



CIO OFFICE MORNING MARKET WRAP – 14th July, 2022.

"Everything is in play" sounds like a motivational phrase. It was a byte from Fed's Atlanta President Raphael Bostic last night after the hotter than anticipated CPI numbers released yesterday. The hunt for "Peak inflation" continues as the Headline CPI came in at 9.1% Vs. the Consensus estimate of 8.8%, while the Core CPI decelerated to 5.9% but was higher than the anticipated 5.7%. This print marked another cyclical high and the largest increase since December 1981. Energy remained a vital driver of the upside headline surprise as prices rose 41.6% YoY. Inflation is broad-based as 76% of the Headline CPI basket had a higher annualized increase than their May figures. Moreover, 94% of the basket recorded a print of more than 4% annualized price growth. The services sector contributed largely to Core CPI as Core Goods inflation came down slightly to 7.2%.

These scorching numbers accelerated bets for a 100 bps rate hike in the July FOMC meeting scheduled to be held on the 26th and 27th of July. Swap markets indicate traders are evenly split between whether the Fed will raise by 75 bps or 100 bps. If that happens, it would be the largest increase since the FED started using the monetary policy as its primary tool in 1991. However, the FED would not have to search further for inspiration as the Bank of Canada increased the rates by 100 bps yesterday in a surprise move. The markets swung wildly overnight. S&P 500, at one point, had erased a 1.6% intraday loss to close down marginally lower by -0.45%. Developed Market equities were down 0.37%, while Emerging Market equities were up by 0.33%, driven mainly by a solid performance from Chinese local indices earlier in the day. Consumer discretionary was the best performing sector at 0.48%. Brent crude climbed back above \$100 while Gold traded down -

0.48% to \$1,730. The US Treasury yield curve bear flattened as the front-end of the curve sold off in anticipation of an aggressive FED. While the 10-year yields came down to 2.93% as markets calculated the effect of the breakneck pace of rate hikes further down the road. The 2s10s part of the curve remains inverted, with the gap increasing to -24.6 bps levels unseen since 2000.

Investors increasingly sought refuge in the safe bonds yesterday. In contrast to Tuesday's 10-year sale, yesterday's \$19 Bn reopening of the 30-year Treasury bonds cleared at 3.115%, nearly 2 bps through the when-issued yield. The demand was robust, with a bid/cover of 2.44, a standard deviation above the one-year average. Indirects bought 73.2%, the highest ratio since the rebirth of the 30-year in 2006. That left just 16.3% for directs and 10.5% for dealers, a record low.

According to draft projections, the European Commission joined the "slow down chorus" as it lowered the Euro Area GDP outlook for the year to 2.6% due to the risk of energy shortages and slowing demand due to inflation. Moreover, the commission raised its inflation expectations to 7.6% this year from the previous figure of 6.1%. The Euro traded near parity after slightly falling below during intraday trading yesterday. Stoking recession fears is another much-followed indicator of the Gold to Silver ratio. It is still some distance from its most recent peak, a record reached at the height of the pandemic-induced mayhem. But it has exceeded most previous highs seen since the 1970s, now nearing the top from the early 1990s.

Away from developed markets, China posted a robust set of trade results yesterday. Exports grew by 17.9%, while the trade balance was a record \$ 97.9 Bn. However, experts are worried this might be a one-off as the high growth rate likely reflected Shanghai's reopening and recovery in transport capacity. Meanwhile, the stress in the Chinese property sector continues with even the strongest issuers, such as Vanke and Longfor, having seen their offshore bonds trade in the lower 80s.

As we write, Asian markets are trading up, shaking off the overnight gloom. Stocks in Japan, Hong Kong, and China are up between 0.2% and 0.5%. S&P 500 and Nasdaq futures trade marginally down. The US 10-year yields are up three bps to 2.96%. Oil and Crude are steady, trading near overnight levels. Major Cryptocurrencies such as Bitcoin and Ether are trading above \$20,000 and \$1,100, respectively.

Later today, JPM and MS will kick off the earnings season in the US, setting the market tone. Analysts estimate that higher trading revenues will mitigate the impact of slower investment banking volumes for the large banks. However, more than quarterly earnings, the market will be closely watching the economic outlooks by the banks and search for any clue in rising credit risk through an increase in the provisions. We will also see PPI and Initial Jobless claims today.

Stay safe.

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