



CIO OFFICE MORNING MARKET WRAP – 13th May, 2022.

Asia is in an upbeat mood this morning in a week that has so far seen volatility across stocks, bonds and cryptocurrencies. Japan, South Korea and Australia are in the green. US futures are hedging higher, following yesterday's wild swings in the major indices, which closed little changed. US equities initially accelerated lower following an inflation release confirming elevated price pressures, to rebound as Jerome Powell pushed back against the possibility of 75-basis-point hikes. The S&P 500 traded not far from bear market territory for the first time since the covid shock. The dollar surged, on course for its longest streak of weekly gains since 2018. Treasuries rallied, gold closed on the lows of the week and Brent crude ended the session above \$107 little changed.

Yesterday's factory-gate inflation report showed that prices paid to US producers rose at a solid pace, suggesting that inflation in the production pipeline will continue to filter to consumers. The Producer Price Index rose 11% versus a year ago driven by goods. The datapoint reinforces the conviction that Powell will have more work to do, compounding concerns related to the rising component of service prices, in the consumer basket, in particular rents, being quite sticky and posing challenges for the Fed.

Powell reiterated in an interview that half-point hikes are likely in June and July, highlighting his determination to tame inflation, though he conceded that being able to do that without triggering a recession depends on factors beyond his control. Which marks a change of stance from previous statements where he laid more emphasis on a soft landing. He also left the door open to do more depending on how the economy evolves. Although uncertainty about future price pressures remains high, weakness from Europe and China later this year could help the US take a break in the hiking cycle if its effects combined with those of Quantitative Tightening prove to be too damaging for markets.

Crude is rising this morning with US crude stockpiles shrinking ahead of the summer driving season. In spite of China's virus outbreak, Brent remains in a backwardation structure, pointing to a tight market. Some European nations are considering delaying a push to ban Russian oil to focus on the rest of a proposed sanctions package as Hungary cannot be persuaded to back the full embargo, claiming it would be too damaging to its economy. Discussions will resume at the EU leaders summit at the end of May.

The crypto market is trying to stabilise and recover 24 hours from the implosion of the TerraUSD stablecoin. Although the algorithmic stablecoin has not regained its 1-1 parity with the US dollar, elsewhere in digital currencies sentiment has started to rebound. It was important that tether, the largest stablecoin used to facilitate cryptocurrency trading, recovered from a mini-crash, soothing concerns of contagion. Tokens underpinning decentralised finance protocols also advanced. Bitcoin regained the \$30,000 level and Thursday, although equities ended the session mixed, it managed to close in positive territory. The unfolding rebound in bitcoin could anticipate the same is set to happen in stock markets now deeply oversold.

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Chief Investment Office
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