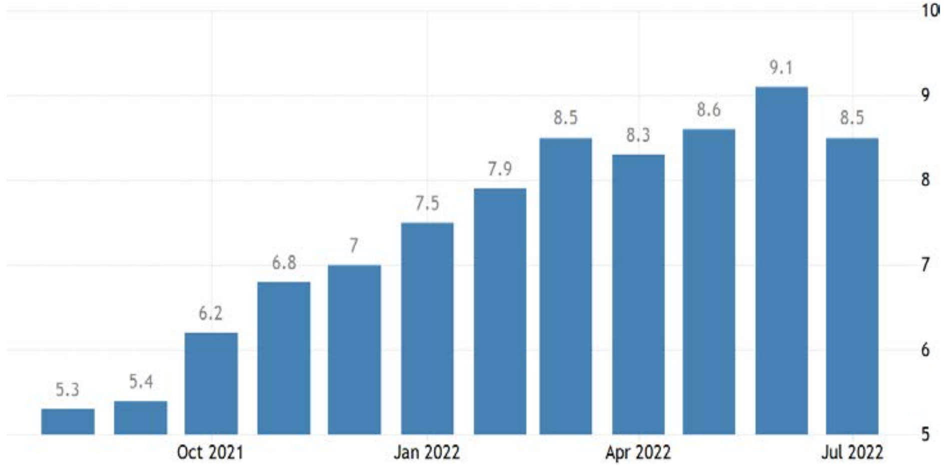
VERNY CAPITAL

Global Markets Updates

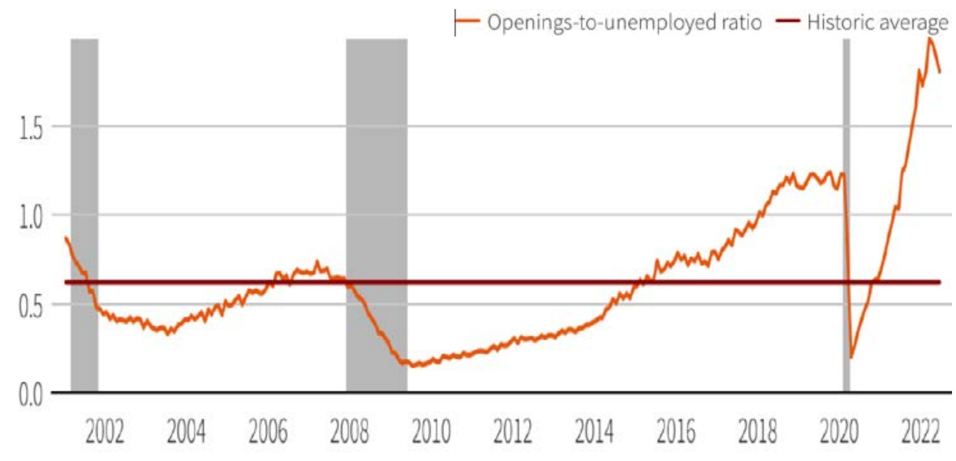
18th August 2022

US Federal Reserve minutes indicate more rate hikes in the pipeline, however the pace of rate hike could slow

US' Inflation, 1-Year Trend, %



US' Job Vacancies to Unemployed Ratio, %



- ✓ According to the minutes of 26th-27th July policy meeting, the US Fed Reserve officials (i) agreed that **there was little evidence to date that US inflation pressures were easing**; (ii) emphasized that a **slowing in aggregate demand would play an important role in reducing inflation pressures**; (iii) much of the heavy lifting (on inflation) would have to come by **imposing such high borrowing costs on businesses & households that they would spend less**.

- ✓ In addition, *majority policymakers noted the risk the Fed could tighten the policy stance by more than necessary to restore price stability, while minority stated they felt rates would have to reach a "sufficiently restrictive level" and remain there for "some time" in order to keep persistent inflation in check*.

- ✓ **The July minutes indicate that the pace of future rate hikes would be data-dependent moving forward**. Inflation eased slightly to 8.5% in June from 9.1% in May. Some parts of the US economy especially housing, had begun to slow under tighter credit conditions. The labour market however remained strong and unemployment rate stood at a near-record low.

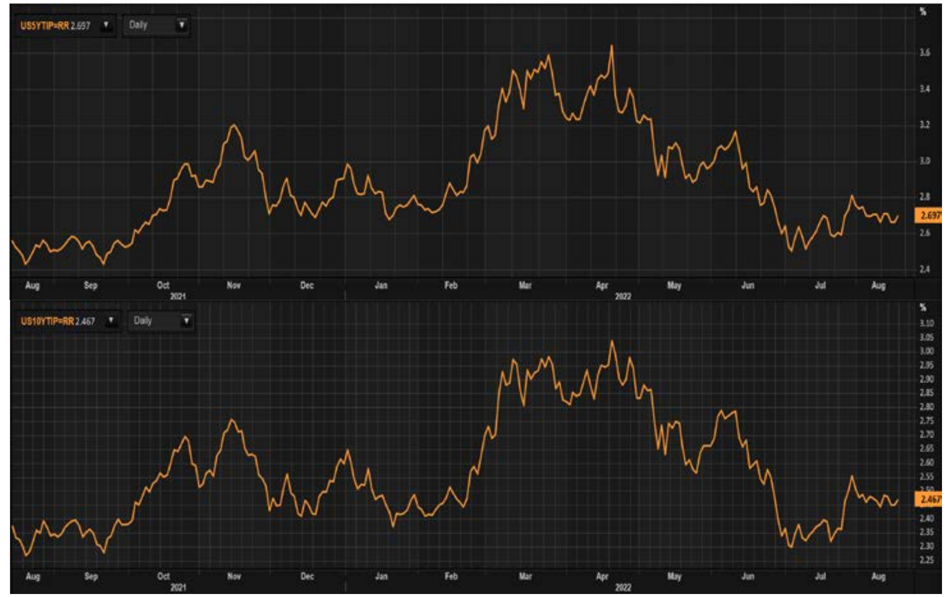
- ✓ *The US key rate has been lifted by 225bps this year to a range of 2.25%-2.50%. Market players expect the Fed to raise rate by either 50bps or 75bps in September.*

Source: July FOMC minutes, Trading Economics, Reuters

US Treasury yields climbed higher despite “not hawkish” Fed minutes, on lingering inflation concerns

2 and 10-Year Treasury Yield Spread, 1-Year Trend, % as at 17th August

5 and 10-Year Treasury Inflation Protected Securities Breakeven Rate, %, as at 17th August



- ✓ Benchmark 10-year yields narrowed by 2bps and the 2-year yields fell 5bps immediately after the minutes were released. However, both **the 10 and 2-year yields closed the day higher at 2.894% and 3.293% respectively. The Treasury yield curve inversion was at -39.29bps as at 17th August**.

