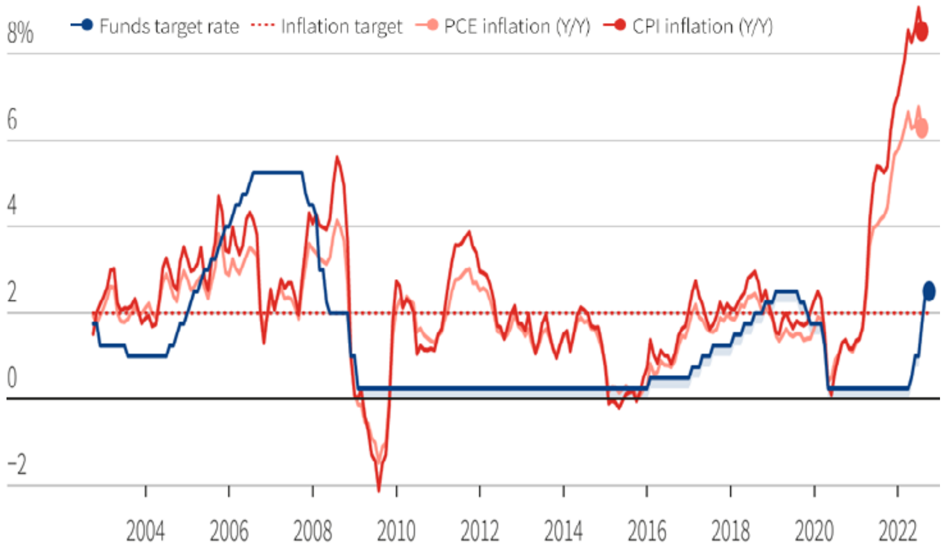
VERNY CAPITAL

Global Markets Updates

9 September 2022

Treasury yields inched higher after US Fed Chair reiterated the central bank's priority is to tackle inflation

US' Policy Rate & Inflation, %



2 & 10-Year Treasury Yield Spread, 1-Year Trend, %
as at 8 September

- ✓ **US Treasury yields climbed to the highest levels since June this week on expectations the US Federal Reserve will keep hiking its key interest rate to contain high inflation and new corporate debt supply weighed on the market**.

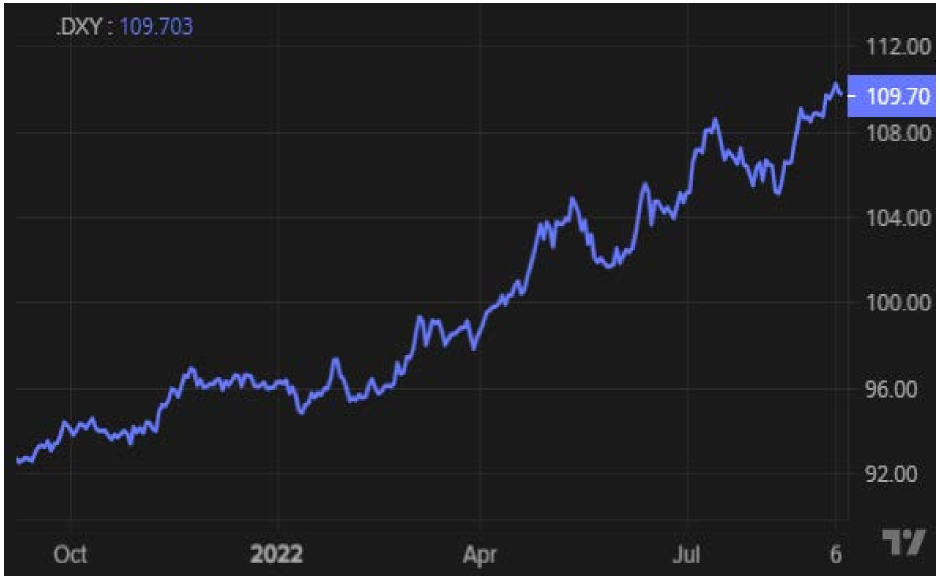
- ✓ *Ten-year yields surged to 3.335% this week, the highest since 16th June, but still below the 11-year high of 3.498% reached on 14th June. Meanwhile, 2-year yields were at 3.497%, the highest since November 2007. The yield curve remained inverted at -20bps, less severe than the inversion of -56bps reached on 10th August.*

- ✓ The next major US economic data will be the inflation for August, which is due on 13th September. US' FOMC meeting is scheduled on 20-21 September. *US rate futures have priced in 87% probability the US Fed Reserve will hike another 75bps at this month's policy meeting, which would raise the Fed funds rate to 3.0%-3.25%.*

