Confidence must be earned
Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of September 6, 2021

By Amundi Research

The week at a glance

- **Markets**: The week has been positive for equity markets all over the world, mainly for emerging markets and Japan.
- **United States:** US Conference Board Consumer Confidence index fell to a six-month low in August, to 113.8, down from July's 125.1.
- **Eurozone**: Eurozone retail sales declined by 2.3% month-on-month in July to +3.1% compared to July 2020.

KEY FIGURE

235k

New US jobs in August (down from 1.1m in July)

Focus

Global manufacturing activity grew at a solid rate in August despite losing some momentum as geographical divergences widened.

The upturn in global manufacturing activity continued in August, despite losing further momentum, due to severe supply chain disruptions, high pricing pressures and input shortages, which continue to constrain output volumes. Accordingly, despite the progressive ongoing deceleration, manufacturing activity remains strong in the US and in the Eurozone, where manufacturers reported solid demand overall. On the other hand, the worsening pandemic situation in Asia led to a significant and widespread deterioration in operating conditions, with manufacturers reporting a contraction in output volumes in several countries. Chinese manufactures signalled a slight contraction in output and new work volumes, as the resurgence of Covid-19, domestically and abroad, weighed on demand.
At a global level, employment continues to rise at a solid rate, as companies are being encouraged to increase staff levels to cope with the strong demand and heavy backlogs. Another factor is the overall robust optimism on the future business outlook, despite the Delta variant's accelerating global spread. Severe supply chain disruptions and strong upward inflationary pressures remain the two major risks to the manufacturing outlook, as the major constraints on output volumes. Accordingly, delivery times remain at record highs, due to disruptions caused by input shortages and supplier capacity issues. As far as inflationary pressures are concerned, cost burdens continue to rise sharply across product categories, leading firms to adjust selling prices higher.

KEY DATES

9th September	ECB monetary policy meeting
22nd September	US Fed monetary policy meeting
23rd September	BoE monetary policy meeting
26th September	German federal elections

Source: Amundi Research.

Our weekly analysis

Europe strategic dilemmas in Afghanistan

The end of US military presence in Afghanistan leaves Europe with its first strategic dilemma of cooperation with Russia. Although China seemingly will play an active role in the future of the region, it is unlikely to protect European interests whereas Russia could. But at the same time, Russia's growing influence at the borders of Europe is a source of concerns for the E.U. Indeed, the conflict in Ukraine/Crimea remains unsettled, and Belarus is moving towards more integration with the Russian Federation, while Baltic countries always felt the pressure at their border. Afghanistan would be added to the list of situations such as Syria and Iraq where the E.U. needs Russia.

The second dilemma relates to Turkey, which is the only NATO member with a Muslim population (moreover Sunni) and has a historical and ethnical relationship with Afghanistan. Turkey could play a key role as a mediator and eventually provide a lifeline for the new regime, while its relationship with Europe has deteriorated recently. The third dilemma is about Afghanistan itself. Would the Taliban be unable to monitor Al Qaeda and terrorist groups, or would they themselves support international terrorism? Europe would certainly be a target and therefore will have to react.

Lack of preventive actions in previous decade has caused hundreds of casualties. Another wave of terrorism on European soil would be unacceptable. The fact that NATO allies were not involved in the US exit was already a blow for European leaders, but the future of Afghanistan might become an equation with too many unknowns.

More generally, the Afghan crisis shows how dependent Europe is on the United States, especially when it comes to conducting large-scale military operations outside its borders. European defence is almost non-existent. This crisis acts as a wake-up call for European leaders who need to strengthen their military cooperation if they want to give substance to the concept of "strategic autonomy" at the EU level.

