



## **CIO OFFICE MORNING MARKET WRAP – Sunday July 11<sup>th</sup>, 2021. ALSO AVAILABLE ON ALEXA**

Markets showed signs of a flight to quality for most of the week to end on a high with US stocks closing at new records. In the five days through Friday the S&P 500 gained 0.4%, the reflation trade suffered a setback yet again, the yield on the 10-year note lost 7bp, gold rose above \$1,800 at a three-week high, Brent crude was in a roller-coaster ride to close less than 1% down and the US dollar retreated. The services sector in the United States expanded less than expected according to a key corporate survey, sending jitters across markets about fading US economic momentum, to a point that investors seemed to be shifting attention from transient inflation to temporary growth. Long-dated Treasury yields sank to their lowest level in five months and even credit markets went through some mild tremors in their otherwise Olympic calm.

Central banks took center stage during the week. The June Fed minutes were released and they revealed a detailed discussion of the tapering of bond-buying programs, with conditions possibly met “somewhat earlier” - hence its implementation expected to start at the beginning of 2022 after a formal announcement at latest in November or December. As for policy rates, only “few participants” saw conditions met for an earlier lift-off, yet the median projection of two rate hikes in 2023 matters and markets expect tightening to occur in the second half of that year. The ECB, concluding an 18-month policy review, seems to be following in the Fed’s footsteps as far as its inflation framework is concerned. Christine Lagarde announced on Thursday a new inflation target of 2%, with modest overshoots being tolerated, and the Governor of the Bank of France said that the risk of too-slow inflation is at least as significant as that of it being too fast. In an increasing sign of policy divergence, while the Fed is talking about tapering and should tighten in 2023, the ECB is planning to extend loose policy and is not expected to raise rates before 2024. This is not boding well for the common area currency versus the dollar. The People Bank of China cut its Reserve Requirement Ratio by 0.5% in a bid to unleash liquidity and support the economy following the recent tightening. This had investors speculate that the slowdown in China may be more severe than originally thought.

OPEC+ failed to show a unified front when it came to extending the production curbs enacted after the pandemic and expiring in April next year. While Saudi opted for a more cautious stance, the UAE demanded that its baseline production be revised higher, having added to its capacity in recent years and seeing itself as penalised by persistent cuts in the face of rising demand. Although disagreement has persisted and brought about a stalemate, the past history of OPEC frictions and rapprochements suggests that eventually a solution will be in sight, especially following president Biden’s high-level talks with the UAE, Saudi Arabia and other members which had him feel “encouraged”. The initial plan of boosting production by 400,000 barrels per day through the end of the year should get ratified anyway.

Oligopolistic technology companies do not seem to be loved anymore by authorities sitting on opposite sides of the globe. President Biden unveiled an executive order aimed at boosting competition amongst industries which has the potential to spur productivity and wages according to economists. The order would reverse the trend towards corporate consolidation and limit non-compete agreements hitting workers looking to switch jobs, whereby they are prevented from joining competitors for some time after leaving their company. Although scrutiny will increase across sectors, oligopolistic IT companies will stand to lose more. The Chinese ride-hailing giant Didi tumbled only a few days after its New York IPO, following the launching of a review of its data practices by the Chinese authorities.

China is taking an increasingly hostile attitude towards overseas tech listings as security and the curbing of internet firms' market and political power become national priorities. Large tech companies beware, that you sit in the liberal United States or in the more authoritarian China, unsuspected policy convergences are at work for the long haul!

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