

WEEKLY MARKETS ROUND-UP

Executive Summary

20th November 2023

Top news: CPI surprises dovishly, triggering a markets' melt-up – “bad news is good news” found renewed confirmation last week with the US CPI data coming in weaker than expected. Core CPI posted +0.2% MoM vs +0.3% exp., bringing the YoY progression to 4%. Previously resilient items such as Shelter started to slow, while Vehicle or Airfare costs actually dropped. Headline inflation incl. Food & Energy dropped to +0% MoM (+3.2% YoY) helped by a monthly -2.5% drop in Energy prices. This weaker data was confirmed on Friday with a -0.1% monthly drop in US retail sales (although even worse was expected). This week, markets will be looking to confirm further dovishness with the FED minutes on Tuesday evening, as well as to the European and US Flash Purchasing Managers Indexes (PMIs), which offer advanced guidance as to the progression of the economy, respectively on Thursday and Friday. This week will also see the earnings release from NVIDIA, the last of the Magnificent seven to report, on Tuesday after the close.

Equity: US equity markets rose almost +3% last week, EuroStoxx50 and Nikkei225 by almost 4%. All three are getting closer to their yearly highs. They may see a slight breather this week, yet further upside over the next 2-3 weeks. We then expect a new period of correction from late this year into Q1 (i.e. higher for longer while the economy slows).

Fixed Income: bond yields continued lower last week on the weaker CPI. The US and German 10Y are now down resp. -0.6% and -0.4% from their recent highs. They may continue to drop into late Q4 / early Q1 initially, perhaps testing below 4% and towards 2% respectively. However, resilient real term premia could then put a floor on this retracement, probably from H1 next year, in the US at least, and as fiscal expansion further accelerates (see next page).

FOREX: The US Dollar is currently retracing on dovish dynamics, yet could stabilize/bounce back (with or without new highs?) from December into Q1 as it probably becomes clear that the ECB could start to cut before the FED does.

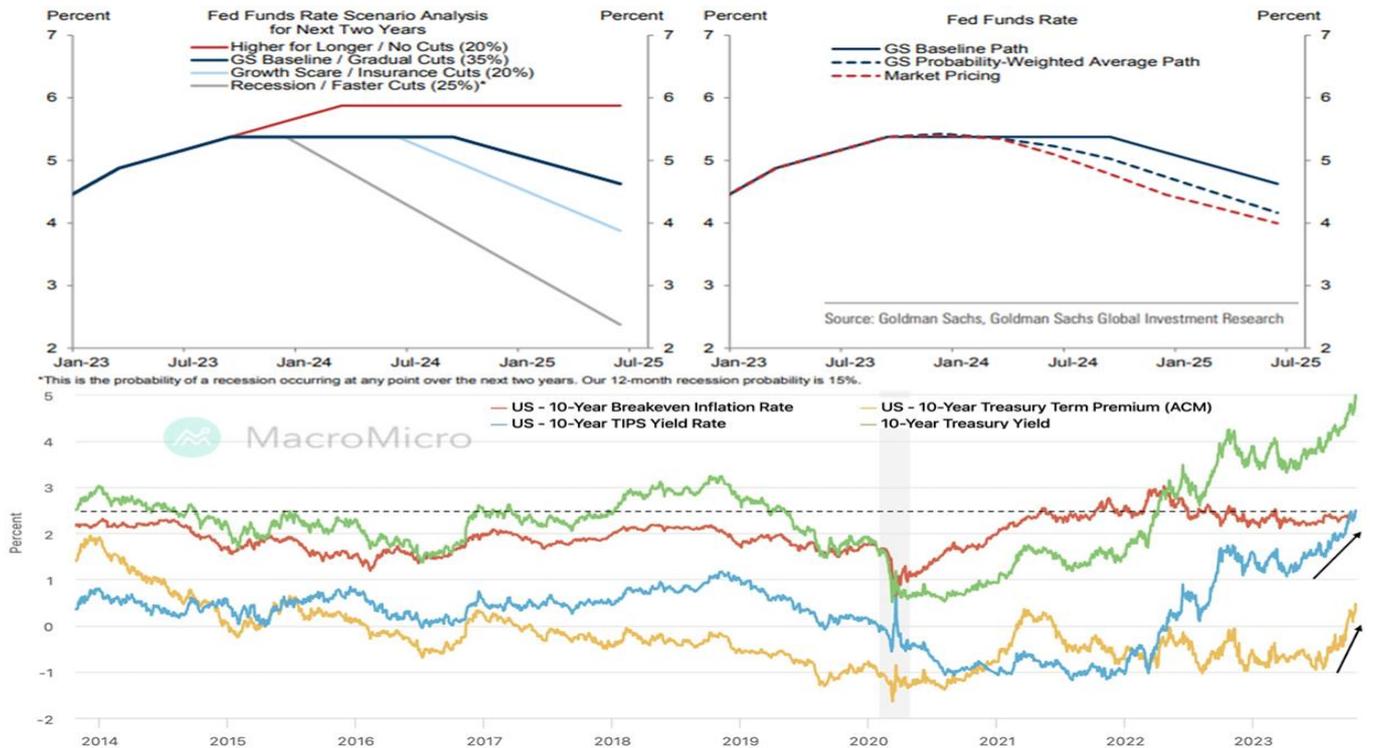
Commodities: Oil was saved by Friday's rally, ended-up flat for the week, yet remains under further pressure, probably into Q1. Gold is holding up for now in the higher 1'900s, yet could also retrace into Q1 as the US Dollar bounces back.

