

MARKET RECAP WEEKLY

Aug 08, 2022



MARKET REVIEW

LESS GROWTH, INFLATION FOR LONGER

- ❖ The International Monetary Fund (IMF) revised considerably down its global growth forecasts for 2022 and 2023.
- ❖ There's going to be reduced demand and economic activity at the global level.
- ❖ Tightening in the US and other central banks is also leading to a major appreciation of the U.S. dollar against emerging market currencies.

The International Monetary Fund (IMF) revised considerably down its global growth forecasts for 2022 and 2023 due to higher-than-expected inflation, tighter financial conditions and the Ukraine crisis, warning that the balance of risks is "squarely to the downside". In the Summer World Economic Outlook (WEO), the IMF expects the world will face a dreaded stagflationary mix: considerably slower global growth, with higher inflation rates for an extended period.

According to the IMF's new forecast, the global economy will grow by 3.2% this year - 0.45% less than the April forecast. Next year, world output could fall to 2.9% (roughly the same as 2019). This is 0.7% lower than the IMF expected three months ago. Global inflation has been revised up due to food and energy prices and is expected to reach 6.6% in advanced economies and 9.5% in emerging markets and developing economies this year, with upward revisions of 0.9% and 0.8%, respectively, according to the WEO update. For the U.S., the IMF slashed growth expectations by 1.4% to 2.3% this year – and by a similar amount next year, which would bring growth to 1% in 2023. What appeared to be downside risks in April have now become reality, the IMF says, including negative spillover from Russia's invasion of Ukraine, higher inflation worldwide, tighter monetary policy, and a more pronounced economic slowdown in China.



Growth and inflation forecasts

	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2022 avg	2023 avg	2024 avg	2025 avg
	inflation (cpi) - % change y/y							
China	1,1	2,2	2,8	2,9	2,2	2,3	2,1	2,3
Euro Area	6,1	8,0	7,7	6,5	7,1	1,9	0,9	1,4
UK	6,2	9,1	9,5	11,1	9,0	5,9	0,1	0,7
Japan	0,9	2,5	2,5	2,5	2,1	0,7	-1,1	0,3
USA	8,0	8,4	8,5	7,3	8,0	3,2	1,8	2,0
World	6,6	8,1	8,3	7,7	7,7	4,2	2,6	2,8
	growth - % change y/y							
China	4,8	1,5	4,6	5,1	4,0	5,1	5,2	5,1
Euro Area	5,4	3,2	1,3	1,1	2,8	1,1	2,6	2,0
UK	8,7	2,7	2,0	0,9	3,6	0,8	2,4	2,4
Japan	0,7	1,1	1,3	3,2	3,1	2,0	1,2	1,6
USA	3,5	2,0	1,8	0,5	1,9	1,1	2,1	2,8
World	4,3	2,9	2,7	2,0	3,0	2,4	3,3	3,3

Global trade momentum



Going forward, tightening by major central banks is going to have a continued effect on the rest of the world, he noted.

First, **there's going to be reduced demand and economic activity at the global level**, which will weigh on countries that rely a lot on the export sector for growth.

Second, **the tightening in the US and other central banks is also leading to a major appreciation of the U.S. dollar against emerging market currencies, increasing inflationary pressures in these countries.**

Third, **there is a general tendency for investors to move away from emerging market economies and seek safe havens in a cycle like this by investing in U.S. treasuries or other safe assets**, Gourinchas said, noting that there has been "persistent" capital flows moving out of emerging markets in the last four or five months.

WEEKLY RECAP

EQUITY MARKETS

After last week's gains, the stock market ended the week with a mixed performance after the much higher-than-expected July jobs report. Nonetheless, equity markets are on their way to a two-month high, recovering from bear market lows, thanks to a good reporting season in the United States and Europe. Overall, companies reported better-than-expected results, with an improvement over the same period in 2021 and a confident outlook for the rest of the year; in the U.S., more than 70 percent of companies reported, 65 percent beat EPS with a 3 percent surprise, and 70 percent beat revenues; In Europe more than 65 percent of companies reported, with 65 percent beating EPS with a 7 percent positive surprise, and 85 percent beating revenues.

