



## **CIO OFFICE MORNING MARKET WRAP – 25th March, 2022. ALSO AVAILABLE ON ALEXA.**

Global stocks from developed markets were unchanged on average this Thursday due to a positive end to the US session, closing +1.4% higher. Emerging market equities were down -0.9% on average. Interest rates fluctuated a lot but closed overall higher, with the 5-year Treasury yield adding +8 basis points to 2.40% and the 10-year increasing +8 basis points to 2.37%. Energy consolidated: the price of Brent crude oil fell by -3.1% to close just below \$118, as Joe Biden so far failed to convince Europeans to drastically cut imports of Russian crude. Most currencies were stable except for the yen which kept on logically weakening with a widening rates differential.

Flash PMI indicators were released for several developed regions yesterday, and they were overall reinsuring on the current state of the economy. With Omicron definitely fading, gains were significant in the US and in Japan: in both countries, flash PMI are better than in February. The absolute level of the US composite index, combining manufacturing and services, is impressive at 58.5. This compares to a median forecast of 54.7 and a previous level of 55.9. In Europe, the same measure came out at 54.5 which is lower than the prior 55.5 but still better than the consensus expectation of 53.8 and firmly in expansion territory. So far, the tailwind from the receding virus is stronger than the headwind from the war in Ukraine. However, devil is in the details: future output components are deteriorating and signs of

increased bottlenecks in the supply chain are visible. It's also good to keep in mind that the impact of the tightening of financial conditions has factually not started, with only a modest rate hike to far.

Nevertheless, the rise in DM PMI is good news, while in parallel, Omicron cases seem to be decelerating, if not falling, in most Asian economies. The situation would be perfect without the war and the risks it poses to the outlook: the risk of escalation with dangerous rhetoric from all sides, and the risk of policy miscalculation from central banks having to deal with higher and highly unpopular inflation on one hand, and slowing growth on the other. So far, Biden's European tour did not produce the additional train of sanctions he was hoping for – European leaders know that their countries pay a huge price for them, while the US could in balance get benefits, especially by replacing the cheap Russian natural gas by their own LNG on the European market. Discussions are however still ongoing on that front, with both Canada and the US ready to boost their exports. The NATO summit simply issued a warning for Russia against using biological, chemical or nuclear weapons in Ukraine. Meanwhile, EU leaders reject Moscow's request to receive payments for energy in rubles, which is also not really surprising, even if they may also understand that as Russia's foreign reserves in dollar and euros are blocked, the request doesn't sound outrageous. So far Moscow has honored all contractual deliveries, and closing the tap would be the economic nuclear option. Bottom-line, the situation remains extremely tense, a recipe for volatility, and we can only hope that negotiations progress between Ukraine and Russia to find a cease-fire agreement.

As we write, stocks are in the red in Asia with another drop in Chinese technology shares. Hong-Kong is down by almost -2%, followed by China's onshore markets -1% lower, while Korea and Japan show marginal losses. Bonds are modestly up with more flattening: yields are slightly up on the shorter-end up to 2-year, and slightly down on longer maturities. Tokyo CPI was just released for March, and the year-on-year progression is only +1.3% - which is quite high for Japan but very reasonable in absolute, comforting the central bank in their steadiness. Oil prices are fluctuating close to yesterday's levels.

Today we will have a look at Germany's IFO survey which could reflect concerns from businesses about energy security, as well as UK retail sales for February. Next week should also be relatively quiet in terms of economic data, before the avalanche of monthly leading indicators and the US job report in early April. All eyes will remain on the crisis in Ukraine, obviously.

Stay safe.

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