



CIO OFFICE MORNING MARKET WRAP – Thursday 25th March 2021. ALSO AVAILABLE ON ALEXA.

Global markets are in a constant adjustment between two opposite forces: the short-term trajectory of the recovery is uncertain, with a resurgence in infections, while the medium-term recovery reignites fears on inflation and rates. As investors' positioning is still unanimously optimistic, this unstable equilibrium means volatility and vulnerability.

Oil prices perfectly illustrated this situation in the last two days. After their worse day in month on Tuesday, tumbling 6%, Brent crude oil jumped +5.5% yesterday, closing just above \$64. The trigger was a sharp rise in US domestic gasoline consumption and a subsequent boost in demand for crude from refiners. The risk of some supply disruption from the Suez canal being blocked by a container vessel in distress was also a supporting factor. At the same time, Markit flash PMI indices for March, which are leading indicators of economic activity, were stronger than expected in Europe in both manufacturing at 62.4 and in services at 48.8. In other words, manufacturing activity is up and accelerating while services, the most hit by containment measures, are declining less than expected. The same measures in the US, at respectively 59 and 60, showed an improvement compared to February but were slightly lower than the median forecast.

This backdrop could have triggered another rise in interest rates, but it didn't happen: the US Treasury auction for 5-year maturity received significant bids, calming down fears of drying demand. As a result, interest rates were steady and even very marginally lower, with the 10-year yield losing 1 basis point to 1.61%. Equity markets were in the red overall, losing 0.7% on average, but despite the absence of increase in rates, the cyclical rotation was significant: sector wise, energy and materials were up while the Nasdaq lost 2%. The trade-weighted dollar kept on rising, adding 0.2% on average.

Elsewhere in the news, efforts to unblock the Suez Canal will resume today, and according to some experts, the situation looks complicated and may result in a prolonged paralysis until the end of the week. The relations between US and China don't seem to improve in the early months of the Biden administration: the SEC took initial steps to implement a law which could kick off Chinese stocks from US exchanges if they don't accept some additional surveillance from US regulators. Outperforming China is an explicit goal for the US administration on every front, from the economy and soft power to military. On another topic, Argentina said that they can't repay their \$45bn debt with the IMF as they consider the terms "unacceptable", which triggered a widening in sovereign credit default swaps.

As we write this morning, Asian markets are mixed. Equity markets are up in Japan, with a weaker Yen, but close to flat elsewhere, including future contracts on Western indices. Oil futures are down, giving back -1.5% after their sharp rally. Interest rates are slightly higher and gold holds the \$1730 mark. Today we will watch the US Treasury auction on 7-year maturity. We will also get consumer and business confidence indications in Europe, listen to speeches from ECB officials and have a look at the final Q4 GDP growth number in the US. We will get US personal income and spending data tomorrow.

Stay safe.

MAURICE GRAVIER
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