



INSPIRING WHAT'S NEXT

CIO OFFICE MORNING MARKET WRAP

20 June 2024

Markets retreated in the Asian session following yesterday's rally as investors look to new catalysts after a US holiday. The MSCI Asia Pacific slipped, with small losses in Japan and Australia, and futures in Hong Kong are also declining. The PBOC weakened the yuan's reference rate to the lowest since November, in a sign the grip on the currency is being loosened. Meanwhile, the Chinese banks kept their benchmark lending rates unchanged. European futures ticked lower, while contracts on the S&P 500 were slightly higher. Western markets saw a quiet session on Wednesday, with US equities and bonds not trading on the Juneteenth holiday, European stocks incurring small losses, and futures on the S&P 500 flat amidst thin volumes. Bond yields across the euro area edged higher, while the US dollar, gold and crude were little-changed. Asia saw most of the action, with the Hang Seng Index rising 3%, and Asian stocks led higher by heavyweights TSMC, Tencent, Samsung, and overall by the technology shares. Chip stocks surged in the wake of Nvidia's unstoppable rally and Apple's new AI features benefitting its supply chain. The MSCI EM index gained 0.7%, holding just 2% off the highs of the year.

European equities have sold off by 5% from their mid-May highs following the political turmoil in France in the wake of the far right's success in the EU parliament elections. And French bonds have continued to sell off raising an alarm of contagion risk. Not only President Macron called a general election in a risky bet to challenge the ascendancy of the far right in France, but yesterday the EU also reprimanded France and Italy for running big deficits. Are rising political and credit risks of concern for investors holding European assets? Unlikely so. Markets could be overestimating the odds of a far-right majority government, and should it even come to that, the majority would strive to curb immigration, rather than push for an impossible Frexit. As for the rising yields, indeed the French elections are weeks away and there is room for things to get worse. But should OAT yields become unruly, the ECB would intervene under the Transmission Protection Instrument framework. Overall, the outlook should be for interim volatility, rather than a full-blown crisis. There is hints that dollar investors may be taking the possibility of further European turmoil seriously, with the US dollar index trading close to a six-week high and pointing to a possible break-out to the upside.

UK inflation fell to the BOE's 2% goal for the first time in almost three years, although the services CPI continued to come in hot. The expectation is anyway for the central bank to remain on track to cut rates, with a policy shift unlikely at the Thursday meeting due to the ongoing election campaign. The taming of price pressures might not help the ruling conservative party, heading for a defeat in the July 4 elections according to polls.

Brent crude rallied more than 8% in two weeks, catching most by surprise after an OPEC's decision that, although on paper was meant to curb supply, would see a production increase in 2025. It may be that investors have doubts about the cartel members eventually executing fully on the decision, as options were maintained to delay, pause or reverse plan if required to stabilise the market. Or, more simply put, the approaching driving season in the United States should see the usual seasonal peak in demand. According to Goldman Sachs crude prices should rise "modestly" to an August peak on healthy consumer activity and transportation and cooling demand, that would be pushing the market into a deficit by 1.3m b/d over Q3. But this is by now not much of a forecast either, as Brent is already trading slightly above \$85. For now, the forceful rise in crude prices seems to be suggesting something more than a modest peak ahead.

The next catalyst for the week is the Friday release of the advance business confidence surveys in the major DM countries and in India, providing important cues about the direction of the economies.

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