



## **CIO OFFICE MORNING MARKET WRAP – 31st August, 2021. ALSO AVAILABLE ON ALEXA.**

Monday gave a good start to the international markets' week. Global stocks added 0.3% on average across regions. Bonds continued to be supported after the dovish statement from the Fed chairman: the 10-year Treasury yield lost another 3 basis points to close at 1.28%. As a result, the dollar was slightly weaker against major counterparts, and the price of Brent crude oil moved up 1% to \$73.4.

The current week is all about monthly macroeconomic indicators for July. It just started earlier this morning with leading indicators in China. Numbers are not great. The manufacturing PMI is only marginally above the extension threshold at 50.1, and more importantly, the non-manufacturing PMI is below, at 47.5 which compares to a median forecast of 52 from the consensus of economists. This is the first contraction since March 2020, and a sign that China hasn't been immune to the consequences of the current wave of delta variant. If anything, this weakness should only heighten the probability of more monetary and fiscal stimulus in China to support activity. Alas, at the same time, the regulatory crackdown continues to weigh on markets, dissuading international flows. Their latest move target the asset management industry: some private equity funds in particular are said to be "fake", making "disguised" public

offerings, and practices of some money managers are also under focus. To be honest, it's not a bad idea to have more scrutiny on the "shadow banking" sector in China, where bad apples undoubtedly exist and do damage to investors and retail. However, in terms of market perception, it looks like the series of coercive initiatives from the regulators is endless, and delivered day after day, torturing international investors' nerves. Another striking example has been the issuance of a regulation yesterday aiming at limiting video games for minors. To fight "youth video game addiction", the National Press and Publication Administration has ordered online gaming companies to restrict their services to one hour per day, at a given time, only on weekends and holidays. Again, in terms of perception, it's difficult not to see this as a direct move against Tencent, a dominant player in online gaming and a heavy weight in terms of market capitalization. The pressure will remain significant on Chinese markets, which means on emerging markets – having said that, their valuation discount to developed regions is increasing and approaching records. The catalysts for performance in 2021, as we repeat quite often, are "magic money" and vaccinations, and to that extent developed regions are incomparably more exposed. Having said that, once the post pandemic rebound reaches its peak, which is probably not far, secular growth drivers are in emerging regions, and there isn't a single doubt that this is where the value for the long-term is.

So as we write this morning, no surprise that stocks in China are down while the rest of Asia is in a good mood. India outperforms, up more than 1%, helped by the curb in infection numbers. Korea and Japan are marginally gaining as well, while both Hong Kong and China's onshore indices are down by -1.5%. Interest rates are stable this morning, and a little bit of profit taking is seen on Oil future contracts, after a steep rally and one day before the OPEC+ meeting. It is too early to say how long it will take to have the US production and refinery capacities back online after the hurricane Ida. More than a million homes and businesses are without power but Ida is losing strength, now rated as a tropical storm.

Elsewhere in the news, the US confirmed that its military forces finished departing from Afghanistan – after 20 years of presence and conflict. Zoom shares fell -11% post market after releasing a disappointing sales forecast – it's a bit surprising to see that many smart and well paid analysts were expecting Zoom revenues to accelerate at a time when people go back to work from office, but that's how it is.

The week will be all about macroeconomic data. Eurozone PMI and the US ISM manufacturing will be released tomorrow, and the monthly US job report together with the ISM Services on Friday.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD

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