CIO OFFICE MORNING MARKET WRAP – Monday October 11, 2021. ALSO AVAILABLE ON ALEXA

The narrative of last week combined two elements: an uptick in the global growth momentum from overall good PMI data, as well as continuous supply constraints leading to inflation pressures and disappointing job creations in the US. This was not adverse for cyclical assets, which were slightly up, but defensive ones were negatively affected by rising interest rates.

After a modestly positive session yesterday for UAE stocks, the start of the week for international markets follows the pro cyclical pattern. As we write this morning, stocks are climbing in Asia, with two clear regional leaders. First, Japan rallies by 1.5%, boosted by a weaker yen, en route to 113 for one US dollar, its lowest in more than two years. The other outperformer is Hong-Kong, up 2%, and more precisely the Chinese technology sector, up more than 3%. The catalyst here is a lower-than-expected amount of the antitrust fine to the food delivery platform company Meituan.

Market participants hope to see an indication that the current regulatory crackdown is easing. Stocks are close to unchanged in Korea and in Chinese onshore markets, and up in India, with the S&P Sensex index reaching the +25% YTD appreciation. Neither Indian nor Japanese stock markets seem to be too concerned by rising energy prices despite the dependency on exports from their economies. Oil continues to be sought after this morning in Asia. The future contracts on the Brent are up another 1% to $83.5, while the US equivalent gauge, the WTI, is above $80, a level not seen for more than 5 years. Future contracts on Western stock markets are marginally down while interest rates and gold are also stable.

Energy prices are obviously something to watch: apart from oil, natural gas and coal are also soaring, and the material rise in energy bill could have an impact on consumer spending. Demand is obviously on the rise, driven by the reopening of the global economy and amplified by seasonality, as the winter starts in the Northern hemisphere. Supply is however constrained. It is not just about last week’s decision from OPEC+ to stick with their planned 400,000 barrels a day monthly increase, but also about the consequences of under investment in hydrocarbon upstream and infrastructure for some time. Governments from the Western world have rushed their energy transition by prioritizing investments in renewable energy, but the sad reality is that they don’t fill the current needs of their economies. Europe is an interesting example. As investments in natural gas infrastructures in particular have been neglected, the result is a scarcity of supply. President Putin last week indicated his willingness to help with more gas, however Gazprom also signaled caution on the volumes it could ship. This situation comes at a significant cost to consumers, and to the environment: in Germany for example, the gap is bridged with coal-based electricity. Bottom-line, demand should continue to rise, assuming that the economy continues to recover. The OPEC+ will certainly help with oil supply at some point, but the gas shortage should not be easily solved as a result of some lack of pragmatism from some political leaders.

Meanwhile, the virus situation shows some stabilization of new cases worldwide, around 600,000 per day. The good news is that the number of patients being hospitalized keep on materially falling and the number of reported daily deaths is 40% below its previous peak. Sydney is reopening after a 15-week lockdown. It seems that the world has learned to live with the virus, however Goldman Sachs this morning cut its forecast for US growth in 2021 as their strategists have revised their expectations for consumer spending. The IMF will update tomorrow their own predictions and it could also be on the downside. Absolute levels remain anyway extremely strong and do not change our reasonably procyclical stance. It looks like central banks are also in the same camp: after the Fed, officials from the Bank of England have indicated that policy tightening could start earlier than initially expected.

Closer to us, today will see the trading debuts of ACWA Power International in Riyadh. It is the second largest Saudi IPO after Aramco, and it is interesting to note that the oil exploration giant's market value is currently practically at $2 trillion, despite having paid comfortable dividends to their happy shareholders in the meantime. After less than two years, the market is unequivocally confirming that this then widely challenged level was not unrealistic. There is no major economic data release today. US inflation numbers will be key on Wednesday, and the Q3 earnings season will imminently start. Stay safe.

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