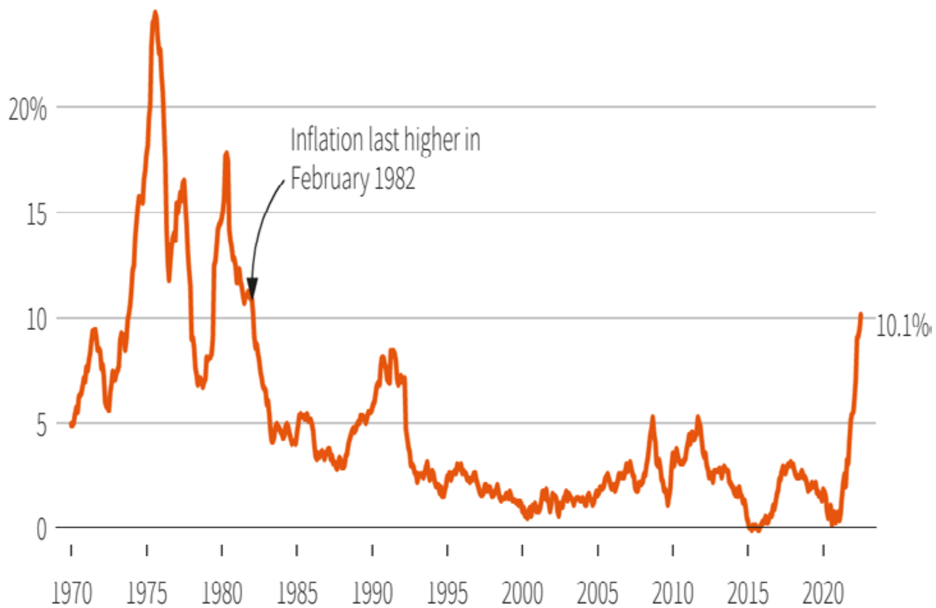
- ✓ *Fed fund futures now priced in a 59.5% probability of a 50bps rate hike in September and a 40.5% probability of a 75bps rate hike, after the minutes were released*. Prior to the minutes release, it was more skewed toward a 75bps rate hike.

- ✓ *US stocks were lower on Wednesday on profit-taking, however, major indices sharply cut their losses after the release of the Fed’s minutes*. The S&P 500 lost 0.72% to 4,274.04 points, the Nasdaq Composite fell 1.25% to 12,938.12 points and the Dow Jones Industrial Index lost 0.5% to 33,980.32 points.

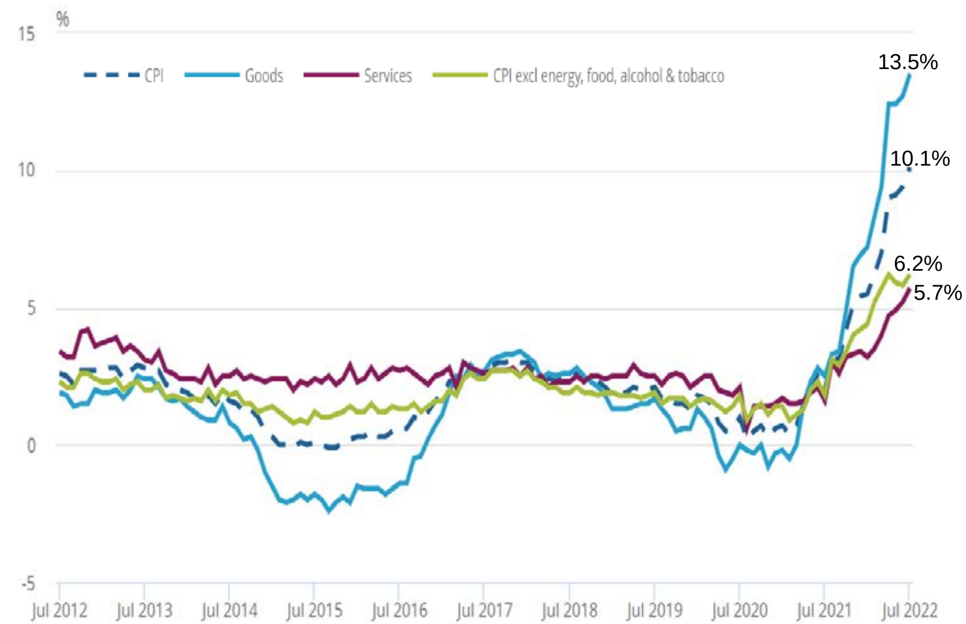
Source: Reuters, VC

UK's inflation topped 10.1% in July, the highest since 1982

UK's Inflation, 1970-July 2022, %



UK's Inflation Components, 2012-July 2012, %

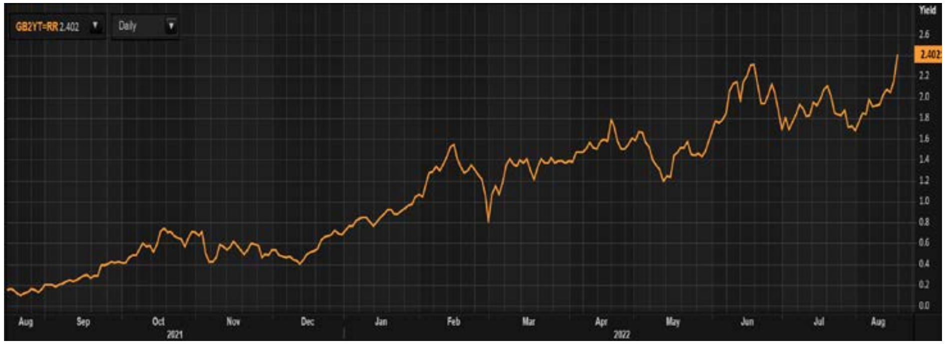


- ✓ **UK's inflation jumped to 10.1% in July** from 9.4% in June, the highest since February 1982 and above market expectations of 9.8%.
- ✓ The **Bank of England projects UK's inflation to peak at 13.3% in October**, when regulated household energy prices increase.
- ✓ The expectations are that UK's inflation challenge will be longer-lasting than in other countries due in part from price regulations, energy companies will need to wait before passing higher wholesale costs on to consumers.
- ✓ According to industry insights, the current UK's household energy bill is approximately £2,000 annually, doubling the level a year ago, and is expected to increase further to £4,000 by January 2023.

