



CIO OFFICE MORNING MARKET WRAP – 24th March, 2022. ALSO AVAILABLE ON ALEXA.

The recent pattern of bond sell-off and equity rally made a pause Wednesday. Interest rates were lower on all maturities: -7 basis points for the 2-year Treasury yield to 2.09%, -9 basis points for the 5-year to 2.31%, and -9 basis points for the 10-year which closed at 2.29%. Global stocks fell -0.3% on average in developed markets, with the US underperforming at -1.3% for the day. Equity indices from emerging markets were unchanged on average. Meanwhile, and taking a different direction, the price of Brent crude oil kept on rallying, adding another 5.3% to \$121.6. The main reason is to be found in Biden's visit to Europe with a clear push to slash Europe's dependence on Russian energy.

This is of course a consequence of the invasion, but it's difficult not to think that it is also not bad business for the US, which sees an opportunity to become a key supplier of natural gas and hydrogen to Europe. This is an explicit goal for the US for years, and one could point out with a bit of irony that the US shale oil and gas industry is a big winner of the situation, under a president who was elected with an anti fossil fuel agenda. A formal supply agreement between US and Europe is being discussed and could come to a conclusion as soon as Friday. Joe Biden is in Brussels today for a series of meetings with G-7 and European leaders as well as for a NATO summit. The war shows no sign of abating, and the economic war follows, with probably more sanctions to come from the US. On the financial front, an interest payment is

blocked from Russian steelmaker Severstal. The reason is not that the issuer is not willing to pay: the money is with Citigroup with instructions to pay creditors, but the US bank didn't remit as they asked the company to receive a permission from the US Treasury. The steelmaker is not on the list of sanctioned companies, but its controlling shareholder is. Still, it's a weird situation, to say the least. Other complex diplomatic intricacies lead to the Biden administration considering waiving some Trump-era tariffs on Chinese goods, after Biden announced the same for some UK exports earlier this week.

With regards to economic data and staying in the UK, the February CPI came out and confirmed a rise in inflation to +6.2% year-on-year for the headline, and maybe more worryingly +5.2% for the core index which excludes food and energy prices. It is broad-based. The same gauge for Singapore was more contained with respective year-on-year progressions of +4.3% for the headline and +2.2% for the core, with no acceleration in February. Another interesting release was the flash Euro area consumer sentiment, the first one since the invasion began. The index collapsed by -10 points, which, to put some context, is only half a point shy of the largest monthly drop ever recorded, in April 2020 due to covid. This doesn't bode well for the flash PMI which will be released later today. By contrast, March regional Fed activity surveys continue to show a clear resilience. US growth remains solid, which only confirms the Fed's hawkish intentions, and reinforces the perception that the hard stance on Russia from the US is way less costly for them than for Europe. San Francisco's Fed President Mary Daly said yesterday that both a half-point interest-rate hike and a decision to shrink the balance-sheet should be on the agenda of the next policy meeting in May.

Switching to Asia, markets are overall lower across asset classes. Treasury yields are on the rise again, with the US 10-year adding +4 basis points to 2.33, but equities do not benefit. Stocks are down -1% in Japan, -0.6% in Korea and onshore China and flat in Hong-Kong. Oil prices are steady, and future contracts on Western stock markets are heading modestly lower.

Today will provide Eurozone Markit PMIs as well as the usual US initial jobless claims and durable goods orders. The war and its consequences will retain all attention however, especially with the NATO emergency summit.

Stay safe.

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