	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance	Trend	Exaggeration
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	4 515	Dec-22	3 783	19,3%	Jul-23	4 589	-1,6%	17,6%	neutral	neutral
Nasdaq100 Index	USD	15 838	Dec-22	10 679	48,3%	Jul-23	15 841	-0,0%	44,8%	neutral	neutral
Dow Jones Industrials Index	USD	34 947	Mar-23	31 819	9,8%	Aug-23	35 631	-1,9%	5,4%	neutral	slightly OB
EuroStoxx50	EUR	4 341	Dec-22	3 794	14,4%	Jul-23	4 471	-2,9%	14,4%	neutral	neutral
Swiss Market Index	CHF	10 737	Oct-23	10 324	4,0%	May-23	11 595	-7,4%	0,1%	down	neutral
Nikkei225	JPY	33 585	Jan-23	25 717	30,6%	Jul-23	33 753	-0,5%	28,7%	neutral	neutral
Shanghai Composite	CNY	3 054	Oct-23	2 939	3,9%	May-23	3 395	-10,0%	-1,1%	neutral	neutral
US 10Y Treasury Yield	%	4,44%	Apr-23	3,31%	1,1%	Oct-23	4,99%	-0,6%	0,6%	up	neutral
German 10Y Bund Yield	%	2,59%	Dec-22	1,79%	0,8%	Sep-23	2,97%	-0,4%	0,0%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	90	Oct-23	83	8,2%	Dec-22	105	-14,2%	-5,4%	down	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	104	Oct-23	98	6,1%	Feb-23	107	-2,5%	3,4%	neutral	slightly OB
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Dec-22	69	8,4%	Nov-23	75	0,0%	7,0%	neutral	slightly OB
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	84	Nov-22	79	5,9%	Jul-23	86	-1,8%	4,3%	neutral	neutral
EUR/USD		1,09	Nov-22	1,02	6,6%	Jul-23	1,12	-2,9%	2,0%	neutral	neutral
GBP/USD		1,25	Nov-22	1,18	5,4%	Jul-23	1,31	-5,1%	3,1%	neutral	neutral
USD/JPY		150	Jan-23	128	17,0%	Nov-23	152	-1,4%	14,1%	neutral	neutral
USD/CHF		0,89	Jul-23	0,86	3,2%	Nov-22	0,96	-7,7%	-4,2%	neutral	neutral
AUD/USD		0,65	Oct-23	0,63	3,4%	Feb-23	0,71	-8,7%	-4,4%	neutral	neutral
Brent Oil (per Barrel)	USD	81	Jun-23	72	12,1%	Sep-23	97	-16,6%	-6,3%	neutral	slightly OS
Gold Spot (per Ounce)	USD	1 981	Nov-22	1 739	13,9%	May-23	2 050	-3,4%	8,5%	neutral	neutral

* These large fixed income ETFs are used as proxies to assess the state of duration trades as well as of credit markets

Real Rates Focus: Inflation and Fed Fund Rates have decoupled from real yields

Last week's lower CPI confirms that rate cuts could be getting nearer. While Goldman Sachs remains higher for longer than market consensus, it is insightful to consider the various scenarios they envisage (top left graph), while consensus (market pricing) expects rate cuts as early as next Spring (top right graph). That said, the main driver of long term rates since early 2022 has been the rapidly rising real term premium (lower graph). It is driven by fiscal expansion, rather than Inflation Expectations. 2024 being an election year, this long term real premium may continue to rise, despite the short term rate cuts being priced in. Eventually, as the year progresses, the FED may need to reverse QT into QE in order to cap these long term rates. We would hence probably expect tighter monetary conditions during H1 but then a new liquidity bonanza in H2/2024.



Notes:

- Trend last 6 months:** this Primis original algorithm, weighs the slope of the trend over the last 6 months vs the slope of the trend over the last 3 months yet factorised by the Fibonacci retracement ratio (0.618). Values are normalised using the average price over each period. If this combined slope is above +0.05% the trend is then "up", below -0.05% then "down", otherwise it is "neutral".
- Overbought (OB) / Oversold (OS) measures:** this Primis original algorithm is computed by comparing the difference between the 8 days moving average and the 100 days combined with the 3 days vs the 15 days one and normalises this difference by dividing it by the 1 year standard deviation (circa 260 open market days). Values above 225% or under -225% are Overbought "OB", resp. Oversold "OS", values above 100% or under -100% are "slightly OB", resp. "slightly OS", otherwise there is no relevant exaggeration and the situation is then "neutral".

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