



CIO OFFICE MORNING MARKET WRAP – 31st May, 2022.

Global markets were relatively quiet this Monday as US markets were closed for a holiday. Global stocks added +0.4% in developed markets and an impressive +2.1% in emerging ones. It was led by Asia, but GCC outperformed with +3%. US Treasuries didn't trade. The price of Brent crude oil gained 1.8% to \$121.6, and major crypto assets sharply rallied.

In the news, inflation for April was close to record high and above expectations in both Germany and Spain, pushing bonds lower. The German 10-year Bund yield, which was negative for years, is now at 1.05%, up +10 basis points yesterday. Inflation in Europe is materially linked to the war in Ukraine and to the sanctions against Russia, and to that extent, European leaders have reached an agreement on a partial ban on oil imports – partial, because it only applies to crude and refined products delivered by sea, while pipeline deliveries are not in scope, a clause designed for Hungary. In terms of economic data, the impact of the zero-COVID policy on China's economy is palpable in their just released May PMI indices. Both the manufacturing and the non-manufacturing gauges are in contraction territory at respectively 49.6 and 47.8. It is however worth noting that they are both slightly better than the median forecast from the consensus of economists – and of course, the recent inflexion in COVID cases and responses gives some hope. Retail sales in Japan for April were strong and jobless rate there, also released earlier today, is at a rock bottom 2.5%.

As we write this morning, US Treasury trading has resumed in Tokyo after the long-weekend and it's not pretty with the 10-Year yield adding +10 basis points to 2.84%. It affects all the curve, as yields on the 2-year note are up +8 basis points to 2.56%. Stock indices from Japan, Hong-Kong, and Korea are flat to modestly up, between +0.1% and +0.2%, while China's onshore markets gain 1%. This is quite positive given yesterday's rally, and the fact that future contracts on Western stock markets are not buoyant, indeed flat to slightly negative. Oil prices are pushed higher by the imminent new package of sanctions from Europe: the Brent is up 0.8%, approaching \$123. Major cryptocurrencies keep on rallying: bitcoin is at \$31600 and ether is almost at \$2000.

Today we will look at inflation numbers from the Eurozone and look at how US markets open after both a very positive week and a 3-day weekend. Tomorrow will importantly provide the US ISM Manufacturing index.

Stay safe.

Chief Investment Office
Wealth Management,
Emirates NBD.

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