



CIO OFFICE MORNING MARKET WRAP – Wednesday March 16, 2022. ALSO AVAILABLE ON ALEXA

Extreme volatility remains the name of the game, and Tuesday was no exception, with a radical shift from risk aversion to risk appetite during the US trading session. While on average equities were down -0.3% in developed markets and -2.3% in emerging ones, US stock markets closed up +2% for the S&P500 and almost +3% for the tech-rich Nasdaq. The session was calmer on interest rates. US Treasury yields were only marginally up, closing at respectively 2.11% for the 5-year, 2.14% for the 10-year and 2.48% for the 30-year. Oil was in free fall, losing almost -8% to close just below \$99 for a barrel of Brent crude.

It's difficult to find a single and clear catalyst behind the stock rally. The war continues to rage in Ukraine, and in a brief statement, President Putin said that "Ukraine is not showing a serious attitude toward finding mutually acceptable solutions", which doesn't sound promising. A spokesperson for President Zelenskiy however replied that

there is room for a compromise, and talks will resume today. With regards to the macro backdrop, the US Empire Manufacturing Survey and Germany's ZEW were the first leading indicators released after the start of the invasion. Both tumbled, way below expectations. The best possible explanation for equity optimism is probably the recent collapse in oil prices, which, if confirmed, would limit the global economic damage from the crisis in Ukraine. On energy, three interesting news broke out. First, the US confirmed that Russia wouldn't face sanctions for taking part in a nuclear deal with Iran. Second, the weekly crude inventories in the US were said to have materially risen. Finally and very significantly, Saudi Arabia is said to have accelerated their talks with China to set up yuan-priced oil contracts. We can see this as a step towards the more binary future of globalization, with the yuan potentially rising to a status of reserve currency, while the dollar could see its predominance dented by the geopolitical strings attached to it.

As we write this morning, Asian markets are reflecting the West's better mood, snapping a 3-day drop. Stock markets are in the green, led by Hong-Kong up +2.5% with a rally from tech, followed by the Nikkei at +1.4%, while Korea and China's onshore markets show more modest gains. Interest rates are stable, and oil prices are partially recovering, with the future contract on Brent crude oil currently trading at \$101.

Today is unambiguously the Fed day, and probably one of the most important in the recent years. The central bank is expected to deliver a quarter-point rate increase, its first since 2018. The speech and press conference from Chairman Powell is expected to provide details on the forecast, trajectory, intentions and level of determination of the central bank for the months to come. This could potentially move markets in both directions, from 10PM Dubai time. We will also have the US retail sales for February which are expected to have increased by +0.4% month on month. Today is also the official due date for \$117 million in interest on a Russian dollar bond. The country has a 30-day grace period until a default could be called. The difficulty is not solvency but access to US dollars, as a payment in rubles would be considered a credit event. Finally, the world's main nickel market reopens today, after a suspension linked to a wild 250% price rise on March 8th.

Stay safe.

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