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CREATING OPPORTUNITIES

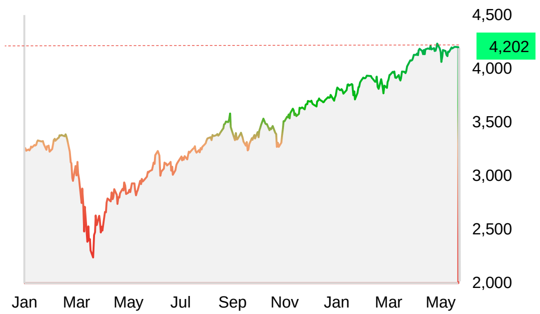
Global Market Watch

Global markets
Periodic
June 3, 2021

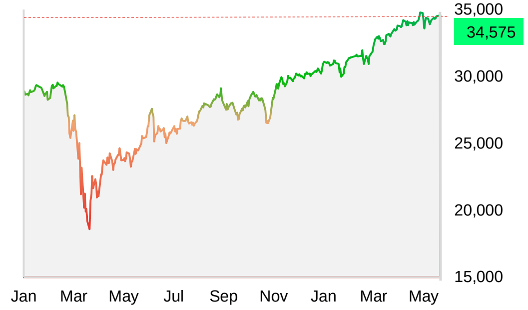
What's moving markets

- Despite the gradual rebound in the economic activity in the US and associated increased inflationary pressures, FED governors reassured the markets that increased commodities prices are temporary and there is no threat of 'taper tantrum' (i.e. move to a restrictive monetary policy) as short-term factors pushing prices upwards (oil price increase and supply chain bottlenecks) would fade away in the medium term. ECB's Executive Board member Fabio Panetta, noted that cutting the Quantities Easing program would be 'premature' at this point, risking the sustainable rebound of the economy. These comments from the central banks' executives have caused rally in the sovereign bonds in US and Europe. On the back of increased demand, US treasury benchmark rate (10-year) declined further to 1.58% by 28 May (please note, bond yields and prices move in the opposite direction), while in Europe Germany's 10-year yield fell to -0.2% (after sharp rise in the beginning of the month due to improved economic sentiments in Europe). On another note, Eurozone inflation jumped to 2% in May (1.6% in April), passing the ECB's target for the first time since 2018. The surge in inflation might complicate policymakers' efforts to maintain the QE unchanged.
- In May, earnings season in the US and Europe came to an end, with corporates reporting stellar financial results, beating the analyst expectations. Notably, it seems that markets had already priced in the economic recovery of 1Q21, with stocks not moving much after the earnings announcements.
- Overall, global equities traded mixed in May. S&P 500 Index posted a marginal 0.5% growth in May reaching 4,202. Tech stocks underperformed, with technology heavy NASDAQ composite down 1.6% in May. Dow Jones index posted a 2.1% growth in the same period. In Europe, STOXX index increased by 2.3%, while FTSE 250 was up 2.2% m/m.

