Monday Report 20 December 2021

Economy
US statistics were satisfactory. SME confidence (NFIB index) rose slightly in November, up from 98.2 to 98.4, as did confidence among homebuilders (NAHB) in December, up from 83 to 84. Retail sales and industrial production both came in slightly short of expectations, up only 0.3% and 0.5% MoM respectively. Manufacturing and services PMIs declined in December, albeit remaining high (down from 58.3 to 57.8 and from 58 to 57.5 respectively). The picture was similar in the eurozone, with the manufacturing PMI down from 58.4 to 58, while its services counterpart, hit hard by restrictions, fell from 55.9 to 53.3. In China, industrial production was satisfactory in November (up 3.8% YoY), while retail sales (up 3.9% YoY) and investment (up 5.2% YoY) were both disappointing.

Markets
Less accommodative central bank messaging just as the spread of Omicron is resulting in fresh restrictions has abruptly dampened risk appetite. Equities thus lost 1.5% (MSCI World) last week, while US 10-year sovereign yields fell 8 bps. Credit spreads proved resilient, holding fairly steady. The dollar appreciated (with the dollar index up 0.5%), though this did not stop gold from rising (up 1%). To be monitored this week: Chicago Fed leading economic indicator, consumer confidence and durable goods orders in the US; and consumer confidence in the eurozone.

Climate
The new Dutch coalition’s plans for energy transition, targetting a 60% reduction in CO2 emissions by 2030 (vs. a 1990 baseline), call for an extension to the life of the Borssele nuclear power station (installed capacity: 480 MW; generates 3.3% of the country’s electricity) and… the construction of two new nuclear reactors. The news comes at a time when debate is raging over the (temporary) inclusion of nuclear power in the EU’s “green taxonomy”.

Swiss Market
To be monitored this week (shortened by markets being closed on Christmas Eve): FSO October construction price index, FCA November foreign trade and watch exports, KOF consensus forecast and SNB Q3 balance of payments.

Equities
ALSTOM (Satellites and b-Transition) has received an order from Société Nationale des Chemins de Fer Belges for 98 multifunction train cars, worth €268m. The order falls under a 2015 framework agreement to supply up to 1,362 train cars, 747 of which have been ordered to date.

AstraZeneca (EU Core Holdings) has received early FDA approval for Tezspire as a treatment for severe asthma (originally expected in Q1 2022). The treatment, developed jointly with Amgen, will help support the group’s respiratory franchise (18% of sales), with potential peak sales exceeding $1bn.

We are removing HOCIM from our recommendations. The transition trajectories required to meet the goals laid down in the Paris Agreement will translate into rising operating costs and investment over the next 20 years. These are not, in our opinion, adequately priced in to cement industry share prices.

Bonds
The Fed decided at its last meeting to double the pace of tapering (to $30bn a month) and is now anticipating three rate hikes in 2022, slightly ahead of market expectations. The news triggered a decline in US yields all along the curve (2 years: -2 bps; 5 and 10 years: 8 bps), mostly because of the downshift in inflation expectations. In credit, despite a slight (5 bps) widening in high-yield spreads, all categories posted gains in both the US (IG: up 0.34%; HY: up 0.07%) and Europe (IG: up 0.09%; HY: up 0.02%).

Sentiment of traders
Stock market
Indices, hammered by news of Fed rate hikes and the onslaught of Omicron, tested initial support levels. The slide continued at the open this morning, led by Asia. The prospect of a Christmas rally appears to be waning, with Biden’s stimulus plan failing to win through in the Senate. It looks set to be a gloomy end to the year.

Currencies
The surge in Covid cases and Joe Manchin’s rejection of Biden’s investment plan have pushed the market into risk-off mode this morning. EUR is trending down: EUR/USD 1.1258; EUR/CHF 1.04. It must break through support at EUR/USD 1.1200 and EUR/CHF 1.0375, failing which a return towards EUR/USD 1.3400 and EUR/CHF 1.0530 is possible. The BoE surprised the market by hiking rates to 0.25%, causing GBP/USD to rise to 1.3350 before falling back to 1.3210. Our ranges – USD/CHF: 0.93-0.9150; EUR/USD: 1.0375, failing which a return towards EUR/USD 1.1340 and EUR/CHF 1.0530 is possible.

Performances
Gold (USD/per once)
Gold (USD/bl)
10-year yield USD (level)
10-year yield EUR (level)
10-year yield CHF (level)
Gold (USD/per once)
Brent (USD/bl)

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