



CIO OFFICE MORNING MARKET WRAP – 17th June, 2021. ALSO AVAILABLE ON ALEXA.

In the morning session Asian stocks and US futures are extending losses after the Fed's hawkish surprise. Yesterday yields jumped on the rate outlook, the main US equity benchmarks retraced part of the losses, the US dollar gained across the board and gold weakened. The yield on 10-year Treasuries advanced 8 basis points, the real yield by 16, the most since late February. Value and cyclical stocks were worst hit, with the Dow Jones Industrials ending down 0.8%, the Nasdaq 0.2% only. The US dollar advanced 0.6%, gold was down 2.5%.

Fed officials held policy steady, but unexpectedly shook market complacency by pulling forward the lift-off timeline, with at least two rate hikes pencilled in by 2023, versus only one as of the previous policy meeting. If eleven officials out of eighteen saw two hikes by the end of that year, seven of them saw a move as early as 2022, which points to the significance of the hawkish shift in the Committee. The Fed also raised its inflation and economic forecasts since "indicators of economic activity and employment have strengthened". Inflation is seen rising to 3.4% this year and recede to 2.1% in 2022, and projections were upgraded for the next three years, while the growth forecast for this year was raised to 7%. In spite of all of the "temporary" rhetoric the Fed chair said that "inflation could turn out to be higher and more persistent than we expect". Powell also confirmed that a discussion about scaling back bond

purchases had begun, though commitment to buying bonds at the current \$120bn monthly pace remained.

China reported key data pointing to activity holding up, though being well past its peak. Fixed asset investments, industrial production and retail sales undershot expectations. The authorities will have to rely on internal demand now that the most impulsive phase of global growth is behind us. In a bid to support domestic activity and shield it from rising materials costs, a campaign to rein in commodity prices was stepped up, with state-owned enterprises ordered to curb their overseas commodity exposures. Also, national stockpiles of metals will soon be released. Investors are watching closely and basic materials stocks went into a tailspin across the globe. Goldman Sachs is less convinced about the efficacy of these measures, as China, though a massive buyer, is no longer dictating prices.

The euro area economy is definitely picking up and consensus growth forecasts are being revised higher following improving activity data and given heightened expectations about the roll out of a hefty fiscal package from Brussels this summer. The so called Recovery Fund is going to subsidise the weakest countries, that is mainly Southern Europe, possibly spurring reforms and long held-back investments key to boosting the business cycle. The ECB is doing its part as much as it can, extending bank-capital relief by 9 months. This will put banks in a position to keep the flow of credit going, via loans which account for the bulk of corporate funding in Europe. So much fuel to the fire is pretty unprecedented in the common area. Everybody is wondering whether this time the fire will keep on burning for long.

The Biden-Putin summit saw no major breakthrough, although the restart of a dialogue is in itself an element of novelty. No material progress was achieved on issues at stake, but relations were somewhat normalised with the return of ambassadors to their posts. A not so subtle change of tone took place as well, with Putin being characterised as a 'worthy adversary', rather than a 'killer'.

Stay safe.

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