



CIO OFFICE MORNING MARKET WRAP – Thursday 11th February 2021. ALSO AVAILABLE ON ALEXA.

Let's start with the key number released yesterday: +1.4%. This is the US Consumer Price Index year-on-year change as of January, which is of course the main gauge of inflation. Inflation is at the very top of all investors' minds, with most of them expecting intensifying price pressures with the combination of massive fiscal stimulus with gradual return to normal economic life – the so called “reflation” scenario. The number released yesterday was actually below the 1.5% median forecast from the consensus. So far, so good, nothing has happened yet. Inflation is crucial for markets as it is the first item in every central bank's mandate: it is the economic data which could trigger the end of the ultra-accommodative policy markets are addicted to.

The apocalypse will wait. January core prices were basically unchanged for the second straight month, as most of the increase was linked to gasoline prices. With a perfect timing, Fed chairman delivered a speech yesterday. His key message was a call for more support to the job markets, from both private sector and lawmakers. Which means a call for more fiscal stimulus and an implicit commitment to maintain a considerable monetary support until full employment is reached. On that point, he said we are still “very far” from a full recovery and that it could take “many years”.

In times of anxiety, a moderate CPI number and a reiterated commitment from the Fed would have fuelled a rally. But there is no stress, as risk assets are close to all-time highs in all major regions. As a result, Wednesday's session was quiet. Global stocks added 0.1% on average, slightly more in Asia, and slightly less in the US where major indices ended virtually flat. Interest rates took note of the CPI number, without excessive drama: the 10-year Treasury yield lost 3 basis points to 1.12%. Oil prices had no reason to lose their cool: Brent was little changed, settling just above \$61. It was helped by a sharp drop in US crude stockpiles. The trade-weighted dollar also helped, moving down again, by a moderate -0.1%.

Elsewhere in the news, we would highlight the first conversation between President Biden and President Xi. The White House said that the topics include the “coercive and unfair economic practices” as well as “human rights abuses”. This sounds bold, but it is interesting to note that at the same time, the White House is slowing down the process forcing Chinese social media Tik Tok to unwind its US operations. Diplomacy. On the virus front, infection numbers confirm their recent deceleration: after Asia managed to reverse the recent spike, daily numbers are moderating in the West including in the US where new cases are below the symbolic 100,000 mark for a third consecutive day. German schools may open next week, and the WHO recommended the Astrazeneca's vaccine to all adults.

As we write this morning, Asian indices are little changed and overall steady. Chinese domestic markets are still closed for the Lunar Year. Future contracts are consolidating on Oil, down around 40 cents for the Brent, and fluctuating around 0 for Western stock indices.

Today we will listen to a couple of speeches from ECB officials, read the OPEC's monthly oil market report and have a quick look at economic forecasts from the European Union. The earnings releases include Disney, PepsiCo, L'Oreal and Astrazeneca.

Stay safe.

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