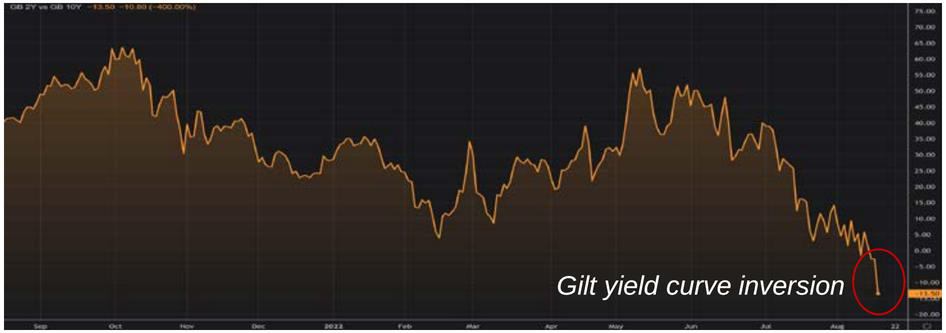
Source: UK Office of National Statistics, Bank of England, Reuters

Two-year gilt yields surge on inflation data and expectations of further rate hikes, while the pound held steady

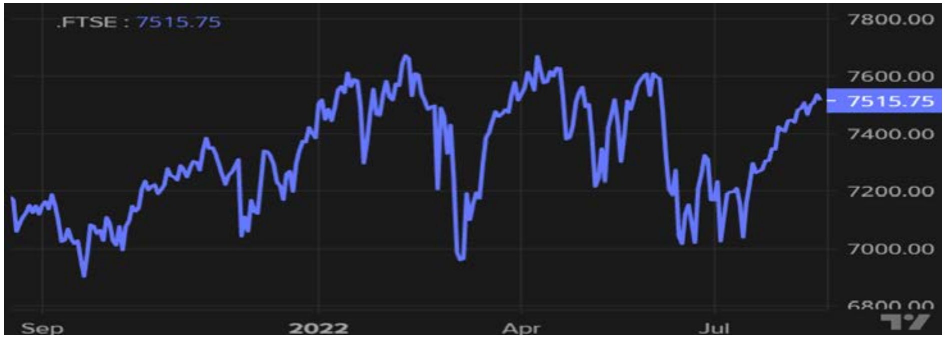
UK's 2-Year Gilt Yield, 1-Year Trend, as at 17th August



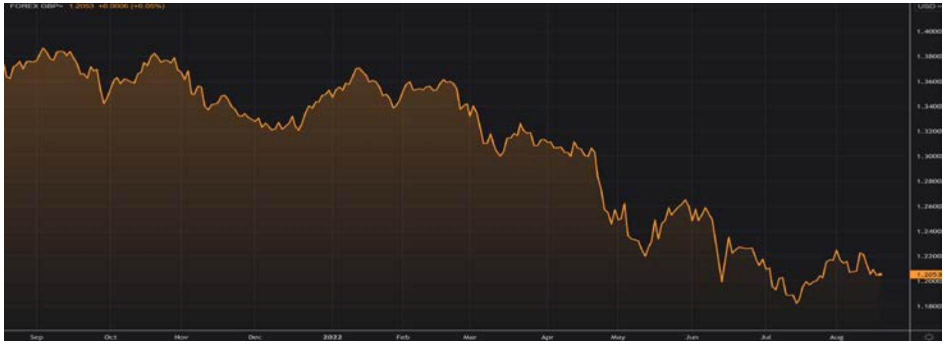
UK's 2 & 10-Year Gilt Spread, 1-Year Trend, as at 17th August



UK's FTSE 100 Index, 1-Year Trend, as at 17th August



GBPUSD Exchange Rate, 1-Year Trend, as at 17th August

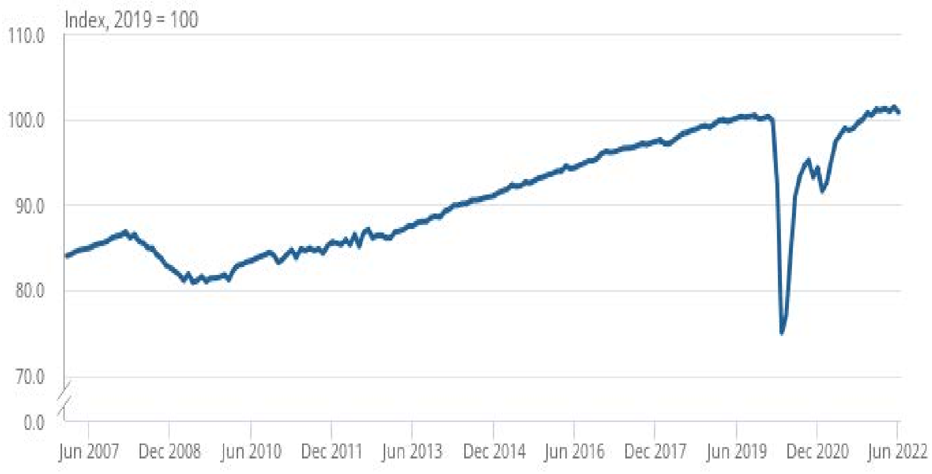


- ✓ Financial markets now price in a **96% probability that the BOE will raise the key rate by 50bps to 2.25%** at its next policy meeting on 15th September.
- ✓ **Two-year gilt yields surged 25bps to hit 2.402%** on 17th August, the highest since November 2008. The 2 & 10-year gilt yield curve is the most inverted since late-2010 (currently at -17bps).
- ✓ **UK stocks fell, the FTSE 100 index snapped a 3-day gain to close 0.3% lower** on 17th August. Concurrently, the FTSE 250 mid index fell 1.5%, easing off 2-months high.
- ✓ **The pound fell 0.24% against the USD at $1.2069**. Against the euro, the pound fell 0.35% at 84.35 pence, after touching its strongest level of 83.90 pence since 4th August.