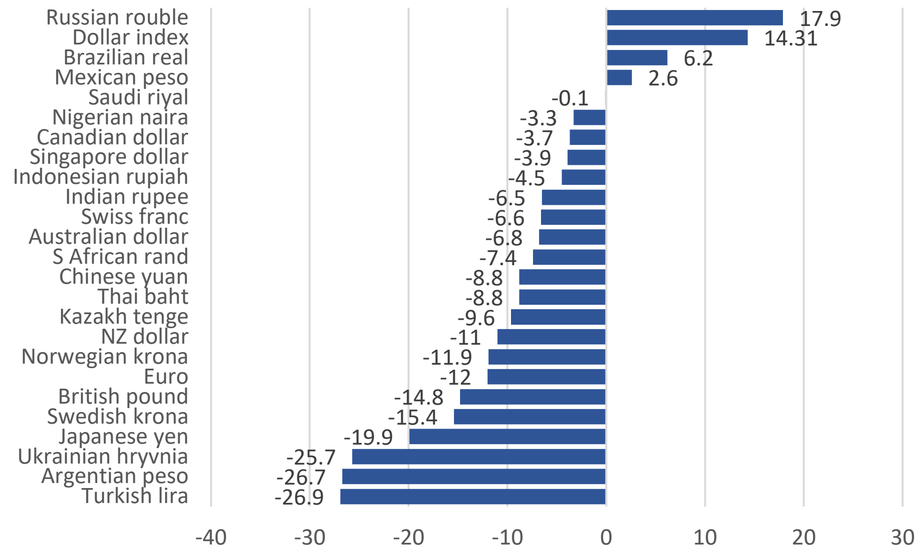
Source: Reuters

USD index hit a new 20-year high on widening interest rate differentials between US and the rest of the world

USD Index, 1-Year Trend, as at 8 September



USD vs. Selected Key Currencies, as at 8 September



- ✓ **The USD index touched a new 20-year high of 110.21 on 6th September, having risen by 15% year-to-date, underpinned by widening interest rate differentials between the US vs. peers.**

- ✓ The dollar has performed particularly well against the euro, pound and yen. *The euro hit a 20-year low of $0.9876 on 5th September as the euro zone energy crisis deepens. Meanwhile, the pound slid to a 37-year low of $1.1407 on 7th September intraday trades.*

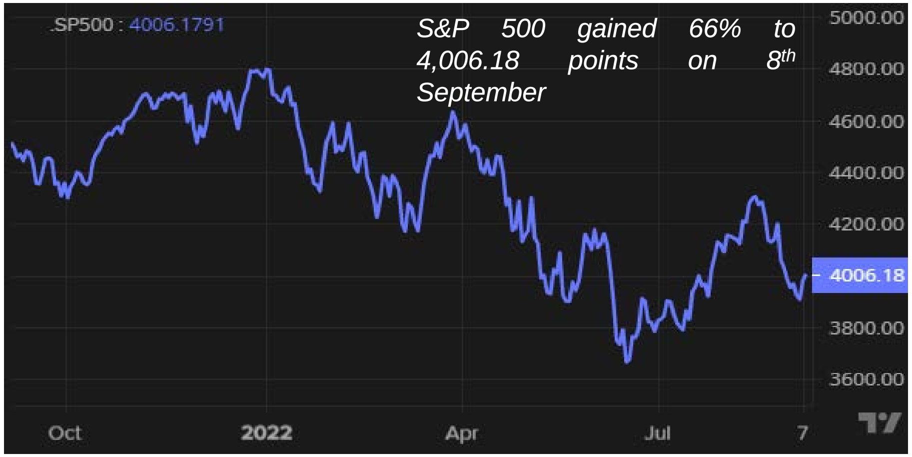
- ✓ Elsewhere, the *Japanese yen bottomed at 144.99 vs. USD on 7th September, the weakest in 24 years. The offshore Chinese yuan pinned near its 2-year low at 6.9510 despite the cut in China's FX reserve requirement ratio.*

- ✓ Factors supporting USD strength: global central banks battle against global inflation, heighten fears of a global recession, sharply widening US interest rates vs. peers and the massive shift towards safe-haven assets.

Source: Reuters, Investing.com, central banks, VC

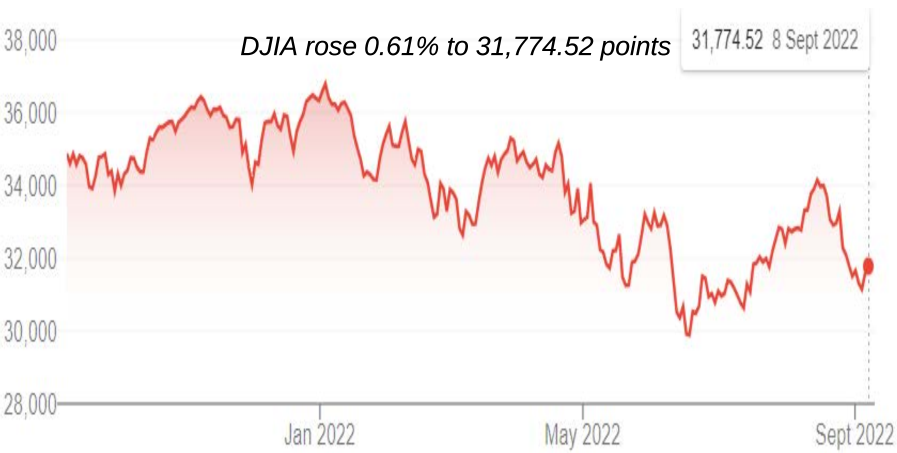
US stock indices edged higher on Thursday after the US Fed Reserve reiterated its strong commitment to contain inflation

