



## **CIO OFFICE MORNING MARKET WRAP – Thursday January 20, 2022. ALSO AVAILABLE ON ALEXA**

Global stocks from developed markets fell by an average -0.4% on Wednesday. The Japanese Nikkei was down -2.8%, with Sony shares tumbling on the Microsoft/Activision deal, while the US closed down -1% after a very hesitant session all day long. This happened despite upbeat quarterly earnings from several blue chips, including Procter & Gamble, Morgan Stanley and United Health. Interest rates made a pause in their meteoric rise, with the US 10-year Treasury yield shedding a modest -1 basis point to 1.86%. There was no change in the direction of oil prices: the barrel of Brent crude oil traded for \$88.4, up +1.1%. Against many odds, and some logic as well, gold was up +1% to \$1841. Interestingly, yesterday, for the first time in 5 years, the yield on the 10-year German bund turned positive – at +0.001% we are not back to the Weimar hyperinflation regime. Negative interest rates are a financial monstrosity born from the age of magic money, but they are probably not coming to an end given the levels of public debt.

The US administration was speaking yesterday. Joe Biden confirmed his support to the Fed's independence – which theoretically should not need to be said – and to their current recalibration of monetary support to fight increasing price pressures. It's interesting to note that Biden's approval ratings are tumbling as consumer prices are rising. As often in times of leaders' unpopularity, external enemies are a topic. The US President warned about a possible full-scale invasion of Ukraine by Russia, which he thinks is probable, and said there would be severe economic consequences. There will be a meeting between the US and Russia's foreign ministers on Friday. Janet Yellen was also speaking, and said she was confident in the ability of the US recovery to resist the omicron variant. Finally, an antitrust legislation is being prepared in Washington and it should include popular apps from Chinese internet giants – WeChat and TikTok. Biden also said that he sees no reason to ease the current tariffs on China -put in place by Mr Trump. By contrast, the relations between the UAE and Turkey keep on improving, with the central banks of the two countries agreeing to a \$4.7bn currency swap, a welcome addition to Turkish reserves. Meanwhile, President Erdogan indicated a probable pause in the current cycle of interest-rate cuts in the country – this sounds reasonable, in a context of tumbling lira and skyrocketing inflation.

Moving on to Asia, the negative US close doesn't seem to impress markets too much this morning. Most of stock indices are steady, led by Hong-Kong, up +2% as we write, and followed by China's onshore exchanges adding +1%. The reason is that banks from the country have followed the latest move from the central bank and lowered borrowing costs, which provides a welcome support to the economy and to the indebted property sector in particular. The Nikkei gains +0.5% and Korea is up +0.5%. US Treasuries are also sought after in Tokyo trading, with the US 10-year at 1.85%, while the future contract on the Brent crude oil is marginally down at \$88.2. Major cryptocurrencies show signs of stabilization after their tough start to the year, around \$42.000 for bitcoin and \$3.100 for ether.

So it looks like we're having a pause in the current volatility episode, just a week before the next FOMC meeting gives more color on the most important market driver of the moment. In the meantime, the earnings season will continue and accelerate. We will also get today inflation numbers for the Euro area and the always interesting EIA US oil inventory report. Stay safe.

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