Weekly Flash

Persistent disruption

MARKET PERFORMANCES (as of October 15, 2021 – 14:50 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
S&P 500 Index	4'438.26	0.88%	18.16%	Gold	1'767.62	0.60%	-6.89%
S&P/Toronto Stock	20'819.94	1.98%	19.43%	Silver	23.08	1.76%	-12.60%
EuroStoxx 50	4'172.59	2.44%	17.45%	Oil WTI	81.86	3.16%	68.71%
SMI Index	11'948.92	1.56%	11.64%	EUR/USD	1.1595	0.22%	-5.08%
DAX Index	15'555.05	2.29%	13.39%	EUR/CHF	1.0736	-0.04%	0.71%
Nikkei Index	29'068.63	3.64%	5.92%	USD/CHF	0.9259	0.17%	4.40%
Emerging Market Index	71'853.12	0.63%	0.22%	USD/JPY	114.41	-1.90%	9.75%
Yield 10Y US Treasuries	1.555	-0.0573	0.6406	CAD/USD	0.8081	-0.78%	-2.82%
Yield 10Y German Bund	-0.165	-0.0122	0.4099	USD/CNY	6.4379	0.09%	-1.39%

[Source: Bloomberg]

Summary
- Rising energy prices
- Widespread supply bottlenecks
- Does this lead to stagflation?

Energy crisis?
The ongoing rise in energy prices has complex origins. Several factors can be blamed. A resurging demand as economies reopen after COVID-19 lockdowns. Unusual weather conditions in certain areas of the globe led to reduced wind turbine-generated power, leaving a void filled by increased usage of natural gas. Decarbonization efforts in many countries around the globe (i.e. China reduced coal production). The Organization of the Petroleum Exporting Countries (OPEC) did not opt to increase oil production targets last week and EU's energy policy to buy natural gas only on short-term contracts led to strong price rises in the energy sector. Natural gas prices are now multiples of their pre-COVID averages, and Brent crude climbed past USD 80 for the first time in six years.

However, not everything is bleak. Last week brought some news about developments that could potentially alleviate the situation somewhat, as Russia's apparent willingness to increase natural gas supplies to Europe over the winter led to immediate large swings in natural gas future prices. In addition, China's decision to re-boost its domestic coal output also led to some relaxation in energy prices. Nevertheless, the prospects of elevated energy costs will find their way into various measures of inflation, directly through electricity and heating bills but also indirectly through transportation costs and agricultural prices.

Ongoing widespread supply disruptions
In recent weeks, activity data surprised to the downside as earlier boost in the service sector from the re-opening of economies weakened. Furthermore, supply shocks and rising energy costs are increasingly having a negative effect on production and China's economy continues to slow. As a positive, global manufacturing PMI is still well in expansion territory but the individual components show more mixed dynamics as new export orders fell sharply on softer foreign demand, especially from China. At the same time, input prices increased, backlogs rose, and delivery times still showed some severe supply chain disruptions. In addition, inflation worries continue to increase and such worries have spilled over to some central banks as well – which a while ago were almost uniformly arguing how high inflation was only transitory. However, we still believe that the ECB and Fed have ample time for their first interest rate hike amidst increased high uncertainty and low visibility. Furthermore, the combination of weaker activity and higher inflation has already taken a toll on risk appetite during the past couple of weeks.

Conclusion
These persistent supply disruptions give a stagflation impulse to the global economy, as they now have an impact on slowing growth and already caused stubbornly higher-than-expected inflation prints for many months. Against these ongoing headwinds, it is worth pointing out that the nature of the recent slowdown should, in theory, set the stage for a make-up in growth in a few months from now during 2022, when some of the bottlenecks should finally ease. Another potentially decent booster of growth could come from the remaining excess savings in the U.S. and Europe. Although savings rates are not as high now as the extreme levels seen during the peak of the 2020 lockdowns, they look to have fallen back to pre-COVID levels, but not below. Because these accumulated excess savings are still not consumed in their entirety, they remain in the background as a potentially strong driver of private household demand not only for goods but also for services. As stated in our latest Investment Outlook, we expect global growth to slow in 2022 but remain at above-average levels for the upcoming year, especially in the developed world due to ongoing pent-up effects.