



CIO OFFICE MORNING MARKET WRAP – Wednesday September 15th, 2021.

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The US Consumer Price Index, a key gauge of inflation, came out slightly softer than expected yesterday, and slightly lower than in July – on both headline and core numbers. The former stands out at +5.3% year on year, and the latter, which excludes food and energy, at +4%. Unequivocally, decelerating inflation is a positive for the economy, but market reaction was ambiguous. Clearly, a softer print reduces the urgency for the Fed to start tapering its balance sheet expansion imminently. However, this was also seen as an indication that the delta virus variant still has a chilling impact on growth. This could be read from some components: prices of airfare and lodging were down in August, while prices of new vehicles kept on rising, signaling that the supply chain hasn't recovered yet.

Market reaction was as a result a moderate but typical “risk off” pattern, with defensive assets outperforming cyclical ones. Global stocks fell -0.3% on average, and -0.6% in the US. High quality bonds were sought after: the US 10-year Treasury yield lost 4 basis points to 1.28%, and Gold closed above the \$1800 mark. Interestingly, oil prices continued to rise, with the Brent crude closing just below \$74, as US inventories kept on falling. The trade weighted US dollar was logically slightly weaker, conceding -0.1%. Cryptos were well oriented, especially after Coinbase, one of the world’s largest trading platform for digital assets, sold \$2 billion of debt which were more than 3 times oversubscribed.

Angst on growth should be a key topic for the coming weeks, especially as retail sales in China for August, released this morning, were shockingly poor. Their year-on-year increase dropped from +8.5% in July to only +2.5% in August, while the median forecast from economists was +7.5%. This indicates that the virus still affects China materially, Bottom-line, recent macro data can support the idea that the global economic recovery has peaked. No doubt, it is decelerating. However, the key factor remains the virus, and it doesn’t sound outrageous to think that the current delta wave is actually a wave, and that it will fade. Under this assumption, there is room for the economy to keep on recovering: excess savings have not disappeared, and full employment hasn’t been reached. On the “magic money” front, the game could last a bit longer. While the US inflation number suggests some patience from the Fed to start reducing stimulus, the Chinese consumption picture increases the probability of the PBOC to actually support the economy by injecting liquidity through the reserve requirement ratio. Interestingly, On the other hand, magic shouldn’t last forever: UK lawmakers approved a tax hike to fund the National Health Service, to compensate for the cost of the pandemic. The 1.25% tax of working Britons will push the UK’s tax burden to its highest level ever. The bill is coming...

As we write this morning, most stock markets in Asia are down, although not in large magnitude. The worst is Hong-Kong, just down -1%, while Japan and onshore China are down -0.5%. Interestingly. Korea is slightly up, after a significant drop in unemployment number, and India is flat. Again, it’s all about the delta wave and its sequence – we shouldn’t exclude that better virus control ends the current soft patch. Future contracts are slightly down for Western stock markets and slightly up for oil prices, while interest rates are steady. In China, the regulatory crackdown has taken another step, this time moving to the brick-and-mortar area, and more specifically, gambling. The government is looking for “direct supervision” of Macau casinos, which includes more scrutiny on VIP clients.

Apple held their products event yesterday, unveiling several new items, including the iPhone 13. The upgrade is not a revolution: the chip is faster, camera is better and battery life should improve but the design is unchanged. I pads and the Apple watch are also being revamped. The good news is that the company said that the new phones should arrive in stores as early as next week, which means that their supply chains are not disrupted.

Today we will get more inflation numbers from European countries and a couple of speeches from ECB officials. Stay safe.

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