In Europe, the best performers were some cyclical sectors such as energy, materials, financials, and consumer discretionary, while utilities, health care, and communications disappointed. **On the macro front, investors continue to hope that the U.S. rate hike cycle is nearing an end (despite hawkish statements from Fed members and stronger-than-expected labor market data) and that signs of economic slowdown will not actually lead to a recession.** On the geopolitical front, however, tensions between the U.S. and China continued to create volatility in the market as China announced that it would break off cooperation with the U.S. in a number of areas following House of Representatives Speaker Nancy Pelosi's trip to Taiwan, including working-level talks on climate change and defense.

The Nasdaq 100 is set to close the week at **+3%**, followed by the S&P 500 **(+0.7%)** and Dow Jones flat. In Europe, EUROSTOXX at **+0.5%**, with the positive contribution of the Retail sector **(+4.6%)** with Zalando **(+19%)** top performer and also the Technology sector **(+3%)**, which also benefited from Infineon's solid results **(+7%)** with revenues up 33% y/y and operating profit up 11% y/y thanks to demand for automotive products. 7% y/y thanks to demand from the automotive industry, and revised full-year guidance upward; the worst performer is the Energy sector **(-3%)** led by Tenaris **(-10%)**, which announced record results for the quarter but the market does not seem willing to give credence to the sustainability of these results. The energy sector was also affected by the decline in oil prices: in the days when OPEC+ decided to increase September production by 100,000 barrels per day.



EQUITY MARKETS	LEVEL		Δ WEEK
MSCI World AC	2 752,06	▲	0,1%
S&P 500	4 145,19	▲	0,7%
NASDAQ Composite	12 657,55	▲	2,4%
SXSE	3 725,39	▲	0,5%
DAX	13 573,93	▲	0,7%
CAC 40	6 472,35	▲	0,6%
FTSEMIB	22 586,88	▲	0,7%
IBEX 35	8 168,00	▲	1,0%
FTSE 100	7 532,95	▲	0,5%
MSCI Emerging	1 002,87	▲	0,8%
CSI 300	4 148,08	▼	-0,7%

VOLATILITY	LEVEL		Δ WEEK
VIX (S&P 500)	21,15%	▼	-7,4%
V2X (SXSE)	22,85%	▼	-0,5%

Source : Bloomberg, as of 2022.08.08

WEEKLY RECAP

GOVERNMENT AND CORPORATE BOND MARKETS

US rates ended the week higher and the curve flattened. The moves were driven by the Fed's hawkish comments and new nonfarm payroll data, which raised expectations for further hikes. Already earlier in the week, yields rose across the curve after comments from Fed policymakers that reiterated the hawkish stance on inflation and rates, challenging the view that last week's July FOMC meeting marked a dovish turn. Evans (Chicago Fed) stressed that a 75-bp hike in September cannot be ruled out, and Daly (San Francisco Fed) reinforced this message, reminding that the Fed is nowhere near bringing inflation under control. These interventions triggered sales on Treasuries, with the 10-year yield rising from 2.52% to 2.77% on Tuesday, one of the widest daily changes in two years. **On Friday, just after the much higher-than-expected U.S. employment report was released, Treasury rates spiked higher based on the bet that the Fed will continue to raise interest rates aggressively to curb inflation.** Market pricing now expects a 75-bp rate hike in September, though there will be two more CPI readings (one next Wednesday) and another employment report before that meeting.

The Eurozone economy showed higher-than-expected GDP growth (and higher than the US economy) again in Q2 2022, despite forecasts of a slowdown due to raw material supply issues, high energy prices and rising interest rates. The peripheral countries, whose economies are more tourism-driven, posted higher-than-expected growth, while the more commodity-dependent German economy suffered the most. This has contributed to the overperformance of peripheral bonds over German government bonds, with the 10-year Btp-Bund yield spread falling back to the 210-bp area from 240 bps in mid-June, boosted in part by the announcement of the Transmission Protection Instrument and the fact that Italy has benefited the most from the reinvestment of maturing PEPP bonds.

