



CIO OFFICE MORNING MARKET WRAP – Tuesday 30th March 2021. ALSO AVAILABLE ON ALEXA.

Here we go again. The unwinding of excessive leverage taken by a large family office, Archegos Capital Management, reverberated across markets raising uncertainty. Although at a systemic level the last brief recession caused by an exogenous factor, a pandemic, saw little in terms of imbalances in the financial sector, at a micro level excessive risk taking on financial markets can still be relevant for the whole system. US and European stocks closed mixed, as investors assessed the impact of large block trades forced by margin calls on transactions gone sour made by Archegos Capital.

Today in early morning trading Asian stocks are fluctuating, as further fallout from those trades is trumping other newsflow. The family office took overly-leveraged bets on single stocks through derivatives, like contracts for difference or swaps, avoiding regulatory scrutiny, not having to report the oversized positions as it would have been the case otherwise via cash holdings. While banks still favor for-them-highly-profitable over-the-counter derivatives like CFDs, the possibility that few transactions made by individuals can become potentially destabilising at a systemic level is disconcerting and deserves more regulatory attention. So far there seems to be no sign of contagion in markets, although some of the banks involved in the trades incurred huge losses.

The US dollar continues to edge higher supported by rising Treasury yields, a reflection of US exceptionalism, or America leading other nations in the recovery now that China has passed the baton and is managing a slowdown phase. The yield on the 10-year Treasury note yesterday closed at 1.71%, 4bps away from the highs of the year. Central banks should be tolerant of higher yields, as long as they stem from stronger growth in turn feeding price pressures, as so far has been the case. Gold is not benefitting from the current backdrop and the best investors can do is to pick a bottom in the yellow metal once yields have topped out, which we conjecture could happen in the next few months. Crude oil has lost momentum following the 26% year-to-date rally and for market direction traders will be looking to the next OPEC+ meeting to be held on Thursday, setting production targets for May and possibly beyond.

Abu Dhabi has taken the bold initiative of creating a new oil benchmark, by launching futures tied to Murban crude, sold and shipped from Fujairah. Supply is expected to rival that of Brent and WTI markets. The aim is “to make sure that Murban is a globally freely traded commodity and allows everybody around the world to use it either for pricing or hedging”, said the executive director of supply and trading at ADNOC. The new benchmark will face some inevitable tests, as it will take some time before sufficient volume is traded for prices to be deemed fair and a forward curve is created. ADNOC has committed to guaranteeing 1 million barrels of daily exports to support trading on the exchange, with production capacity reaching up to 2 million daily. Dubai oil and Omani crude are currently already working as regional benchmarks for shipments to Asia.

Stay safe.

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