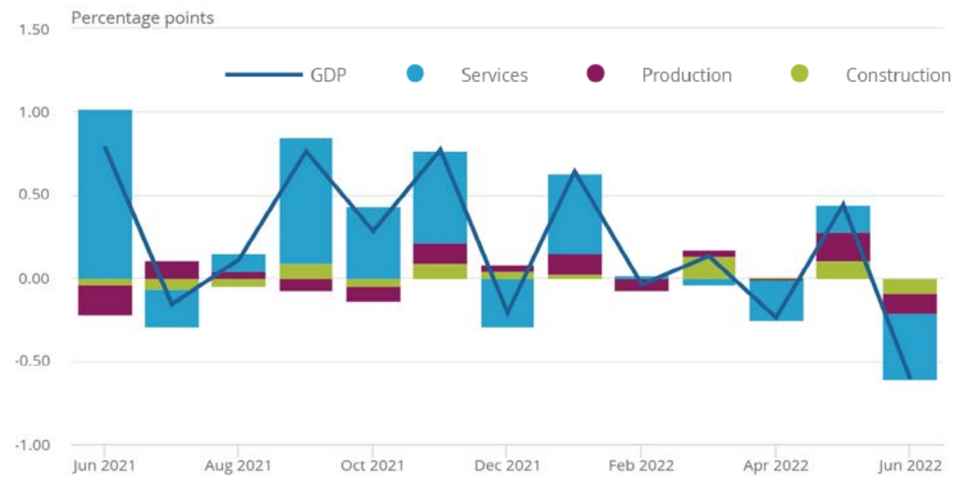
Source: Reuters, VC

UK's economic snapshot: GDP fell by 0.6% in June, dragged down by services, production and construction sectors

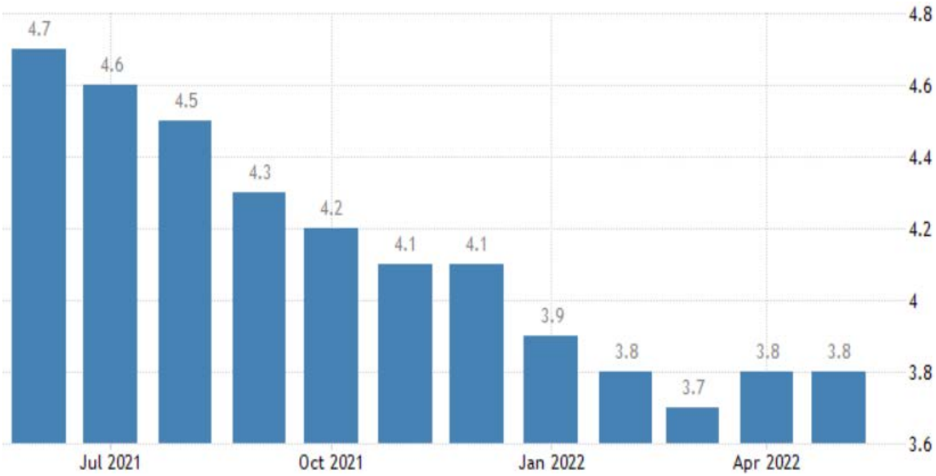
UK's Monthly GDP Index, 5-Year, as at June 2022



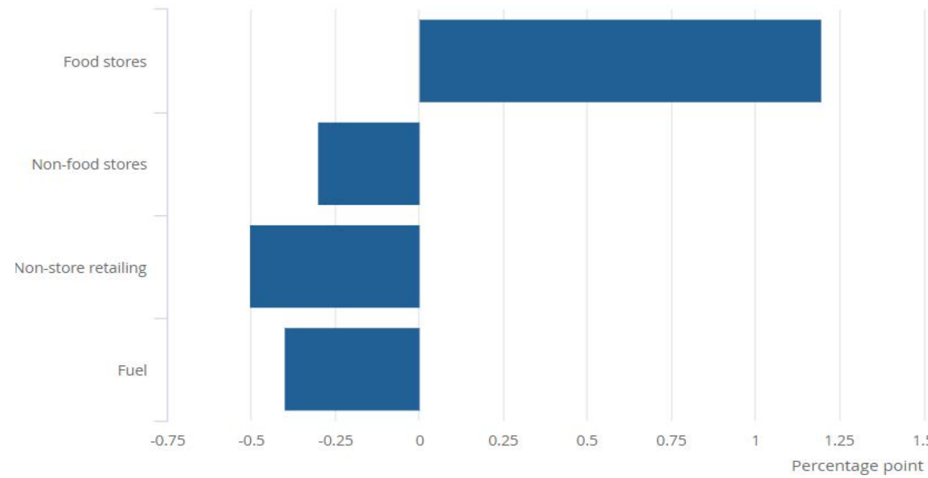
Sector Contribution to UK's Monthly GDP Growth, %



UK's Unemployment Rate, %



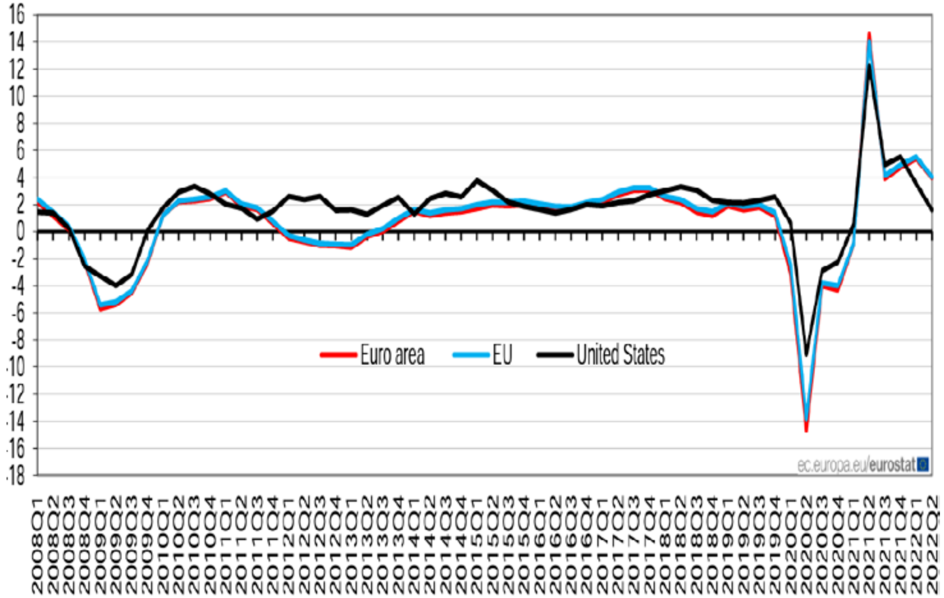
Retail Sales Contribution to Monthly GDP, % MoM, June 2022



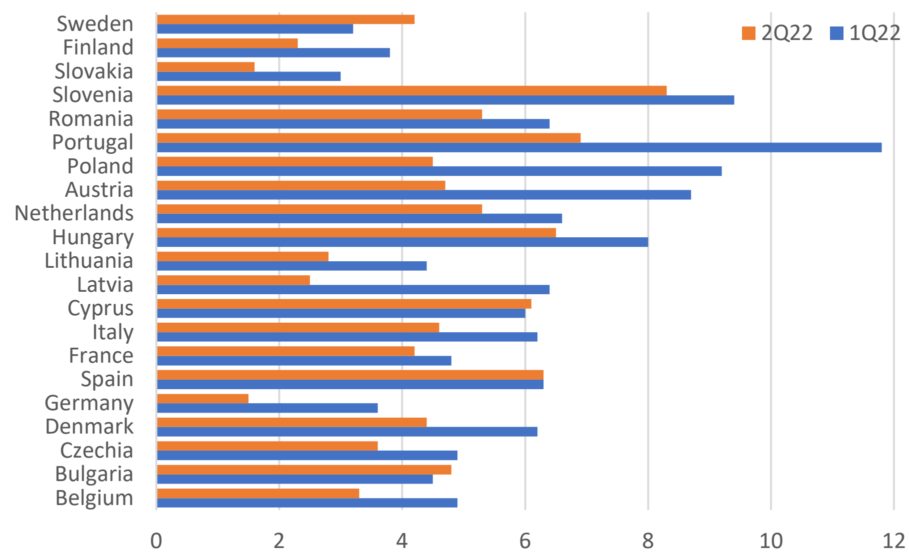
Source: UK Office of National Statistics, Trading Economics

