



## CIO OFFICE MORNING MARKET WRAP – Tuesday November 23, 2021. ALSO AVAILABLE ON ALEXA

Monday was negative across global markets. Global stocks fell -0.5% on average in both developed and emerging regions. Our local markets were no exception, with the DFM index in particular seeing profit taking after its recent run, down -2.6% yesterday. Interest rates were firmer, with a “bear flattening” pattern; the 5-year Treasury yield added 10 basis points to 1.32%, the 10-year increased 8 basis points to 1.62%, getting closer to our 1.75% year-end fair value, and the 30-year gained 5 basis points to 1.96%, approaching the 2% mark again. By contrast, the price of Brent crude oil stopped its losing streak, adding +0.9% to close just below \$79.6. The OPEC+ confirmed their firm stance: the group could reconsider its scheduled production increases if releases of strategic reserves from the US, Japan and others are implemented. The trade-weighted US dollar moved up by a significant +0.3%, in sympathy with higher yields of

course. Interestingly, a firmer US dollar is a subtle way for the US to deal with their inflation issue by lowering the price of imports.

One of the reasons behind the jump in interest rates was probably the confirmation of Jerome Powell as the Fed chair for a second 4-year term, which is seen as increasing the probability of tightening. The continuity shouldn't come as a surprise, but some hedges were probably in place against a change which would have been perceived as more dovish. Our humble opinion is that Mr Powell is an outstanding leader for the institution: he has proven his ability to resist political pressure when it was right, to act decisively when it was needed, and has dramatically improved the level of communication between the Fed and markets. As we wrote many times, the massive asset purchases are not justified anymore but we are not certain that rate hikes will follow as quickly as the market anticipates. Mrs Brainard was elevated to the vice-chair position, and she is probably the next in-line – even if nobody knows what will happen in 4 years. Both should be confirmed by the Senate. Staying with central banks, one ECB governing council member reiterated that the bank is “serious” about ending its emergency bond-buying program in March. Given the levels of public debt and the state of fiscal deficits in the euro area, we would however be surprised not to see another program keeping the tap open. The French official also said, in an interview with German newspaper Boersen-Zeitung, that high vaccination rates were providing a clear economic advantage to the continent. Timing is everything: also yesterday, Austria started a full national lockdown, Germany said more restrictions may be coming, and French Prime Minister Castex tested positive. It is however worth noting that Austria and Germany have lower vaccination rates than other large countries of the Eurozone like Spain, France or Italy.

Moving to Asia, China announced retaliation measures against businesses and individuals supporting Taiwan independence, especially those donating to political parties. Meanwhile, another property developer is making headlines: China Aoyuan group defaulted on 66mn Yuan of trust loan -a wealth management product- adding to the troubles of the sector. We say it again: debt from China's real estate sector is not where you should invest or even speculate.

The morning session is unsurprisingly mixed in Asia as we write, but not dramatically. Stocks are down from -1% in Hong-Kong, where real estate troubles combine with rumors of more regulatory pressure on tech companies, to -0.5% in Korea and India. Japan is flat, supported as always by a stronger US dollar, and China's onshore markets are slightly in the green. Interest rates are steady, keeping yesterday's levels. Future contracts on Western stock markets are slightly down, and so are oil prices. Gold holds the \$1800 level, and crypto assets are regaining some colors after the sharp drop of the recent days. Bitcoin is just below \$57000 and ether at \$4173.

Today we will look at flash PMI data for the Eurozone and the US, before reading the FOMC minutes tomorrow. Stay safe.

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