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Markets Snap**SH**ot

08th August 2022

Market Overview

Citing Russia's invasion of Ukraine, the Bank of England (BoE) raised its policy rate by 50-bps to 1.75% last week. BoE also forecasted a recession for the next six quarters beginning Q4 2022. BoE warned headline inflation to rise above 13% at the end of 2022 before declining only in 2023 (currently UK CPI is inching close to 10%). Bank Governor Andrew Bailey has predicted that the UK economy is on course to a period of stagflation – a recessionary environment combined with soaring prices and reduced standard of living. The UK economy is facing “a perfect storm” of challenges: surging commodity prices, a weakening pound sterling and labor shortages due to Brexit – all forebearers of trouble ahead. The BoE seems committed to bring inflation under control and weaken demand enough to lower prices, even if it entails a recession. It is not too far-fetched to expect a gilt inversion very soon.

On a macro-level, there is a worry that after underestimating inflation, Central Banks may be making a second diagnostic error by refuting the effects of their monetary tightening policies on inducing a recession. Employment is a lagging indicator of the business cycle and it would take a few quarters before the effect of the interest rate hikes are felt by businesses and households. US inflation is gradually reaching a peak and the next rate hikes are already priced in. Any signs of worsening macro-economic indicators could cause the Fed to ease their schedule of rate hikes and could translate to market gains – a bad news could actually be good news situation. Equities remained resilient last week on a relatively good Q2 earning season. European equities were buoyed by a weaker Euro. However, the outlook for the coming quarter will not be so sunny- while Southern Europe may see some revival of tourism, Germany might already be in recession. Bank J. Safra Sarasin notes that consumer confidence in Europe is lower than the Covid lockdown period. Germany will be hit harder than other countries as the heatwave has led to lower water levels in the Rhine disrupting supply chain. Gas inventories are also lower and rationing gas in the winter remains a serious risk.

| Equities | | | | |
|------------------------------|-------------------|----------------|---------------|----------------|
| | Last Price | 5-D (%) | 1M (%) | YTD (%) |
| Americas | | | | |
| S&P 500 Index | 4,145 | 0.36% | 6.30% | -13.03% |
| NASDAQ Composite Index | 12,657 | 2.15% | 8.79% | -19.10% |
| Dow Jones Industrial Average | 32,803 | -0.13% | 4.68% | -9.73% |
| Europe | | | | |
| Euro Stoxx 50 | 3,725 | 0.47% | 6.24% | -10.76% |
| FTSE 100 Index | 7,439 | 0.22% | 3.38% | 0.75% |
| CAC 40 Index | 6,472 | 0.37% | 7.28% | -9.52% |
| DAX Index | 13,573 | 0.67% | 4.29% | -14.55% |
| Swiss Market Index | 11,123 | -0.20% | 0.98% | -13.61% |
| FTSE MIB | 22,586 | 0.81% | 3.73% | -17.41% |
| Asia Pacific Indices | | | | |
| Nikkei 225 | 28,261 | 0.96% | 5.40% | -1.84% |
| Hang Seng Index | 19,965 | -0.99% | -5.49% | -14.67% |
| CSI 300 Index | 4,136 | -1.25% | -5.01% | -16.27% |
| KOSPI Index | 2,489 | 1.53% | 6.39% | -16.38% |
| S&P/ ASX 200 | 7,256 | 0.60% | 6.83% | -6.72% |
| Nifty 50 | 17,397 | 0.33% | 7.29% | 0.25% |

Source: MarketWatch, Bloomberg

Commodities, FX and Bonds

The US dollar remains strong with the DXY dollar Index gaining around 10% year-to-date. While the overall environment remains favorable to the US dollar, the movement in relation to other G10 currencies does not reflect the recent moves in yield differentials particularly in the EURUSD pair. Bank J. Safra Sarasin expects temporary dollar weakness as the US dollar realigns to relatively lower global bond yields. Crude oil was lower on the back of weakening demand expectations. Wheat futures eased as Ukraine's first shipment of grains since being invaded by Russia was sign of relief for global markets. However, challenges remain as shipowners are not willing to send their vessels into harm's way and insurance costs raise supply chain issues to transport the millions of tons of food stuck in the country (Source: Bloomberg).

