be the highest since 1982, when Ronald Reagan was in the white house and when the 10-year interest rates had 2 digits - and Steven Spielberg's E.T. was in cinemas.

Global markets yesterday had a non-dramatic but typical "risk-off" pattern. Safe bonds were sought after: the US 10-year treasury yield lost 5 basis points to 1.44%, while the 5-year and 30-year lost respectively 4 and 6 basis points to 1.08% and 1.82%. Global stocks were marginally down, losing -0.2% on average in developed markets and being unchanged in emerging ones. Energy was the usual cyclical exception: the price of Brent crude oil added 2% to close just above \$85. Gold held the \$1830 mark. The reaction of interest rates to high inflation numbers is not as paradoxical as it seems: market participants are concerned about risks to the outlook from inflationary pressures building up in the global economy, especially after the surge in China's PPI. After all, China produces more for the world than it imports from. Having said that, it's useful to keep in mind that factory prices were impacted by a perfect storm, with rises in oil, coal, steel as well as a power crunch and some targeted lock-downs. This hopefully should not happen every month. Tomorrow will be China's annual Singles' Day which is arguably the world's biggest shopping festival – numbers will be interesting to get an idea of the exact state of the consumer there.

Unsurprisingly, the mood is not great in the morning session in Asia as we write. Stock indices are down everywhere, with both Hong-Kong and China's onshore indices leading the fall around -1.2%. In addition to the PPI number, markets are concerned by the real estate crisis: the shares of developer Fantasia holding resumed trading with a plunge, and the debt behemoth Evergrande group is facing a major deadline as the 30-day grace period for \$148 million coupon payment expires. Future contracts on western indices are also down -0.5% on average, interest rates and gold are fluctuating without a clear direction, while oil is again the exception, with the Brent being up +0.5%. Crypto assets participate to the risk-off mood, with bitcoin and ether now 3% off their recent records.

In other news, a virtual meeting has been confirmed for next week between Joe Biden and Xi Jinping. It doesn't look too relaxed, as Biden extended a ban on US investment in a selection of Chinese companies, and as US lawmakers made a visit to Taiwan at a time when the Chinese army was conducting maneuvers close to the area. Meanwhile China's communist party sixth plenum is ongoing and should conclude tomorrow. We

should know if President Xi has gained full power for life and if there is a material inflection to be expected on policy priorities.

Today we will get CPI numbers from various European countries this morning but the potentially market moving one is of course the US CPI at 5.30pm Dubai time. Stay safe.

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