Euro zone 2Q22 growth was resilient, led by Italy and Spain, and employment rose. Expect a mild recession over next 12 months for the euro zone economy

GDP Growth: Euro Area, EU, US, % YoY



Euro Area GDP by Country, % YoY

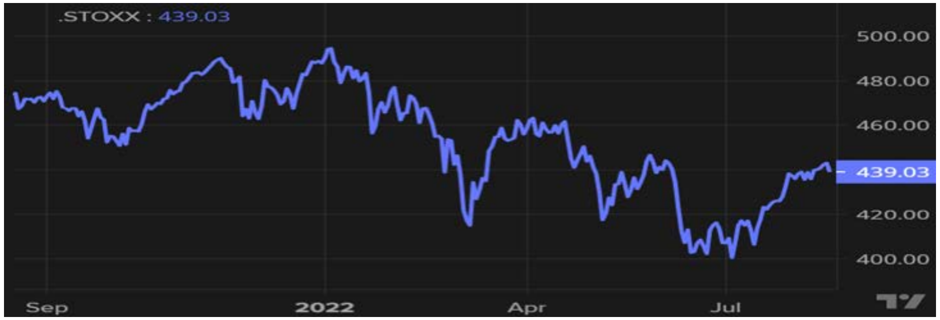


- ✓ **Euro zone economic growth was resilient, with GDP growth of 3.9% YoY and 0.6% QoQ in 2Q22** (1Q22: 5.4% YoY and 0.5% QoQ), slightly lower than earlier official estimates of 4.0% YoY and 0.7% QoQ. Employment rose 2.% YoY and 0.3% QoQ in 2Q22.
- ✓ Driving second quarter growth was strong performance from Italy and Spain which grew 4.6% YoY and 6.3% YoY respectively, with marginal growth from Germany (1.5% YoY).
- ✓ **The market expects 2Q22 to be the final quarter of growth before higher inflation and supply chain challenges potentially lead the euro zone into a mild recession over the next 12 months**.
- ✓ Challenges: geopolitics impacting consumer and business confidence, concerns over full cutoff Russian gas supplies could potentially drag the euro zone into deeper economic downturn.

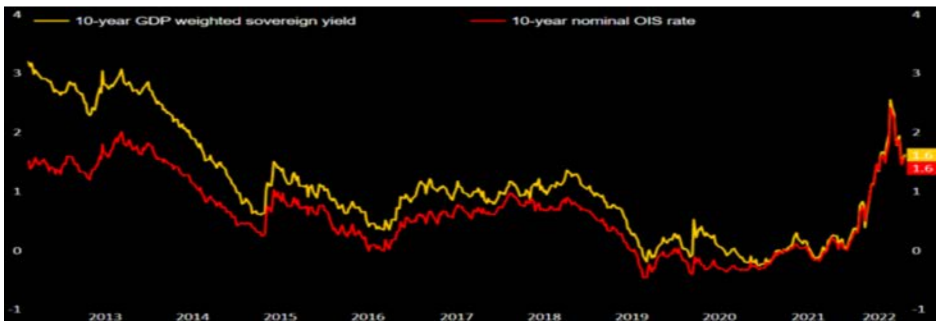
Source: Eurostat, Reuters, VC

European stocks fell on inflation woes, Germany leads the decline

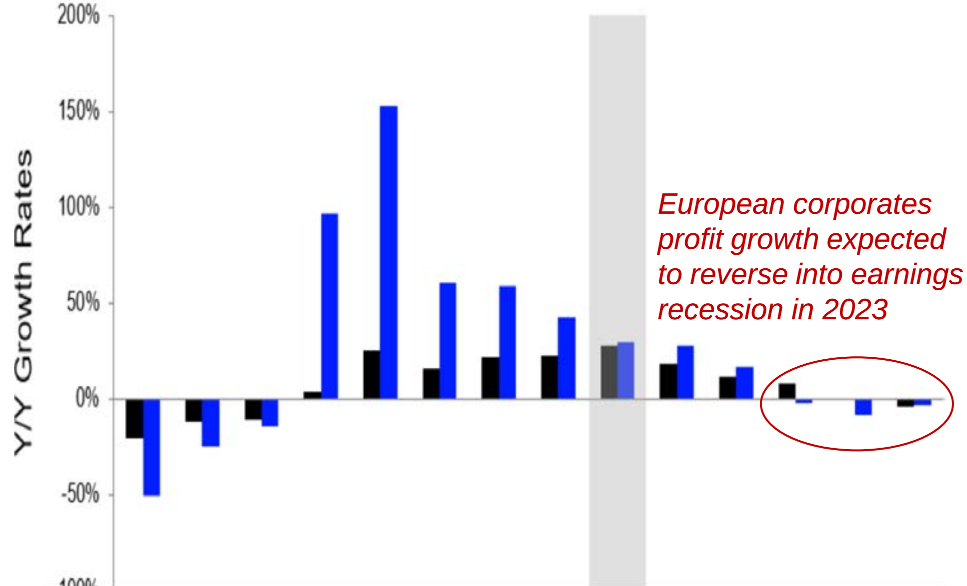
Stoxx 600 Index, 1-Year Trend, as at 17th August



Euro Zone 10-Year GDP Weighted Sovereign Yield vs. 10-Year Nominal OIS Rate, %



Stoxx 600 YoY Growth Rate, %



	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Revenue	-20.1%	-11.6%	-11.2%	3.3%	25.2%	15.4%	21.4%	22.9%	27.5%	18.3%	11.0%	7.5%	-0.4%	-4.5%
Earnings	-50.8%	-24.7%	-14.5%	96.4%	152.6%	60.5%	59.2%	42.1%	29.4%	28.1%	16.2%	-2.3%	-8.4%	-3.1%

