



CIO OFFICE MORNING MARKET WRAP – 20th May, 2022.

The negative orientation of markets moderated on Thursday, with global stocks retreating -0.6% on average, as US indices recovered from their session low to close at -0.4%. Interest rates ended lower, with both the 5 and 10-year Treasury yield shedding -5 basis points to close at 2.84%. Oil prices gained, with the barrel of Brent adding +2% to \$111.3. The trade weighted dollar moved significantly lower, down -0.5%. Lower rates and stronger dollar supported gold, up +1.4%, while major cryptocurrencies closed above their respective round levels of \$30,000 for bitcoin and \$2,000 for ether.

In the news today, the US Senate approved a \$40bn aid package for Ukraine, and a senior Kremlin official said that Russia aims at taking all the Eastern regions of Donetsk and Luhansk. Russian news agency Interfax also reported that Russian and US military officers directly discussed the situation for the first time since the invasion started. On the economic front, both US home sales and jobless claims came out slightly weaker than forecast. In China, a key reference rate for home mortgages, the five-year loan prime rate, was lowered from 4.6% to 4.45%, which should help to reduce borrowing costs and hopefully support demand amid a slump in prices and Covid lockdowns.

This surprise move confirms that authorities are actively seeking effective ways to support real estate and the economy, and helps raising market's battered sentiment. As we write this morning, Asian markets are well oriented. Stocks are up by almost +2% in Hong-Kong and +1.4% in Chinese domestic markets. The Nikkei gains +1% despite a firmer yen, Korea is up +1.7% and Australia also gains slightly less than +1% ahead of tomorrow's federal elections, even if the risk of a hung parliament is probably significant. Interest rates are stable in Tokyo trading, and oil prices are marginally lower. Future contracts on Western stock markets are in the green, between +0.6% for the US and +1% for the Eurozone.

It is interesting to see that positioning and investors' sentiment are in very pessimistic territory. This doesn't change the big picture of high uncertainty and extreme volatility ahead, but it opens the possibility of spontaneous short-term rebounds, triggered by minor news or rebalancing flows. These moves are very difficult to capture due. The trend should remain erratic until we get better visibility on the inflation trajectory as a guide for the Fed's action trajectory. Today we will look at retail sales in the UK and at consumer confidence in the Euro-area.

Stay safe.

Chief Investment Office
Wealth Management,
Emirates NBD.

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