S&P 500, 1-Year Trend, as at 8 September



Nasdaq Composite, 1-Year Trend, as at 8 September

Dow Jones Industrial Average, 1-Year Trend, as at 8 September

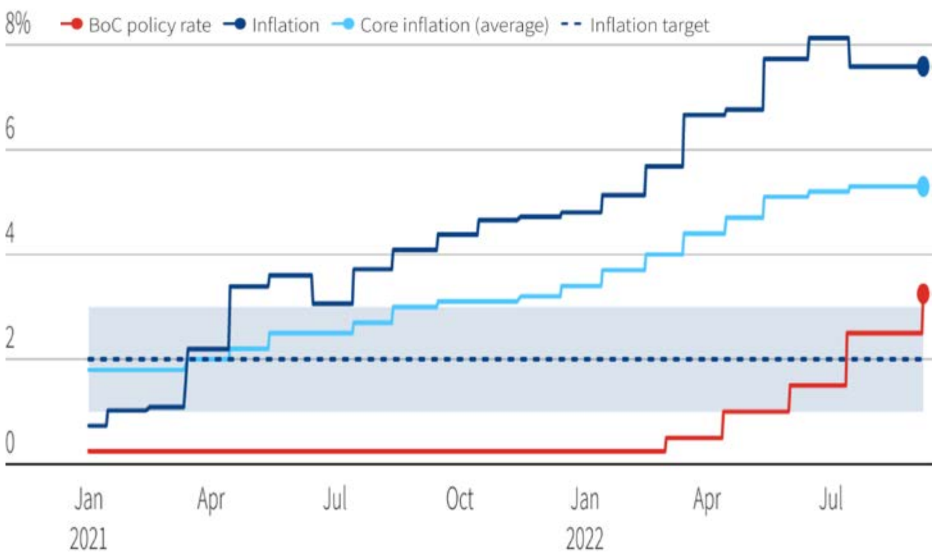


S&P 500 Banks Index, 1-Week Trend, as at 8 September

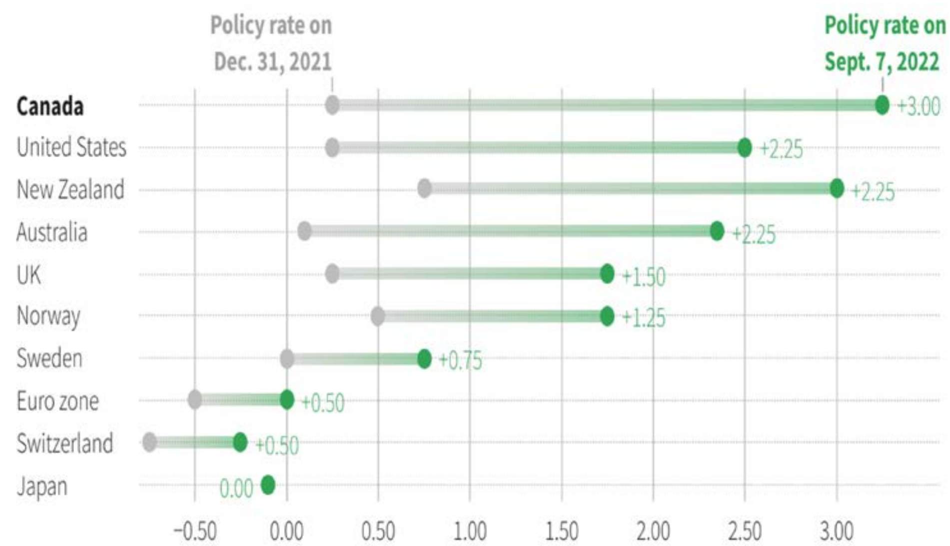
Source: Reuters

Bank of Canada lifted its policy rate to 14-year high, keeps door open on more tightening

Canada's Policy Rate & Inflation, %



Global Interest Rates: Canada vs. Peers, %



- ✓ **The Bank of Canada raised its key rate by 75bps to 3.25%, the highest level in 14 years, and signaled further rate hikes are on the cards to contain inflation.**

- ✓ The country's inflation eased to 7.6% in July from 8.1% in June, but the decline was due to a drop in gasoline prices, with the core measures continuing to move higher, according to the BOC. Surveys suggest that inflation expectations remain high.

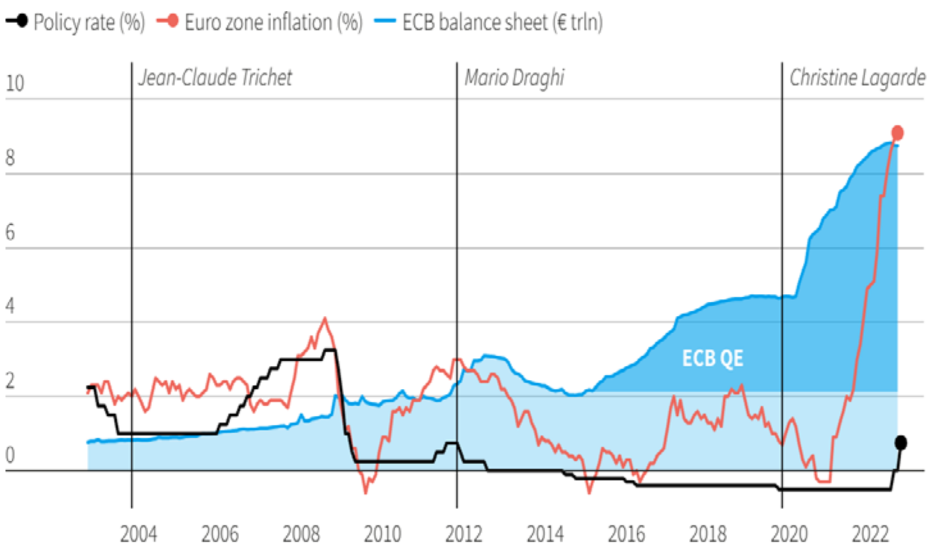
- ✓ *The money markets expect on two more this year (50bps in October and 25bps in December) to lift the policy rate to 4$ by end-2022.*