| Commodities | | | | |
|-----------------------------|------------|---------|---------|----------|
| | Last Price | 5-D (%) | 1M (%) | YTD (%) |
| Energy | | | | |
| WTI Crude Futures/ bbl | 89.62 | -4.70% | -13.30% | +18.88% |
| Brent Crude Futures/ bbl | 95.53 | -4.33% | -10.16% | +22.66% |
| Natural Gas Futures / MMBTU | 7.870 | -4.18% | +22.68% | +119.28% |
| Metals | | | | |
| Aluminium Futures/ MT | 2,421 | -1.79% | -1.71% | -5.52% |
| Copper Futures/ Lb | 7,889 | 1.94% | -1.01% | -16.65% |
| Nickel Active Futures/ MT | 22,470 | 3.29% | -1.66% | +16.67% |
| Gold Spot \$/Oz | 1,790 | 0.08% | +3.38% | -2.19% |
| Silver Spot \$/Oz | 19.91 | -2.07% | +4.54% | -14.73% |
| Agriculture | | | | |
| Cotton Futures / Lb | 96.90 | 0.23% | +1.23% | -13.98% |
| Corn Futures/ Bu | 609.25 | -0.33% | -2.87% | +2.78% |
| Soybean Futures/ Bu | 1,416 | 0.55% | +1.00% | +5.75% |
| Sugar Futures/ Lb | 17.94 | 2.16% | -5.83% | -4.63% |
| Wheat Generic Futures/ Bu | 776.75 | -2.85% | -9.18% | +0.84% |

Source: MarketWatch, Bloomberg

| Currencies | | | | |
|-----------------------|------------|-----------|----------|-----------|
| | Last Price | 5-D (%) | 1M (%) | YTD (%) |
| EUR / USD | 1.0183 | -0.78% | 1.39% | -10.46% |
| GBP / USD | 1.2078 | -1.41% | +1.56% | -10.72% |
| CHF / USD | 1.0399 | -1.23% | +2.28% | -4.06% |
| USD / JPY | 132.2150 | -3.27% | -2.24% | -5.13% |
| USD / CNY | 6.7626 | -0.09% | +0.66% | +6.40% |
| Fixed Income | | | | |
| | Last Price | 5-D (bps) | 1M (bps) | YTD (bps) |
| US 10 Year | 2.821% | +24.90 | -17.33 | +130.77 |
| Germany 10 Year | 0.918% | +14.13 | -33.07 | +109.53 |
| Italy 10 Year | 2.843% | -2.56 | -36.45 | +166.87 |
| Spain 10 Year | 2.024% | +16.23 | -29.65 | +145.45 |
| UK 10 Year | 2.053% | +19.16 | -18.40 | +108.20 |
| Japan 10 Year | 0.169% | -1.66 | -8.05 | +9.69 |
| US Treasury 3M Bill | 2.463% | +12.54 | +43.01 | +241.25 |
| US Generic Govt. 2Y | 3.206% | +33.83 | +11.55 | +247.56 |
| US Generic Govt. 30 Y | 3.060% | +14.01 | -12.11 | +115.20 |

Source: MarketWatch, Bloomberg

Economic Calendar

Aug 8, 2022

Euro Area: Sentix Investor Confidence

Previous: -26.40

Earnings Release: American International Group Inc., Barrick Gold Corp, TakeTwo Interactive Software, Tyson Foods Inc.

Aug 9, 2022

United States: NFIB Small Business Optimism

Previous: 89.5

United States: Unit Labor Costs QoQ

Forecast: 9.80% **Previous:** 12.60%

Australia: Westpac Consumer Confidence Index

Previous: 83.8

Earnings Release: Eagle Pharmaceuticals Inc., Plug Power Inc., QNB Corp, Ralph Luran, Roblox, Wynn Resorts

Aug 10, 2022

Japan: PPI YoY (JUL)

Forecast: 8.4% **Previous:** 9.2%

China: Inflation Rate YoY (JUL)

Forecast: 2.9% **Previous:** 2.5%

China: PPI YoY (JUL)

Forecast: 4.8% **Previous:** 6.1%

Germany: Inflation Rate YoY (JUL)

Forecast: 7.5% **Previous:** 7.6%

United States: MBA Mortgage Applications

Previous: 1.2%

United States: Core Inflation Rate YoY

Forecast: 6.1% **Previous:** 5.9%

United States: Inflation Rate YoY

Forecast: 8.7% **Previous:** 9.1%

Earnings Release: Vestas Wind Systems, thyssenkrupp AG

Source: Bloomberg Markets, Morning Star

Economic Calendar

Aug 11, 2022

United States: PPI Ex Food and Energy MoM
United States: PPI Ex Food and Energy YoY
United States: Initial Jobless Claims

Forecast: 0.40% **Previous:** 0.40%
Forecast: 8.20% **Previous:** 8.20%
Forecast: 263K **Previous:** 260K

Aug 12, 2022

United Kingdom: GDP YoY (JUN)
United Kingdom: Balance of Trade (JUN)
Euro Area: Industrial Production (YoY)
India: Inflation Rate YoY (JUL)
United States: Michigan Consumer Sentiment (AUG)

Forecast: 1.2% **Previous:** 3.5%
Forecast: -9.7bn GBP **Previous:** -9.7bn GBP
Forecast: 1.6% **Previous:** 1.4%
Forecast: 7.01% **Previous:** 7.01%
Forecast: 52.2 **Previous:** 51.5

Source: Bloomberg Markets, Morning Star

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