Last week the Bank of England's Monetary Policy Committee (MOP) raised interest rates for the sixth consecutive time, but at the higher pace of 0.5%, the largest increase in 27 years, bringing rates to 1.75%. The hike comes after the BoE's new inflation projections, seen at 13% by the end of 2022. BoE's Governor Bailey used very hawkish tones, stating that the economic impacts of the war in Ukraine will not deter it from taking the necessary actions to meet the inflation target. Bailey signaled a willingness to tighten policy further, despite projections of a clear recession as early as 2h.

GOVT BONDS	LEVEL	Δ WEEK
US 10-year Yield	2,83%	▲ 25,4 bp
GER 10-year Yield	0,96%	▲ 17,7 bp
FRA 10-year Yield	1,49%	▲ 14,4 bp
ITA 10-year Yield	3,02%	▲ 13,5 bp

CORP BONDS	LEVEL YTW	Δ WEEK
USD Invest. Grade	4,51%	▼ -1,50%
EUR Invest. Grade	2,60%	▼ -0,80%
USD High Yield	7,61%	▲ 0,34%
EUR High Yield	5,96%	▲ 0,44%
Emerging Local ccy	4,17%	▲ 0,22%
Emerging Hard ccy	6,59%	▼ -0,22%

BOND SPREADS	LEVEL	Δ WEEK
Itraxx Main	87,51	▲ 1,0 bp
Itraxx Xover	436,91	▲ 8,0 bp
Itraxx Sub Fin.	184,72	▲ 2,0 bp
CDX North Am. IG	80,65	▼ -1,7 bp
CDX North Am. HY	464,06	▼ -13,7 bp

Source : Bloomberg, as of 2022.08.08

WEEKLY RECAP

COMMODITIES

Oil prices closed below \$100 per barrel last week, at levels not seen since the start of the war in Ukraine. Following U.S. President Biden's call for a production increase to ease gasoline prices, OPEC+ on Wednesday approved an increase of 100,000 barrels per day in September, an all-time low. This decision was mainly driven by growing concerns about weakening energy demand due to slowing economic growth and central banks raising interest rates to curb inflation. Indeed, the U.S. Department of Energy has reported weakening gasoline demand, while European gasoline stocks are approaching levels last seen during the height of the pandemic. The move also reflects constraints on the group's ability to increase production due to its smaller members' severe underinvestment in production capacity, while Saudi Arabia, which already produces at historically high volumes, aims to preserve remaining spare capacity to deal with any winter supply disruptions. EIA reported an increase in weekly oil inventories.

Gas tensions are still very high. Russia is exporting natural gas to Europe at only 20% of capacity and has cut supplies to Latvia, as well as Denmark, Finland, Bulgaria, the Netherlands, and Poland. European countries should be able to meet the target of filling gas storages (80%) by early winter, but the restocking cost will be much higher than the historical average. Natural gas traded lower after EIA's weekly report showed that U.S. inventories have increased beyond expectations and are currently above the 5-year average.

EXCHANGE RATES

After two weeks spent in weakening mode, the dollar closed the past week posting gains relative to almost all the other currencies.

The week was dominated by the news of Nancy Pelosi (the US House Speaker) decision to visit Taiwan during her Asian trip. The reaction of China (that consider Taiwan a "rebel" province of its own territory) was aggressive and contributed to a substantial deterioration in market sentiment. However, the dollar reaction remained almost muted during the great part of the week. It was the publication of a strong job market report in US that drove the dollar higher on Friday afternoon.



COMMODITIES	LEVEL		Δ WEEK
Gold	1 776	▲	0,2%
Silver	19,90	▼	-2,3%
WTI	89,01	▼	-5,2%
Brent	94,92	▼	-5,1%
Copper	355,20	▲	0,3%
Iron Ore	109,20	▼	-4,5%
Baltic Dry Index	15,19	▲	0,1%

Source : Bloomberg, as of 2022.08.08

EXCHANGE RATES	LEVEL		Δ WEEK
Dollar Index	106,62	▲	1,1%
EUR/USD	1,0183	▼	-0,8%
GBP/USD	1,2073	▼	-1,4%
EUR/GBP	0,8435	▲	0,7%
EUR/CHF	0,9795	▲	0,5%
USD/JPY	135,01	▲	2,6%
Bitcoin/USD	22 985	▼	-0,6%

Source : Bloomberg, as of 2022.08.08

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