- ✓ *The Canadian dollar traded 0.1% higher at 1.3145 to the USD, after having touched its weakest level in nearly 8 weeks at 1.3208 before the rate hike announcement.*

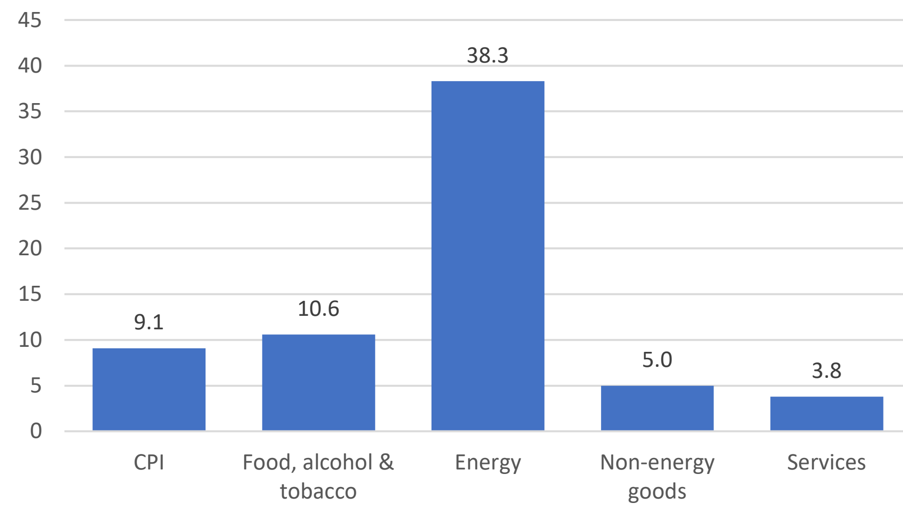
Source: Bank of Canada, Reuters

ECB made an unprecedented 75bps hike taking its key interest rate to 1.25% and signaled further hikes to fight inflation

Euro Zone Policy Rate, Inflation, ECB Balance Sheet



Euro Zone Inflation Components, %, August 2022

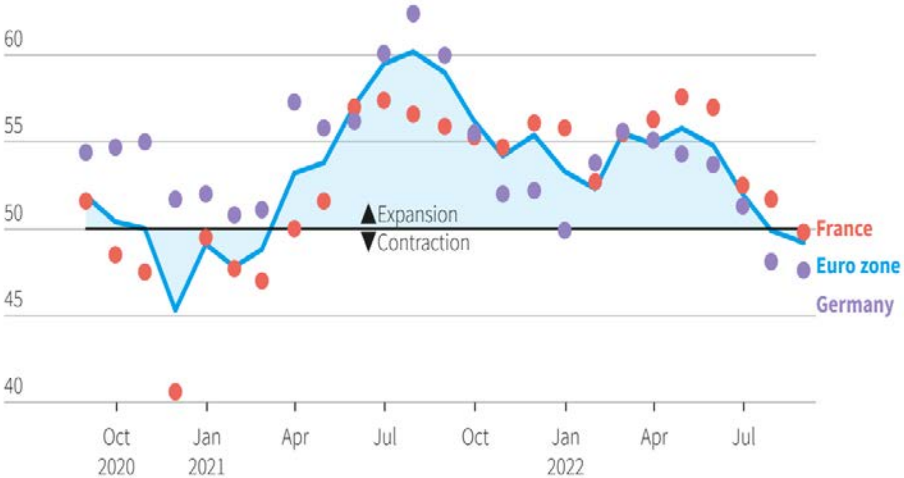


- ✓ **In line with expectations, the European Central Bank raised its key interest rate by 75bps to 1.25% on 8th September, the highest since 2011 and signaled further hikes** to fight inflation even as the euro zone's economy is heading for a likely winter recession.
- ✓ **Euro zone's inflation is projected to peak at 9% average in 3Q and 4Q of 2022. The ECB lifts its inflation projections again, raising 2023 outlook to 5.5% from 3.5%, and putting the 2024 forecast at 2.3%.**
- ✓ Markets were little surprised as investors had already priced in >80% probability of a 75bps rate hike today.
- ✓ **The euro hit a 20-year low of $0.9876 on 5th September as the euro zone energy crisis deepens. The euro has weakened 12% vs. USD year-to-date, adding to the already record-high inflation.**