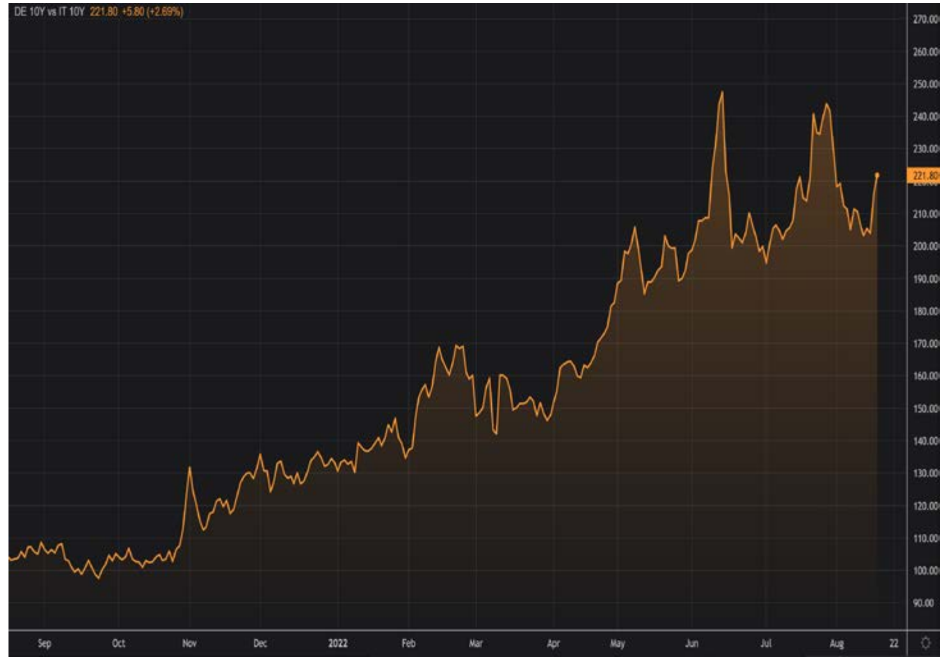
- ✓ **European shares fell on Wednesday** after a sharp rise in UK inflation shifted investors focus on more monetary tightening. The **STOXX 600 index fell 0.9%, its biggest 1-day decline in more than a month, also snapping a 5-day winning streak**.
- ✓ European bourses have recently recovered over 10% since June lows, mirroring sentiment on the Wall Street and on better-than-expected 2Q earnings. However, **European stocks are still 10% lower year-to-date, and forecasts show that corporate earnings may not be able to provide continuous support to the European equity markets gains moving forward**.
- ✓ Meanwhile in the money markets, **traders have fully priced in a 50bps hike to the ECB's key interest rate in September**.

Source: Reuters, Reuters poll

Euro zone government bond yields widened on inflation concerns

Germany 2 & 10-year Government Bond Yield Spread, 1-Year Trend, as at 17th August

Italy & Germany 10-year Government Bond Yield Spread, 1-Year Trend, as at 17th August

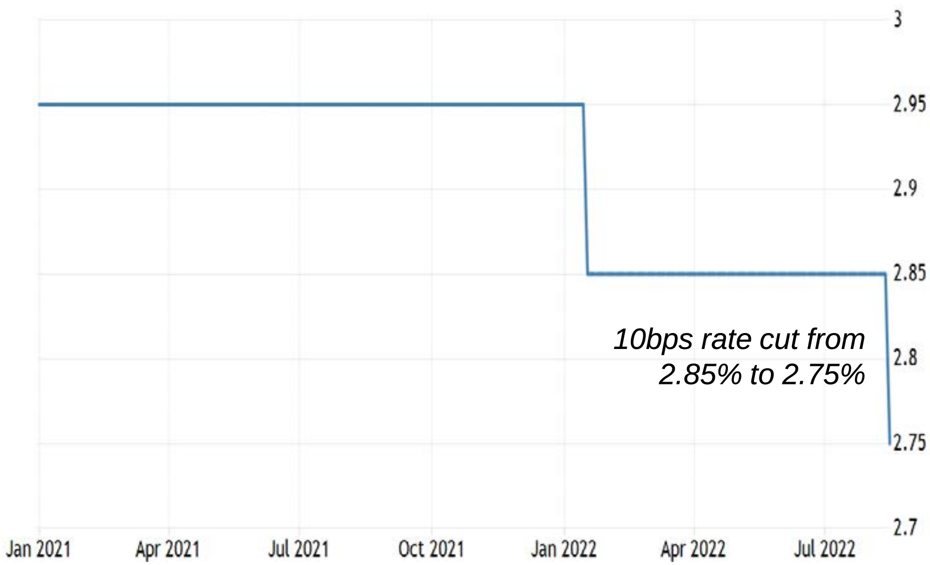


- ✓ **Euro zone government bond yields rose on Wednesday** as UK's inflation shifted investors' focus back to potential further monetary tightening in the region.
- ✓ **Germany's 2-year benchmark bund yield widened 15bps to 0.72%, the highest since 21st July. The 10-year bund yield was up 10bps to 1.08%, the highest since 22nd July**.
- ✓ Elsewhere, *Italy's 10-year yields rose 16.7bps to 3.3%, touching a 3-week high. The spread between Italy and Germany 10-year widened to a 2-week high of 223b*ps. Italy's general elections are scheduled on 25th September.

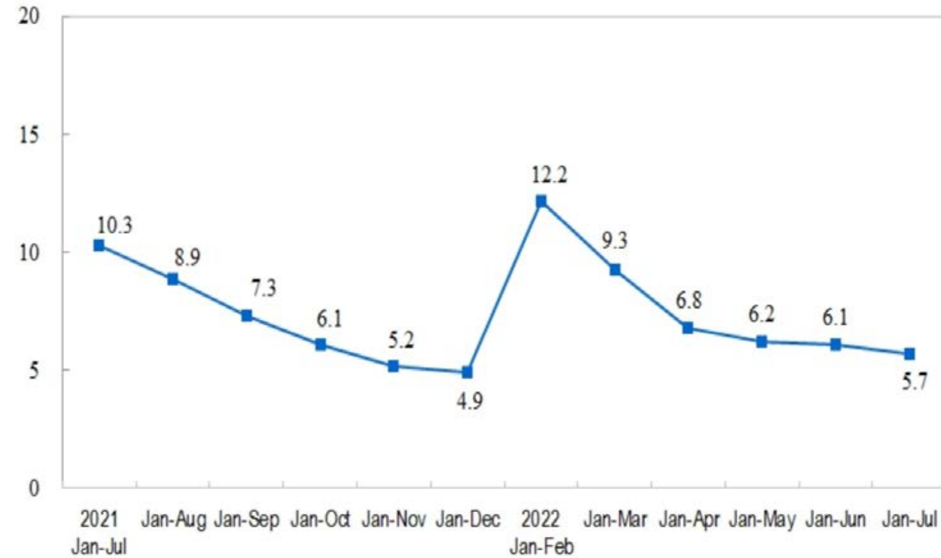
Source: Reuters

China unexpectedly cut interest rates on key lending facilities to boost economic recovery