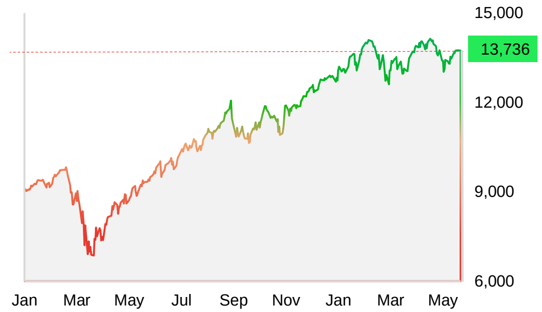
S&P 500



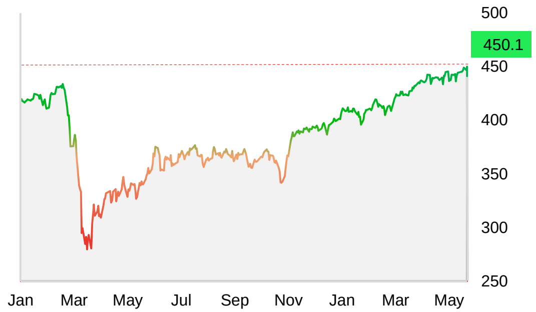
Dow Jones Industrial Average



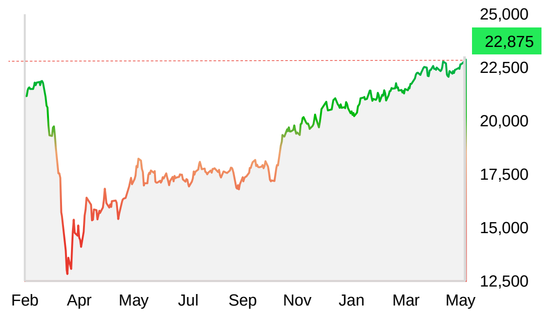
NASDAQ



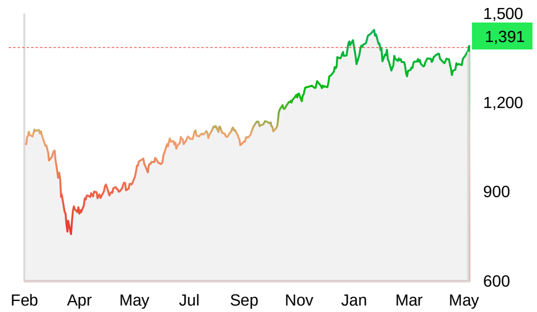
STOXX 600 Europe



FTSE 250



Emerging Markets Index



Source: Bloomberg
Note: Data as of 1 June 2021

- Central Bank of **China** raised its FX reserve requirements for banks from 5% to 7%, and some analysts view this as response to cool down the strengthening of Chinese currency (3-year maximum). Chinese economy posted a record-high 18.3% y/y growth in 1Q21, however on a quarterly basis the economy increased by a mere 0.6%, well below the analysts expectations. Industrial production and household consumption were the main driving forces behind the growth in 1Q. Despite the stellar economic growth, analysts are worried that China's economic rebound from the COVID-19 pandemic is cooling off. Notably, in its recent report the OECD expects Chinese economy to grow at 8.5% in 2021. China's Shanghai Composite index posted a solid 4.8% growth in May.
- In **Japan**, on the back of worsened pandemic situation, the economy fell back into the decline, contracting at an annualized 5.1% in 1Q21, above market expectation. Notably, on a quarterly basis the economy contracted by 1.3%. As Japan's big cities remain under restriction the slowdown in the economy could continue in 2Q21. On a positive note, Japan's government has announced about the rollout of mass vaccination of elderly, ahead of the Tokyo Olympics on July 23. By end of May, Japan's Nikkei 225 index was trading 0.3% lower compared to end-April level.

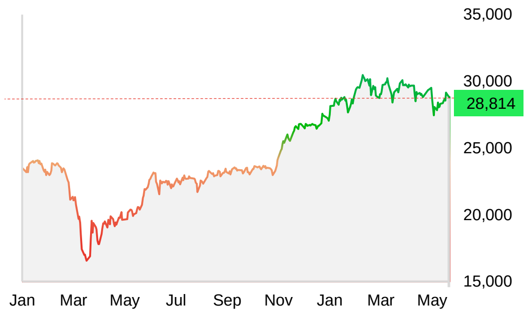
Commodities

- Much of the elevated inflationary pressures globally are stemming from the rising oil prices. The rally in oil prices continued in May, with WTI crude oil price reaching US$ 67.7/barrel by 1st of June, the highest level since the pandemic, while Brent crude oil price increased by 4.0% in May to US$ 70.25/barrel by 1st of June. Notably, on the recent meeting, OPEC+ ministers agreed gradual supply increases despite the recovery in demand as pandemic related uncertainties remain.
- Gold price increase continued in May, with the price reaching $1,900 per troy ounce as of 1st of June 2021, the highest level since early January 2021.

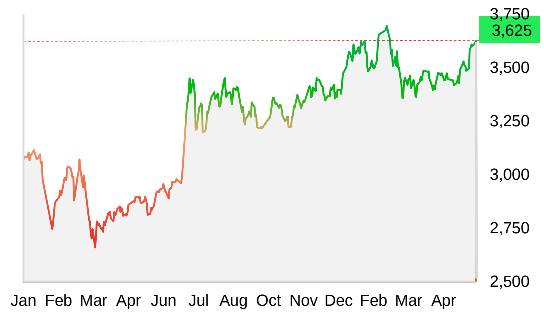
Volatility

- Cboe Volatility Index, VIX, the gauge of fear in S&P market, has remained mostly unchanged during 2019, standing at 17.9 by 1st of June.

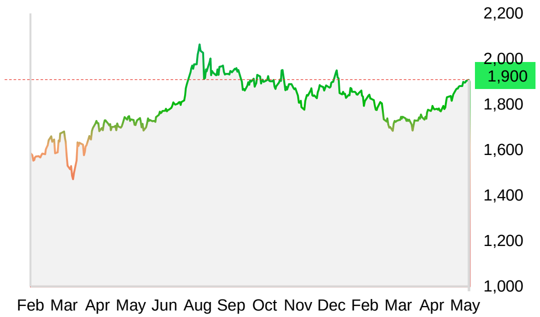
Nikkei 225



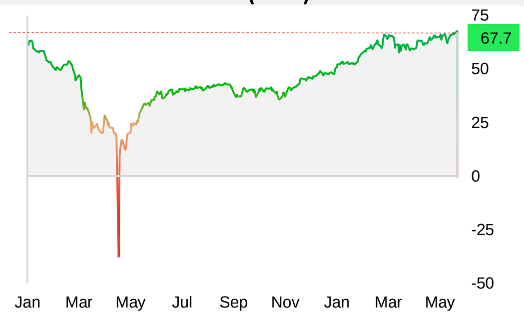
Shanghai Composite Index



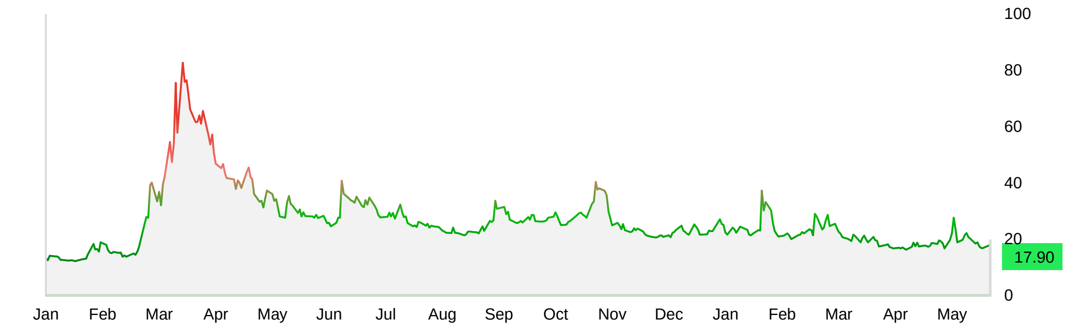
Gold



Oil (WTI)



Vix



Source: Bloomberg
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