

Daily Update

Your daily market news, moves
and outlook



Tuesday, 7th of December

Markets Outlook

Equities: Markets in Europe have opened firmer on Tuesday morning, following a broadly positive session in Asia overnight. Investor sentiment is beginning to build again as early Omicron data suggests it causes milder, less severe illness. We are still awaiting the data about vaccine efficacy vs the new strain. The EuroStoxx50 and 600 indies are up between 1.8% and 2.4% at the time of writing, driven higher by tech (circa +4%) and consumer cyclicals (+2.8%). Risk assets around the globe have also seen a boost as a result of China's central bank cutting its reserve requirement ratio by 50bps. The VIX is lower to \$24 as futures in the States trade higher this morning.

Currencies: EUR/USD has begun to edge lower once again as traders' Omicron concerns are eased and they turn their attention back to the possibility of a more hawkish Fed. Bitcoin and other cryptocurrencies are looking to recover today after a sharp selloff over the weekend, the main crypto trading 8% higher on Tuesday to above \$51,000 having reached lows of \$42,500 on Saturday. Safe-havens such as the Japanese Yen have lost ground over the last couple of days as overall sentiment has picked up.

Safe-havens: Treasury yields on the short end continue to move higher as risk sentiment improves and markets price in rate hikes in the US next year, on the back of hawkish comments from Powell last week. US 2yr currently yielding 0.65% and flirting with 21-month highs.

Looking ahead: This afternoon is set to be relatively muted in terms of the economic calendar, with the exception of the US monthly Trade Balance figures - not expected to move markets. Tomorrow morning Christine Lagarde is due to speak, and the Bank of Canada will give its latest rate and monetary policy decision at 3pm. Tomorrow will be on the quieter side, we will however see Chinese November CPI inflation results in the early hours, and the weekly US Unemployment Claims figure during the afternoon session. The highlight of the week will come on Friday from the US, when they release their CPI inflation result for November, expected at 6.7% y/y.

Key Events to Watch

08/12/2021 - ECB President Lagarde speaks

08/12/2021 - BOC Rate Decision

10/12/2021 - UK GDP

10/12/2021 - US CPI

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,591	1.17%	22.25%
DAX	15,380	1.39%	12.11%
EuroStoxx	4,137	1.40%	16.45%
ISEQ	8,099	3.04%	9.80%
FTSE	7,232	1.54%	11.95%
Nikkei 225	28,455	1.89%	3.69%

FX	Value	Daily Change	YTD Change
EUR/USD	1.1285	-0.17%	-7.49%
EUR/GBP	0.8506	-0.41%	-4.74%
GBP/USD	1.3264	0.22%	-2.85%
USD/CHF	0.9256	0.77%	4.37%
USD/JPY	113.46	0.37%	10.03%
EUR/JPY	128.04	0.20%	1.79%

Fixed Income	Value	Daily Change
US 10yr	1.433	0.053
US 2yr	0.631	0.018
German 10yr	-0.381	-0.003
Irish 10yr	0.072	0.001
UK 10yr	0.735	-0.033
Japanese 10yr	0.052	0.010

Financial News Round Up

Reserve Bank of Australia

The RBA opted to leave its main interest rate at 0.10% earlier this morning (an all-time low, and where it has been since November of last year), while also sticking with its current asset-purchasing plans. Australia's central bank at present is buying \$16b worth of government bonds each month, and has stated that it plans to continue at this level until at least mid-February 2022. The RBA did point to the fact that "the omicron strain is a new source of uncertainty, but it is not expected to derail the recovery".

While inflation has picked up in Australia, it remains below the levels seen in many other developed regions. The country's Q3 y/y CPI reading came in at 3%, down from Q2's 3.8% (multi-year high).

"The board is committed to maintaining highly supportive monetary conditions to achieve its objectives. This is likely to take some time and the board is prepared to be patient" said RBA Governor Philip Lowe.

Looking forward, many analysts are forecasting that the RBA could half its purchases in February and look to end the scheme by the middle of next year, though we acknowledge there is some risk the bank could cease them entirely in February. AUD/USD trades about 0.6% higher on Tuesday to 0.709 after the release, the currency pair about 7.8% lower so far in 2021.

Evergrande

In yesterday's Daily Update we revisited the Evergrande story, after somewhat pessimistic comments came from the Chinese property developer in recent days and it once again faced the end of one of its 30-day grace periods with regard to bond payments.

News has now emerged that some of the offshore bondholders of Evergrande Group did not receive payments by the end of the latest grace period last night. A failure to make the \$82.5m in interest payments that had originally been due last month could represent the company's first offshore default on a public bond.

A default of this nature could pose serious threats to the rest of the Chinese property market and beyond, and would mean Evergrande would cross-default on roughly \$19b worth of bonds in international markets.

The shares have moved just 1% higher overnight in Hong Kong to 1.83HKD, having plunged by over 19% in the prior session.

It is important to note that the People's Bank of China (PBOC, the nation's central bank) last night moved to cut the share of deposits that that financial institutions must hold in reserve, by 50 basis points, which it claims will free up the equivalent of \$188b of liquidity for its banking system. This is the PBOC's first substantial policy loosening since the initial stages of the pandemic, and clearly comes now in an effort to reassure investors who are bracing for the possible default of Evergrande.