Indice	Performance			
Equity markets	03/09/2021	1 W	1 M	YTD
S&P 500	4530	0.4%	2.4%	20.6%
Eurostoxx 50	4190	0.0%	1.8%	17.9%
CAC 40	6680	0.0%	-0.7%	20.3%
Dax 30	15733	-0.7%	1.1%	14.7%
Nikkei 225	29128	5.4%	5.4%	6.1%
SMI	12313	-1.0%	1.2%	15.0%
SPI	15867	-0.7%	1.5%	19.1%
MSCI Emerging Markets (close -1D)	1312	3.1%	1.4%	1.6%
Commodities - Volatility	03/09/21	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	73	0.6%	1.0%	41.2%
Gold ($/ounce)	1822	0.3%	0.7%	-4.0%
VIX	17	0.3	-1.3	-6.0
FX markets	03/09/21	1 W	1 M	YTD
EUR/USD	1.19	0.8%	0.2%	-2.7%
USD/JPY	110	-0.1%	0.7%	6.3%
EUR/GBP	0.86	0.2%	0.7%	-3.9%
EUR/CHF	1.09	1.1%	1.3%	0.4%
USD/CHF	0.91	0.3%	1.1%	3.2%

Source: Bloomberg, Amundi Research – 09/03/2021 – 15:00 pm

Indice	Performance			
Credit markets	03/09/2021	1 W	1 M	YTD
Itraxx Main	+45 bp	-1 bp	-2 bp	-3 bp
Itraxx Crossover	+228 bp	-2 bp	-8 bp	-13 bp
Itraxx Financials Senior	+52 bp	-1 bp	-2 bp	-7 bp
Fixed Income markets	03/09/21	1 W	1 M	YTD
ESTER OIS	98.93	-1 bp	-5 bp	-38 bp
EONIA	-0.48	-	-	+1 bp
Euribor 3M	-0.55	-	--	--
Libor USD 3M	0.12	--	--	-12 bp
2Y yield (Germany)	-0.71	+2 bp	+6 bp	-1 bp
10Y yield (Germany)	-0.36	+7 bp	+13 bp	+21 bp
2Y yield (US)	0.21	-1 bp	+4 bp	+9 bp
10Y yield (US)	1.33	+2 bp	+16 bp	+42 bp
Eurozone Sovereigns 10Y spreads vs Germany	03/09/21	1 W	1 M	YTD
France	+35 bp	-1 bp	--	+11 bp
Austria	+23 bp	-1 bp	--	+8 bp
Netherlands	+12 bp	-1 bp	-	+4 bp
Finland	+22 bp	-2 bp	-3 bp	+7 bp
Belgium	+32 bp	-2 bp	-2 bp	+13 bp
Ireland	+38 bp	-1 bp	-1 bp	+11 bp
Portugal	+59 bp	-1 bp	-3 bp	-1 bp
Spain	+70 bp	-2 bp	-2 bp	+8 bp
Italy	+107 bp	+1 bp	+2 bp	-4 bp

Asset class

	MARKET	AMUNDI ANALYSIS
Equity	**The week was positive for equity markets, mainly for emerging markets and Japan.** Chinese stocks performed quite well, recovering from their August lows. The US market moved only marginally higher, close to its historical highs. Investors are awaiting the US monthly jobs report, which will likely show a slower pace of job gains amidst the Delta variant's spread last month.	The risk on the environment continues. A breather could easily take place, but relative valuation will keep a consolidation from morphing into a bear market. Europe and Pacific markets (including Japan) should benefit from their cyclical behavior. Value laggards and emerging markets seem most attractive.
Fixed Income	**The 10-year German Bund yield increased over the week from -0.42% to -0.38%.** It hit its highest level in more than six weeks at -0.35% on Wednesday after several Hawkish comments from ECB officials. Yields on 10-year U.S. Treasuries were flat for the week, ahead of the release of the August US jobs report, which could be a key factor for the Fed in deciding when to start slowing its program of purchases of treasury securities.	As in the US, debates are rising within the ECB Governing Council. Hawkish members argue that the rise in inflation, fuelled by the massive fiscal stimulus and by supply bottlenecks, could continue and no longer justifies massive monetary stimulus. US hiring slowed abruptly in August with the smallest jobs gain in seven months, complicating the decision by the Federal Reserve. We anticipate the Fed will formally announce a tapering in December.
Credit	**Credit markets performed well this week with spreads tighter again after a few weeks of nervousness over the Jackson Hole Symposium.** In addition, the volumes of new issues remained high. The appetite for the asset class remains strong.	The next hurdle for the credit market remains the possibility for central banks to start tapering their bond purchase programs: The nonfarm payroll (NFP) data should provide a clearer picture of the Fed's view on tapering. And the later, ECB meeting comes after some of those officials commented on the need to start discussing ending the pandemic emergency purchase program (PEPP). In either case, we may see some volatility but the impact on credit will be limited, short-lived and interest rate spreads may even continue to tighten given strong corporate fundamentals.
Foreign Exchange	**Almost all G10 currencies appreciated this week vs the USD.** In particular, the Australian dollar held near three-week highs, thanks to a step-up in vaccinations and encouraging economic news. The New Zealand dollar also performed very well. On the other hand, the Swiss franc lost ground vs the USD. USD weakness also occurred vs emerging currencies, in particular the South African rand, the Polish zloty and the Chilean peso.	Growth remains in favour of the USD thanks to the fiscal booster. This is building a US growth premium vs the rest of the world and we see space for some further appreciation of the USD vs EUR. Emerging currencies appear, on average, cheap. Some more upside for Latam currencies, the Russian rouble and the Indonesia rupiah, but volatility is expected to remain high.
Commodities	**Commodities moved down this week by -0.7%.** WTI and Brent remained resilient at \$70 and \$73, respectively, on temporary Hurricane Ida-related interruptions in parts of the Gulf of Mexico. Gold remained slightly above \$1800, while base metals moved lower by -0.2%.	Economic growth and economic reopening are still the relevant drivers of commodities in 2021. Gold is still dominated by central banks' announcements and narratives in the near term, preventing any significant trend so far, as expected. Oil should stabilise at current levels in the coming months despite the recent rally. Base metals should move higher, in line with the economic recovery and potential shortages of some specific commodities, although the most acute phase for undersupply imbalance should be behind us. A game-changer of this scenario would be a larger than expected growth deceleration.