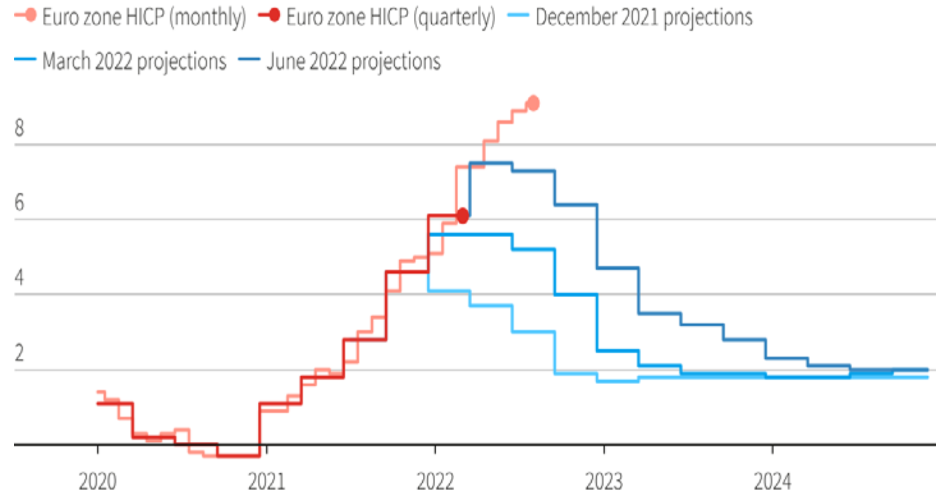
Source: European Central Bank, Reuters

Euro Zone Economic Dynamics: Charting Growth

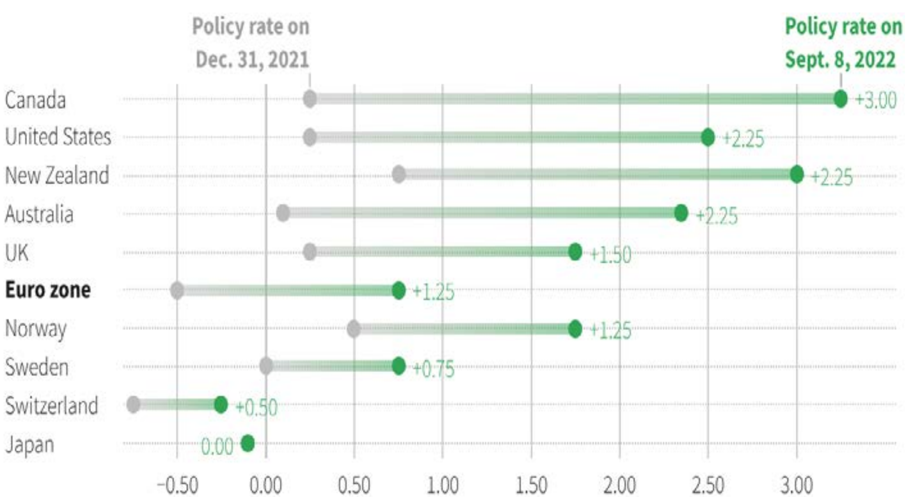
Euro Zone Composite PMIs



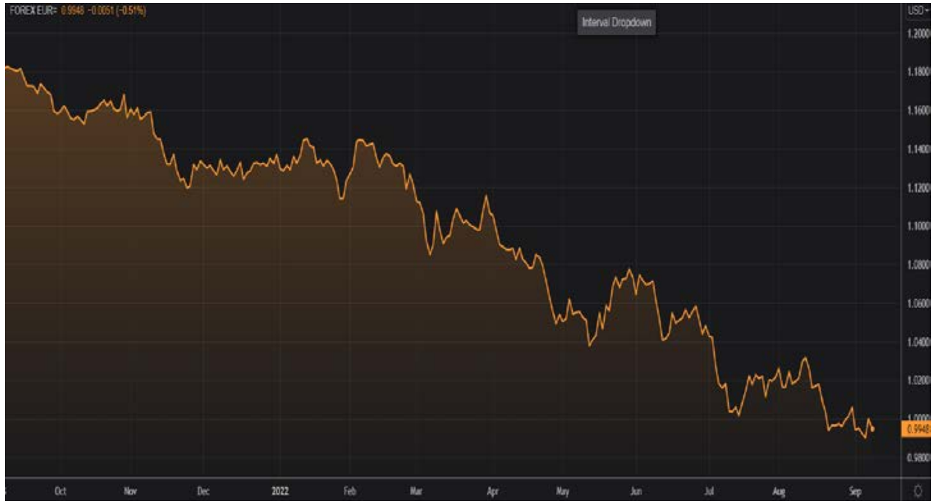
Euro Zone Inflation vs. ECB's Projections, %



ECB vs. Global Central Banks' Interest Rates, %



EURUSD Exchange Rate, 1-Year Trend, as at 8 September



Source: Reuters

Europe's largest asset manager says it is time to cut equities

- ✓ **Based on the current environment of hawkish monetary policy and gloomier economic backdrop, equities face further pressure. It is time to cut equity exposure and turn more defensive as macro and profit risks heightened**, according to Amundi SA. The call echoes the cautious views in place at Blackrock Inc and Morgan Stanley, where asset managers have warned of further downside for stocks.

- ✓ While a global recession may be avoided, **after the recent equities rally, there are no drivers supporting a positive stance in equity markets while risks are increasing**.

- ✓ **By region, the preference is for US stocks relative to Europe based on the more resilient US economy**. The S&P 500 index has fallen 18% YTD while the Stoxx Europe 600 was down ~26% in dollar terms. **By sector allocation, Amundi favors staples and defensive industrials**.

- ✓ **Corporate earnings could turn negative in 2023**. With contracting margins, declining consumers purchasing power and decelerating economic growth, there is a limit to how much pricing power and top-line growth companies can deliver.

