



## CIO OFFICE MORNING MARKET WRAP – 19<sup>th</sup> April, 2022.

Yesterday saw Asian markets i.e. mainland China, Japan and India equities traded down and moving West (European markets were closed), US equities were flat after having fallen 3% in April month to date. UAE equities too traded flat but retain their YTD gains of +20%. This morning Hong Kong which has opened after the Easter holiday has equities trading down 3% as concerns around China tech listings and China regulatory concerns resurface. Gold which was trading at a 5 week high yesterday is slightly lower at \$1976. Brent oil prices hit \$115/barrel yesterday adding to already worrisome inflation pressure. Energy stocks led the S&P 500 higher after U.S. natural gas prices reached the highest level in 13 years as Russia's war on Ukraine leads to a supply demand mismatch and as forecasts predict cooler spring temperatures. For the year, U.S. natural gas prices are up 108%, adding to inflationary concerns. The move is more extreme in Europe, where natural gas futures have risen to record levels as the move away from dependence on Russian energy gains traction. The U.S. is currently sending large amounts of liquefied natural gas to Europe.

The 10 year yield made a new 52-wk high, trading at 2.884% at one point yesterday, a reaction to increased inflation pressure and worsening supply chain issues in China. Given the roster of Fed speakers this week, this may reflect some nervousness for an increasingly hawkish Fed. Markets are currently all about bond yields rising and talk of where inflation is going to peak? What is the impact on growth? Hence Q1 earning guidance is important. The World Bank cut its 2022 outlook citing Russia's invasion of Ukraine. Global growth will slow to an

estimated 3.2% from a January estimate of 4.1%, with Europe and Central Asia leading the downgrade. Fed speak is also important for market direction. James Bullard the St. Louis Fed chief reiterated that the Fed should get rates to around 3.5% by year-end, starting with at least 50 bps next month. Asked about the possibility of a 75 bps move, said he wouldn't rule it out, though more than 50 bps "is not my base case at this point." Prices are far too high for comfort, and the FOMC has to get to neutral "very soon." The USD is stronger and Yen weaker on interest rate differential. Asian economies are also feeling the impact of inflation and a rate tightening cycle, though lower than the West despite a higher energy import bill. Consumers are shifting buying from consumer goods to services and services inflation is the latest nail in the inflation rhetoric with restaurants and travel seeing an 8 to 20% respectively in increase in prices from pre pandemic levels.

A rise in the cost of jet fuel has seen airfares rise, likely to go higher. Jet fuel prices have settled since the Ukrainian invasion but remain volatile. In New York, the cost of the fuel rose 4X to over \$7.50 a gallon though falling back in recent days. According to the New York Times, "Supply is broadly constrained and prices have spiked across the country. The Energy Department this week said that the inventory level for East Coast jet fuel stood at 6.5 mn barrels, the lowest since the agency began keeping track in 1990." Airlines have been able to pass on some of their added fuel expense to consumers. This also has implications for the already high costs of global shipping. On Wednesday, Amazon said they would impose its first "fuel and inflation surcharge" for sellers whose goods it stores and delivers.

Bank of America the last of the big US banks to report, in line with the other US banks had lower earnings in the last quarter than the year before. Today we see Netflix, J&J, Prologis, L'Oréal and IBM report. Twitter's trending, again as Apollo is reportedly considering backing a deal for the social media platform.

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