Economic indicators

	MARKET	AMUNDI ANALYSIS
United States	**US Conference Board Consumer Confidence index fell to a six-month low in August, to 113.8, down from July's 125.1.** The Present Situation Index, which tracks consumers' assessment of current business and labour market conditions, slid to 147.3 from 157.2, while the Expectations Index, based on consumers' short-term outlook for income, business, and labour market conditions fell to 91.4 from 103.8.	Consumer confidence moderated significantly in August, as worries about the rapid spread of the Delta variant and higher inflation softened consumer optimism about present and short-term future economic conditions. Spending intentions for homes, autos and major appliances cooled in August, while the number of consumers considering or planning a vacation kept rising, providing further confirmation of an ongoing progressive rotation in spending from goods to services as a result of the easing of Covid-19 restrictions over the summer.
Eurozone	**Eurozone retail sales declined by 2.3% MoM in July to +3.1% compared to July 2020, according to the latest release by Eurostat, on Friday.**	Retail sales softened sharply in July across the Eurozone, affected in particular by a steep decline in online sales, which dropped by 7.3%, along with lower purchases of food and non-food products (excluding fuel), which slid respectively by 0.7% MoM and 3.5% MoM. On a country basis, divergences arose as retail sales contracted by 5.1% in Germany and by 0.7% in France, while remaining flat in Spain and expanded by 0.7% MoM in Italy.
Japan	**The MoF Corporate Survey shows that the capex rebound in the second quarter beat expectations.** Manufacturing capex rose 3.9% QoQ in the second quarter, while non-manufacturing capital expenditures grew 2.8%. The earnings recovery was solid, as operating profit was up 0.9% QoQ, driven purely by manufacturers.	The upbeat Corporate Survey suggests that Japan's manufacturing sector continued to benefit from the global economic recovery in the second quarter. That said, as China growth moderates and as US ISM starts to peak, the outlook for external demand will become more challenging ahead. Non-manufacturers continued to suffer from social distancing measures and recurring Covid-19 cases.
Emerging Market	**Chile's BCCh hiked rates by 75bps (to a still accommodative 1.5%)** and followed up with a hawkish Monetary Policy Report in which it indicated concerns over not only inflation but macro imbalances in general as a result of excessive policy support – demand outstripping supply, current account deficit widening, inflation pressures building up in the process etc.	The central bank's rates corridor shows rates rising quickly and through the neutral level but not a whole lot above it – the speedy part as a response to the robust recovery, the mildly contractionary level because of cautious 2022/23 outlook. We are more bullish on growth requiring in turn a bigger monetary policy response. We see rates rising to (more than just mildly) contractionary levels (4.50-5%) in 2022.