- ✓ *Given the higher risk of recession, government bonds are "worth looking at" as yields are now more appealing. Caution on high-yield credit and preference on the investment-grade space.*

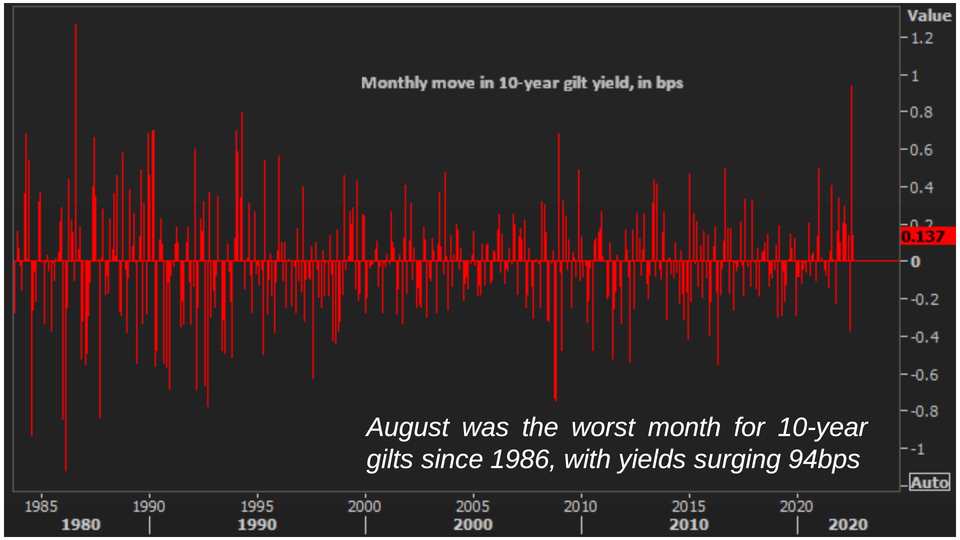
European equities trail US peers in dollar terms in 2022

Source: Amundi SA, general market views, Bloomberg

UK's financial market were rattled, increased public spending will result in higher rates for more prolonged period

UK's 10-Year Gilt Yields vs. GBPUSD Exchange Rate

UK 10-Year Gilt Yields, Monthly Change in bps



- ✓ Liz Truss becomes UK's new Prime Minister on 6th September, vowing immediate action to tackle the country's economic challenges led by soaring energy bills, looming recession and industrial strike.

- ✓ PM Truss on Thursday announced to cap average household energy bills at £2,500 a year for 2 years, staving off the expected 80% hike in energy bills that was due in October. Investors estimate that the energy price offset plus tax cuts promised earlier could cost the UK government £179bn.

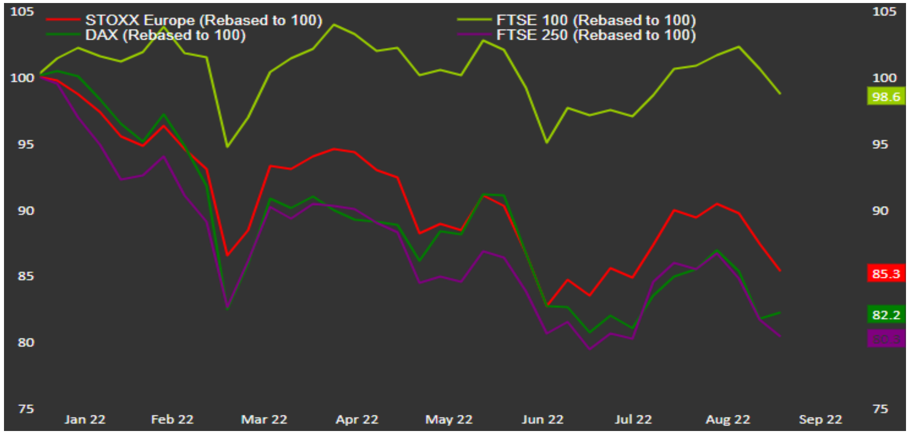
- ✓ **UK's financial markets were rattled this week as investors focused on the extra borrowing PM Truss' plans are likely to acquire. The country's public debt is currently close to 100% of GDP vs. 80% pre-pandemic. The 10-year gilt yields rose to the highest levels since 2011, while the 30-year government bonds experienced the sharpest one-day decline since March 2020 on Tuesday.**

- ✓ **The pound slid to a 37-year low of $1.1407 on 7th September intraday trades, and this was despite BOE rate hikes expectations. Market expectations are that in 2023 the pound could test its all-time low of around $1.05 hit in 1985.**

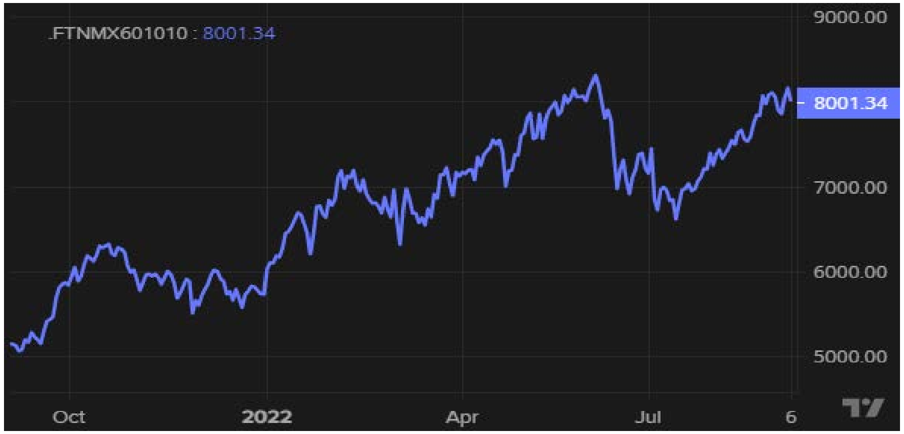
Source: Reuters

UK stocks performance hinge on global investment sentiment, tax cuts & higher spending could lead to higher rates which are stocks negative

