



CIO OFFICE MORNING MARKET WRAP – May 31st, 2021. ALSO AVAILABLE ON ALEXA.

This morning Asian equities are trading down after strong returns of 2.5% last week, having outperformed global equities which were up 1.4%. UAE indices traded down minorly yesterday, post strong gains last week. Major equity indices all posted weekly gains with the US and European indices trading close to record levels. China markets had one of the best weeks in the last 3 months. This morning an official PMI gauge in China while in expansion territory at 51 for May, showed input costs at highest in a decade. Attention on strength in the offshore yuan, which hit a three-year high versus the dollar. Strength put down to capital inflows. The PBOC has since reaffirmed a stable yuan policy. India GDP numbers out today and India equities in spite of the slowdown on account of severe lockdowns have doubled since their March lows. Gold is up this morning at \$1907. The 10 year US Treasury yield is steady at 1.59% with US and UK markets closed.

Brent futures up slightly at \$69/ barrel, following an up week for oil. A relatively quiet day, with many U.S. and U.K. traders offline, but a busy week as OPEC+ ministers meet Tuesday. They should endorse July's planned supply hike. There will also be data from the U.S. after the summer driving season began with the Memorial Day weekend. Figures from the airports suggest a strong revival with close to 2 million passengers a day and stockpile data on Thursday, may show further drawdowns.

No change in the broader market narrative. Focus remains on timing of Fed tapering and plans for ECB's emergency QE program. Increased likelihood of Fed beginning to discuss plans in upcoming meetings. Tapering has mixed impact for risk sentiment as it plays into concerns about peak policy support but dampens worries about inflation concerns. A survey of economists now expect ECB to leave QE pace unchanged through summer. Bank of Japan's Governor Kuroda said they will continue with powerful easing.

The Senate delayed a vote Friday on legislation aimed at helping the US maintain its lead in technology with debate continuing over the \$250 billion Innovation and Competition Act. The Bill aims to boost US competitiveness vs China by investing \$190 billion into strengthening US advanced technologies and provide \$52 billion to help the domestic semiconductor industry. The Bill also includes a ban on downloading the Chinese-owned TikTok app onto government phones.

Extreme volatility in the \$1.5 trillion cryptocurrency market this year has led to increased interest from US regulators with the first meeting of an inter-agency crypto "sprint" team, from the three leading federal bank regulators. Bitcoin reached a record high of more than \$60,000 in April but fell after Chinese regulators curbed crypto transactions including bitcoin mining, while Elon Musk reversed a move to allow bitcoin payments for Tesla cars, citing environmental concerns on the high energy use in mining bitcoin. Japan's Kuroda has also warned on the currency's volatility and speculative trading. Other cryptocurrencies have experienced similar volatility. We don't advise on cryptos but extreme volatility raises concerns on a liquidity squeeze for leveraged retail investors.

Key data highlights include big jump in Eurozone economic confidence; Final French Q1 GDP revised lower; big miss in French consumer spending in April; and inflation met expectations. UK Lloyds business barometer hit a five-year high. Tokyo core CPI fell in-line with consensus. Japan unemployment rate was up more than expected. On the virus front UK government cautious on final lifting of measures in June amid Indian variant. Other events to watch today include Japan Industrial Production and retail sales, Germany CPI. End of the week sees important data on US jobs.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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