



CIO OFFICE MORNING MARKET WRAP – Thursday July 15th, 2021. ALSO AVAILABLE ON ALEXA

Asian shares are mixed this morning, while US and European futures are retreating. Yesterday equities hit all-time highs and bond yields fell, a dynamic consistently unfolding since March, with stock and bond bulls enjoying low-volatility gains. Oil dropped after Saudi Arabia and the UAE reached a deal which would clear the path to higher production. Gold reached a new high for the month and the dollar weakened.

Fed chair Powell, during the first day of his testimony before Congress, reiterated his ultra-accommodative stance of an economy that does not yet require tapering and inflation that will remain high before moderating in the coming months. This has probably been the fastest recovery in history and parts of the economy are already above pre-pandemic levels, hence one may wonder about the Fed's loose policy for long based on still high unemployment levels. It is difficult to fully grasp Mr Powell's logic, since the labor market is slow-moving and tying the end of stimulus to it in spite of the progress being made is puzzling. When someone of the caliber of the Blackrock CEO Larry Fink says that he does not believe that inflation is transitory and concerns

about the delay of tapering are voiced from more sides, it is logical to question the Fed's rationale for prolonged stimulus. Some lawmakers were little convinced themselves and the Fed chair had to reassure Congress that action "absolutely" would be taken if inflation persisted above 2%. In the Fed's Beige Book, which provides anecdotal evidence of the state of the economy, businesses pointed to "broad-based" price pressures.

The persisting of the US-China stand-off highlights the continuity of the Trump era of a confrontational approach against the superpower. The new import controls for China's Xinjiang region, talks of a digital trade agreement excluding Beijing and the lack of plans of Janet Yellen and her staff to revive the economic dialogue between the two nations, which existed under previous administrations, are all pointing to a suspension in relations. A former ambassador to China called this "a mistake, frankly", and said that the decoupling could bring about "deeper problems". An increasingly polarised world in the end will force tough choices on companies and investors. This sits in stark contrast to the sharp increase of global investors exposure to Chinese assets over the past year, with their holdings of stocks and bonds surging by more than 40% over that period. Actually, Ray Dalio the billionaire founder of the hedge fund Bridgewater Associates, said that global markets face a very special moment, with China's capital markets on the rise and the appeal of the US fading in relative terms. The US-China confrontation is now all-encompassing and cuts across financial markets as well.

Saudi Arabia and the UAE are one step closer towards reaching an agreement which would give the latter a more generous output next year. The talks are still ongoing and support of the other OPEC+ members would be required. Before the growing divergence in views between the two countries OPEC+ had targeted to raise production by 400,000 barrels a day each month till year-end. This schedule will most likely be reinstated following the rapprochement, opening the door for a supply increase addressing the extreme tightness of current market conditions. This could tip the over-extended oil market into a correction, with the extreme backwardation of the futures oil curve - where nearer maturities are trading at a large premium versus the more distant ones - already discounting an overly bullish scenario.

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