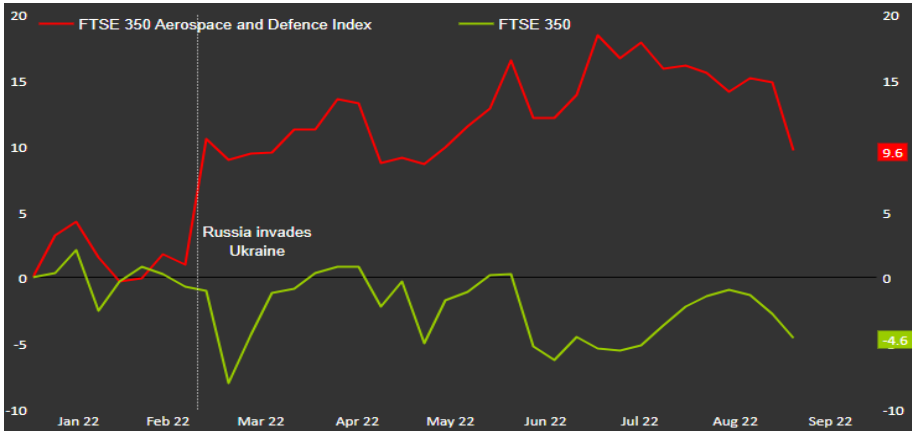
Energy & defensive-heavy FTSE 100 is down 1.4% in 2022YTD vs. Europe's STOXX that have lost 15%. UK's domestic-focused & mid-cap FTSE 250 shed 20%.



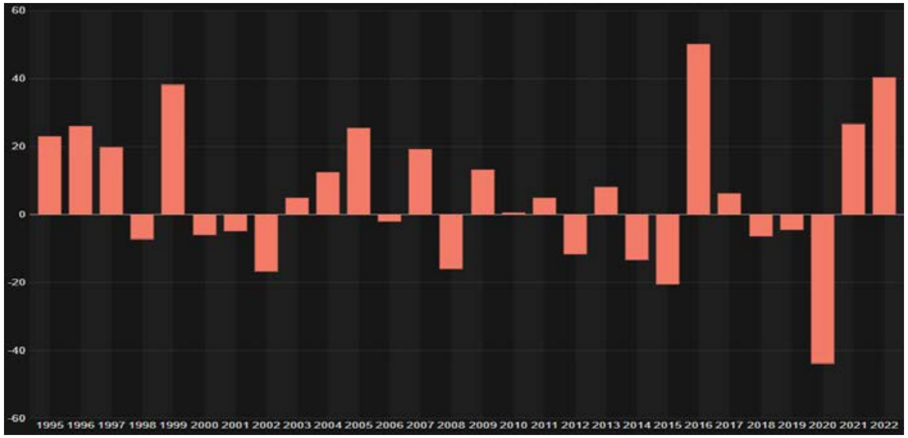
UK energy stocks were buoyed by rising energy prices. The FTSE 350 oil & gas sub-index was up 40% YTD, set for its best year since 2016.



FTSE 350 aerospace & defence sub-index rose 10% YTD. Truss plans to raise defence spending to 3% of GDP by 2030.



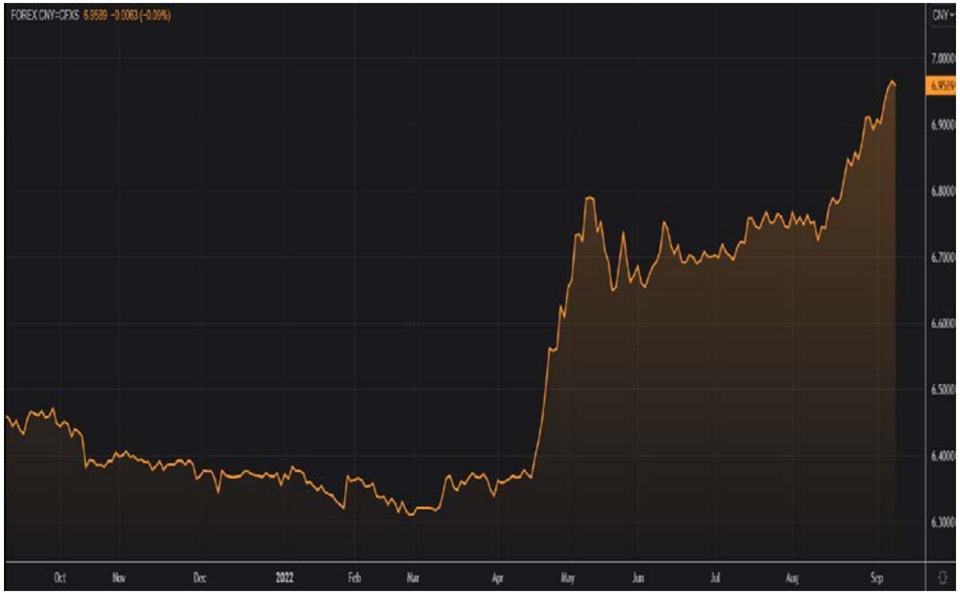
UK's FTSE 350 Oil & Gas Sub-Index, Yearly Performance, %



Source: Reuters

China cut FX reserve requirement ratio, freeing up liquidity into the financial system

