Market News - Week beginning 14-03-2022

Firstly – a note about market hours. With clocks going forward an hour yesterday, the time3 difference between Europe and Norgth America will be 4 hours until Europe puts its own clocks forward on Sunday 27th March.

Another important week for markets where headlines are dominated by the war in Ukraine.

Overnight markets are higher, with oil slightly lower as hopes rise slightly that Russia is willing to engage in further discussions to end the conflict. However, actions on the ground continue with Russia reminding the west that it can reach right up to the frontier between Ukraine and NATO, with a Russian cruise missile attack on a military training base in Yavoriv, which is just 20 km from the border with Poland.

This time last week we woke to a massive spike in oil prices as western governments attempted to embargo Russian oil and gas. Despite US and UK authorities banning Russian oil, the west could not muster enough practical support for a total ban, with the EU agreeing to ween itself off Russian oil over the next year.

Oil prices have since backed off from the alarming spike above $130 last Monday.

Not only did oil prices spike and equities slump, but bond yields fell as prices increased in a sharp risk-off move.

Despite rampant inflation across the globe, bond yields rose as investors sought the safe haven of fixed income. Typically, equites fall in times of angst as they are higher risk, witness the near total collapse in Russian equities, whilst sovereign bonds provide almost guaranteed returns albeit minuscule in comparison to shares.

This time last week bond yields jumped with 10-year German bunds yielding -0.03% (minus 3 basis points). Well following the rebound in risk, bonds fell pushing those same German bonds back to +0.24% by Friday evening. For the normally mundane bond markets this was quite a move – and reminds us all that, despite and because of the war in Ukraine, inflation n will continue to be a major talking point in the months ahead.

Remember, even before the Ukraine war, inflation was jumping alarmingly with supply bottlenecks being the main cause of the big jump in the costs of living.

This week will re-focus our minds, amidst the catastrophe of war in Ukraine, on the sharp and continuing rise in inflation.

Both the Federal reserve and the Bank of England meet to deliberate the next move in monetary policy. More on that in our calendar review,

Markets Review / Preview –

<u>Review</u>

FTSE +158 +2.4%   DOW -617 -1.83% S&P -117 -2.7% NASDAQ -489 –3.54%
DAX +533 +4.07%   NIKKEI 822 -3.17%   Hang Seng -1,542 -7.14%

Equities staged a modest recovery last week, following the alarming moves last Monday. Whilst US indices still closed lower the falls were cushioned by a pullback in oil and energy prices following the failure to completely embargo Russian oil in the West.

Even the FTSE recovered having been battered earlier last week, the FTSE100 recovered 350 points or 5% to close with decent gains.

Poor old Hang Seng. The Hong Kong index continues to fall without any respite.

Not only is the index suffering the same fallout as other global indices following the war in Ukraine, but covid infections have hit the former British colony hard in the past 6 weeks. Many ex-pats are finally moving out to Singapore and other regional bases as lockdown life is intolerable for many.

And now, infection rates are rising alarmingly in the central China, with infection rates the highest since the start of the pandemic.

The moves in the Hang Seng overnight reflect the expected economic impact from the potential lockdowns with half the country expected to be under rolling one-week lockdowns

EURUSD unch   GBPUSD -1.9 -1.43% USDJPY +2.53 +2.2%

The US Dollar continued to climb last week although the Euro held its ground as the ECB scaled back its bond purchases and signalled an end to outright purchases by end of Q3.

The ECB confirmed that it would **take whatever action is needed** . . . to **pursue price stability and to safeguard financial stability**

The **JPY suffered significant falls** as interest rate expectations take their toll on the currency.

Gold +18 +0.9% UK OIL -5.54 -4.7% US OIL -5.8 -5%

Bitcoin -425 -1.1%

Following a **sharp jump in prices the previous week**, oil pulled back last week as the **Russian oil embargo** was **not adopted by the EU**, amongst others.

This morning **oil is slipping again** following positive noise coming out about **further discussions between Ukrainian and Russian negotiators**.

Data / Events this week

A big week for markets, with **three** key **central banks meeting**.

Monday

No data today

Tuesday

Australia	Monetary policy minutes
China	Retail sales. Not so key considering increasing number of lockdowns.
Germany & Eurozone	ZEW Economic sentiment. Not surprisingly, falling off the edge of a cliff as Germany gets battered by its vulnerability to Russian energy.
US	PPI – **Producer price index.** A precursor to inflation. Still hot.
US	**Empire state manufacturing**. A slight uptick from last month's falls. USD & equities sensitive

Wednesday

US	Core retail sales. A correction to last months surprise jump.
US	**crude oil inventories**. Irrelevant.
US	**FOMC**. The **long awaited first rate rise** since the **start of the pandemic**. The Federal reserve have allowed **inflation to take hold** whilst **still purchasing bonds**.

That's all finished and now it's a d**ead cert that rates will go up** by **0.25%** this month.

Could they go up by 0.5%? ……………Now that would be a surprise given recent utterings.

Of course, the **Ukraine war** introduces a lot of **uncertainty about the effect of the US and other Western economies**.

But with **inflation running at 7.9%** the FOMC will **have** to act.

See https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html how rate expectations have ebbed and flowed over the past month.

Press conference at 6.30pm could be **lively**.

Global equities and bonds and US Dollar all sensitive to the news.

Thursday

Eurozone	**Lagarde speaking** at financial stability conference in Frankfurt.
UK	**MPC rate announcement**. It would be a surprise in the BoE did not raise rates. Expect **rates to rise by 0.25% to 0.75%.** GBP, FTSE and Gilts all very sensitive to the news.

Friday

Japan	**BoJ policy meeting.** Expected to **keep rates on hold** because of the **Ukraine war**. Expectations are for BoJ to **keep rates on hold for Q2 & Q3**. That's why the Jap Yen has slumped this past 10 days.