China's 1-Year Medium-Term Lending Rate, as at 15th August



China's Fixed Assets Investment Growth, % YoY



- ✓ **China's central bank (PBOC) unexpectedly lowered interest rates on key lending facilities for a second time this year** on 15th August, *the cut is likely to lead to a corresponding reduction in the benchmark lending rate (Loan Prime Rate) on 22nd August policy meeting.*

- ✓ China's economy unexpectedly slowed in July – (i) industrial output grew 3.8% YoY in July vs. 3.9% YoY in June and below market expectations of 4.6% YoY, (ii) retail sales growth slowed to 2.7% YoY from 3.1% YoY in June and below market forecasts of 5% YoY, (iii) fixed asset investment slowed to 5.7% YoY vs. 6.1% YoY and below expectations of 6.2% YoY, (iv) property investment fell 12.3% while new sales in property dropped 28.9%.

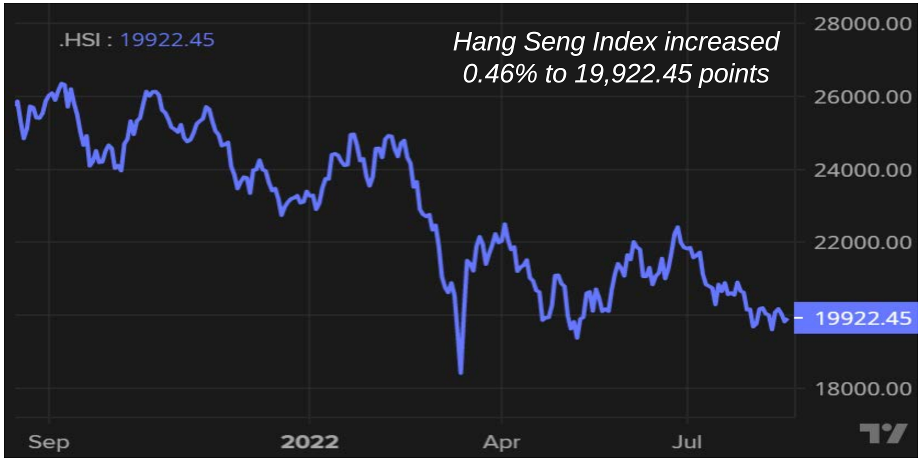
- ✓ **China's GDP growth forecasts were revised downward by 0.4%-1.0% to range between 4.0%-4.5% in 2022, with official GDP growth target of 5.5% being a challenge to meet**. *The PBOC needs to achieve balance between stimulus measures while avoiding adding on to inflation and capital outflows.*

Source: China National Bureau of Statistics, Trading Economics, Reuters, VC

Asian stock markets ended mostly higher, taking cues from Wall Street's earlier rally. Investors were however cautious after UK's red hot inflation data and New Zealand's key rate hike

Shanghai SE Composite Index, 1-Year Trend, as at 17th August

Hang Seng Index, 1-Year Trend, as at 17th August



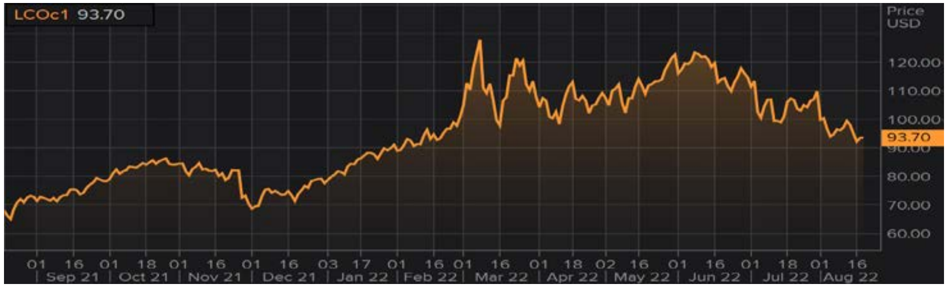
MSCI Asia Pacific excl. Japan, 1-Year Trend, as at 17th August

Nikkei 225 Index, 1-Year Trend, as at 17th August

Source: Reuters, VC

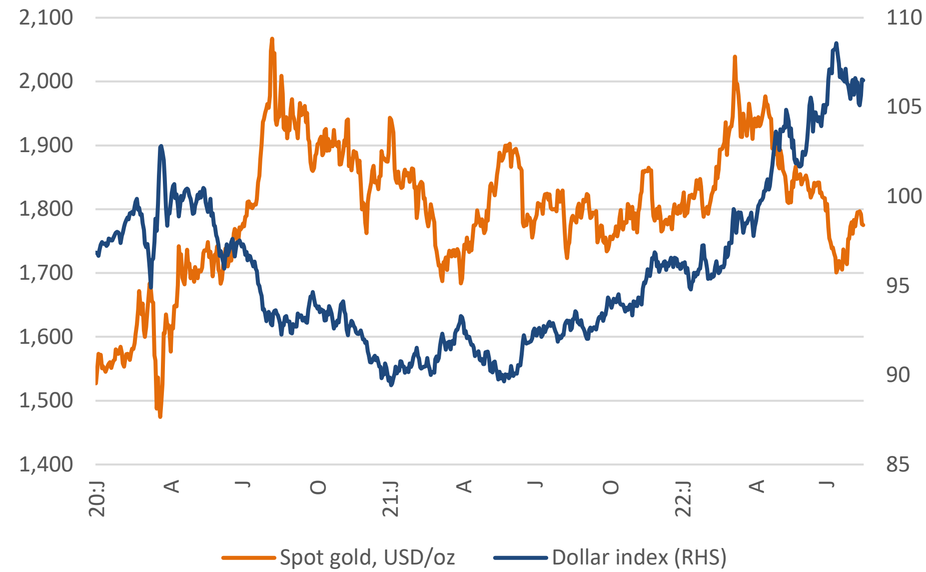
Global oil prices rose 1.5% after hitting 6-month lows on global growth concerns, spot gold held steady