China's Onshore Yuan , 1-Year Trend, as at 8 September



China's Offshore Yuan , 1-Year Trend, as at 8 September

- ✓ China's central bank announced on 5th September that it would **cut the FX reserve requirement ratio to 6% from 8% starting 15th September, a move aimed at slowing the yuan's recent slide vs. USD**. Based on FX reserves of $953.7bn as at July, the lower RRR would free up $19bn liquidity into the financial system.
- ✓ The yuan has depreciated more than 8% vs. USD year-to-date, as a result of the broad dollar strength in global markets and on China's slowing economy. Both the onshore and offshore yuan strengthened briefly by 200 pips following the central bank announcement.
- ✓ Investors have cut their yuan forecasts, with some expecting a breach of the 7/USD-level before next month's politically sensitive Party Congress meeting. A break above 7 could ignite fears of capital outflows.

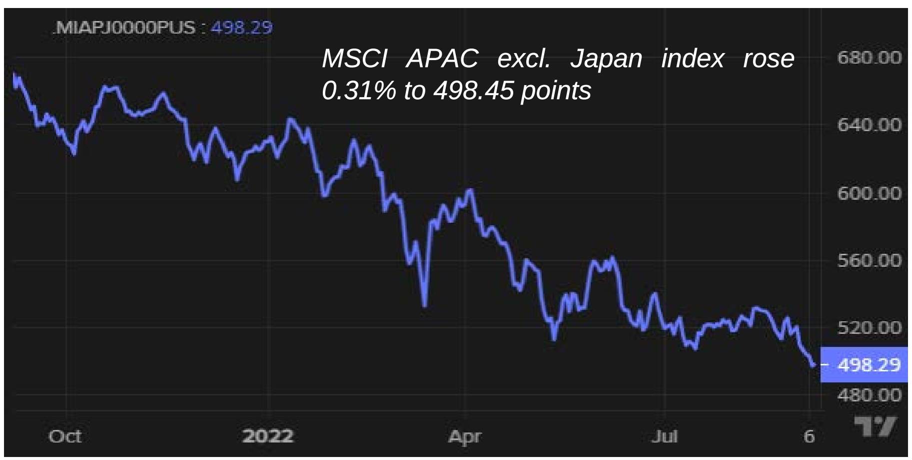
Source: PBOC, Reuters, Trading Economics

Asian equities were higher in general, China and Hong Kong indices weighed down by trade data

CSI 300 Index, 1-Year Trend, as at 8 September

Hang Seng Index, 1-Year Trend, as at 8 September

MSCI Asia Pacific excl. Japan, 1-Year Trend, as 8 September

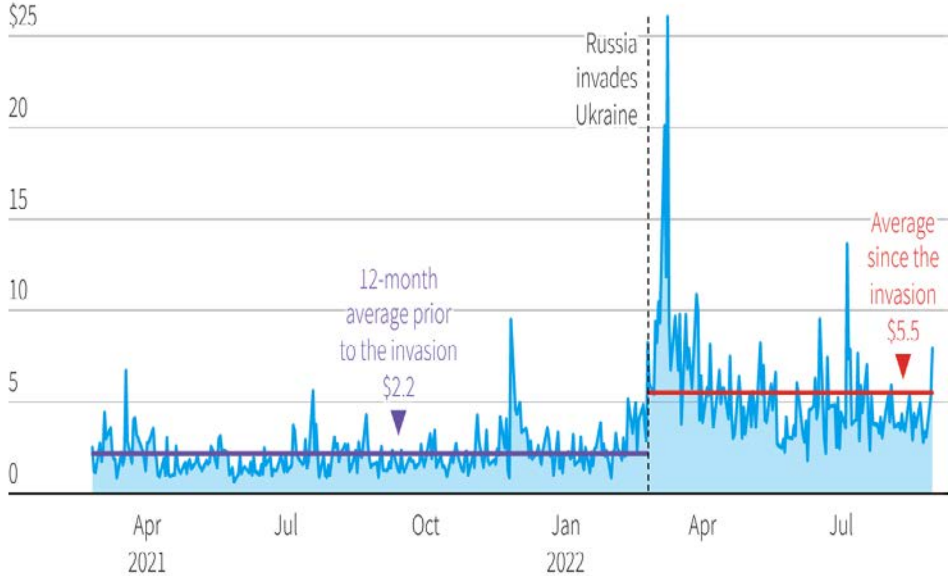


Nikkei 225 Index, 1-Year Trend, as at 8 September

Source: Reuters

Global oil prices extended declines on global growth concerns, spot gold weighed down by USD strength

Brent Crude, daily range between session's highs and lows



Spot Gold, 1-Year Trend, as at 8 September

✓ Global oil prices traded sharply lower this week, as downbeat China trade data showed crude oil imports fell 9.4% in YoY in August, reignite concerns of recession risks.

✓ **Brent crude futures were down to $88pb on 8th September, falling below $90 for the first time since 8th February**. The US WTI crude fell 5.7% to $81.94pb, its lowest since January.

✓ Global gold prices were weighed down by a strong USD. **Spot gold fell 0.1% to $1,716.59 per ounce on 8th September, after rising by 1% in the previous day. US gold futures was little changed at $1,728**. *Technical analysis shows that a break below $1,710 may be followed by a drop into $1,699-$1,705 range in the near-term. In contrast, a break above $1,720 may see a rise to $1,729.*

Source: Reuters

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