Brent Oil Price, 1-Year Trend, as at 17th August



Intraday Oil Price Volatility, as at 17th August

Spot Gold vs. USD Index, as at 17th August

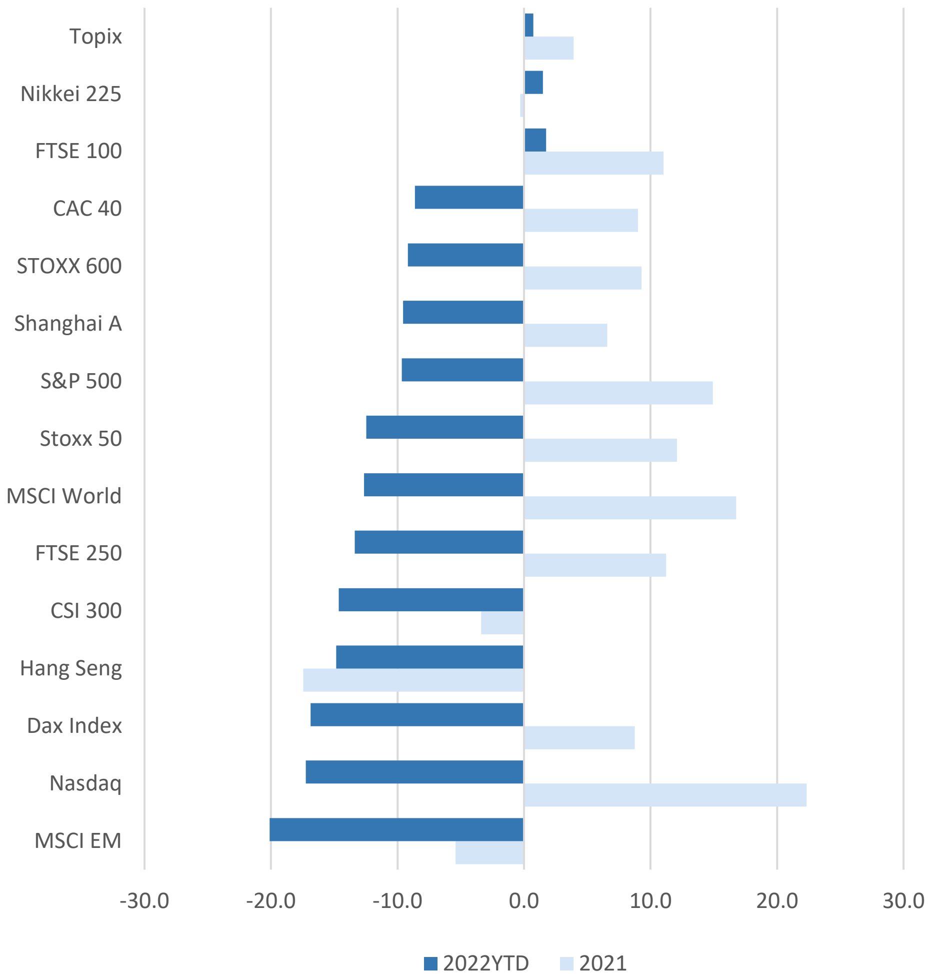


- ✓ Global oil prices rose 1.5% on 17th August after hitting a 6-month low on intraday trades, on steeper-than-expected drawdown in the US crude inventories.
- ✓ Brent crude futures rose 1.42% to $93.65pb. Earlier on intraday trades, recession concerns had pushed Brent price to $91.51pb, the lowest since February. The US WTI gained 1.8% to $88.11pb.
- ✓ Gold prices were steady on Wednesday, as a firmer dollar curbed gains on the bullion and investors awaited the release of the Fed's minutes of meeting for July for guidance on future US interest rate hikes.
- ✓ Spot gold was flat at $1,775.85 an ounce, while US gold futures were little changed at $1,789.20.

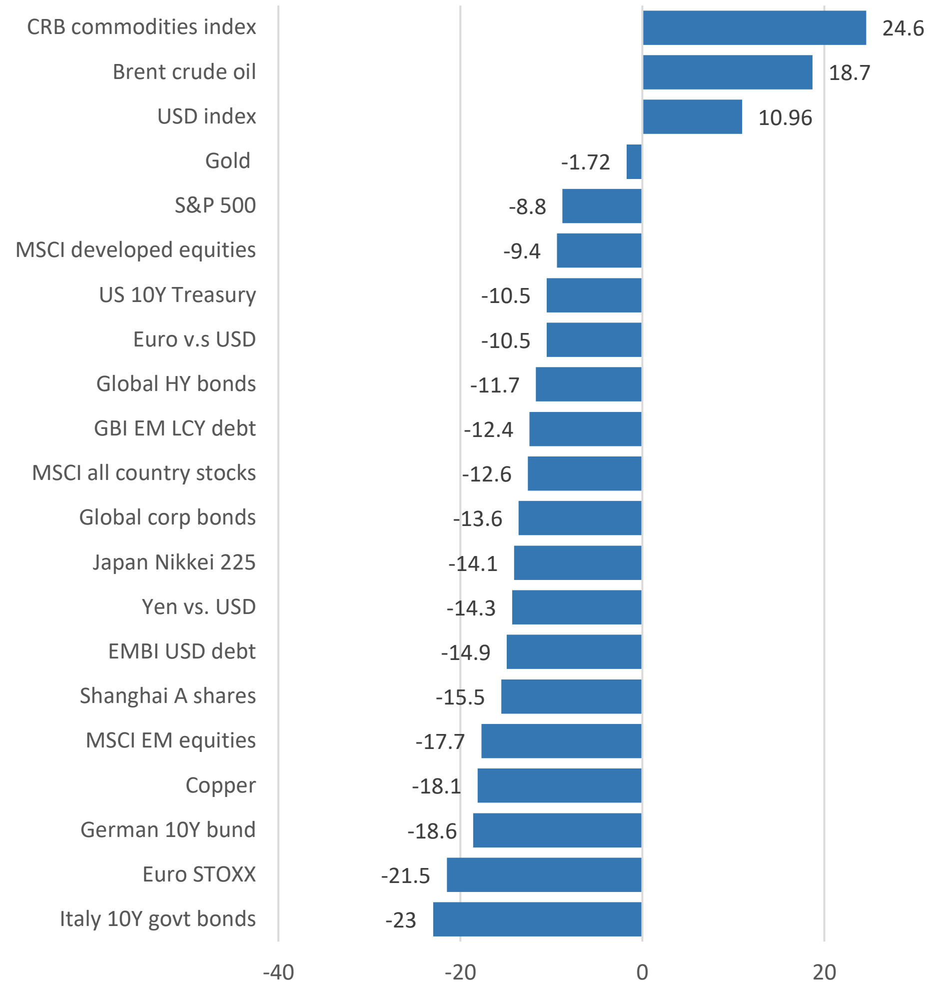
Source: LBMA gold data, Investing.com DXY data, Reuters, VC

Global Assets Performance: charting trends

Global Equities Performance, YTD % change, as at 17th August



Global Assets Performance, YTD % Change, as at 17th August



Source: Reuters, VC

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