



THE WEEK THAT WAS

	current	-1W	-1M	YTD
10-Year Bond Yields				
			change (bps)	
US Treasuries	1.58	-3	27	66
Bunds	-0.17	-2	14	41
BTPs	0.87	-1	17	35
OATs	0.17	-3	14	51
JGBs	0.08	0	4	6
Gilts	1.11	-6	33	91
Spreads over Bunds				
			change (bps)	
GIIPS	83	1	0	-5
Covered Bonds	57	-1	4	14
EMU Corporates (OAS)				
			change (bps)	
Non-Fin.	87	1	3	-6
Fin.	88	2	5	-4
Forex				
			%-change	
EUR/USD	1.16	0.3	-1.8	-5.0
USD/JPY	114	1.8	4.4	10.6
EUR/GBP	0.84	-0.7	-1.4	-5.8
EUR/CHF	1.07	-0.1	-1.4	-1.0
Equities				
			%-change (total return)	
S&P500	4,471	1.8	-0.1	20.4
MSCI EMU	150.1	2.4	0.6	19.5
TOPIX	2,024	3.2	-2.7	14.3
FTSE	7,234	2.0	3.2	15.5
MSCI EM (\$)	1,284	2.1	-0.2	1.5

Current as of closing 15/10/2021

MARKET MOVES

- Global markets took a pause, with bond yields retreating marginally and equity markets gaining.
- Inflation -: US core goods CPI up 'just' 0.25% m/m; core PPI up only 0.08% m/m. Signs that [shipping costs](#) from China are retreating.
- Inflation +: US CPI shelter prices accelerated. [Atlanta Fed](#) median wage tracker +4.2% yoy, with strong gains for low-pay workers. Commodity indices at new cycle high.
- China +: Strong int. trade data, soothing concerns about the global supply chain and trade.
- China -: Rise in credit much-weaker-than-expected → concerns about domestic & global growth. Sep. and Q3 data also soft overnight.
- Bank of Korea hawkish, paving the way for another hike in Nov.

KEY EVENTS

- Chinese data overnight confirmed drag from property slowdown & power crunch. Q3 GDP up a mere 0.2% qoq and 4.2% yoy. Sep. retail sales better (4.4% yoy) but IP poor (3.1% yoy).
- Most important data on Friday, with Oct. flash PMIs for Japan, Euro Area, UK and US.
- Earnings season in full swing: 78 S&P companies reporting this week.
- ECB Lagarde and BoE Bailey are due to speak. Fed Beige Book on Wed.
- EU Council on Thursday/Friday: Energy, US, China, Poland/EU law, Brexit, Aukus...

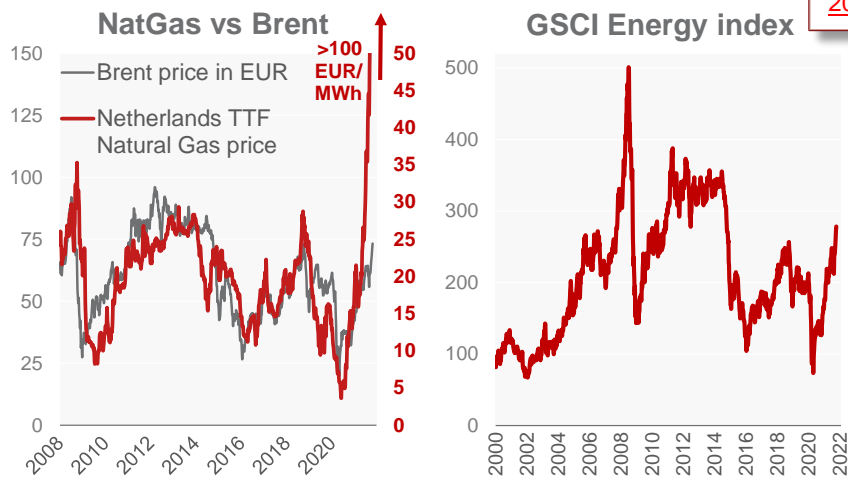
	Time	Market	Event	Period	Consensus	Previous
18-Oct	4:00	China	Urban Investment (YTD)YY	Sep	7.90%	8.90%
18-Oct	4:00	China	GDP YY	Q3	5.2%	7.9%
18-Oct	15:15	United States	Industrial Production MM	Sep	0.2%	0.4%
18-Oct	16:00	United States	NAHB Housing Market Indx	Oct	76.0	76.0
20-Oct	8:00	Germany	Producer Prices YY	Sep	12.8%	12.0%
21-Oct	14:30	United States	Initial Jobless Clm	11 Oct, w/e	300k	293k
22-Oct	10:00	Euro Zone	Markit Mfg Flash PMI	Oct	57.5	58.6
22-Oct	10:00	Euro Zone	Markit Serv Flash PMI	Oct	55.5	56.4

Rating updates: Netherlands, Austria, Romania (Fitch), Greece, Egypt (S&P)

TO THE CORE

"For all the advances in renewables and electric mobility, 2021 is seeing a large rebound in coal and oil use. Largely for this reason, it is seeing the second-largest annual increase in CO2 emissions in history." [IEA World Energy Outlook 2021](#)

A CHART SPEAKS A THOUSAND WORDS



Source: Bloomberg, GIAM

Source: Goldman Sachs, Bloomberg, GIAM

IGNORE AT YOUR PERIL

Energy crunch a fat tail risk this winter

We have continued to [reduce our OW to risk assets](#), recently on rising concerns about the [energy crunch](#). Temporary factors are playing out (drought in LatAm, flooding in China, no wind in Europe etc.). Most of us are more familiar with oil than natural gas; prices usually evolve in sync, but current NG prices are similar to Brent being above \$300/bbl! (see chart). Yet NG is the second source of energy in the EU (based on [EC data](#) for 2019: petroleum 36%, NG 22%, renewables 15%, nuclear and solid fossil fuels 13% each). More structural issues are at play: investment in renewable energy is too slow, while less capital has gone to fossil fuel, especially oil extraction, over the past few years. This may create supply-demand imbalances in the near (what if weather suddenly gets very cold?) to medium term. As the energy transition proves inextricable, the demand for old fossil energy, especially natural gas (less 'dirty' than coal and oil) may grow, typically in Asia. Higher commodity prices are toxic for the economy and markets, for at least three reasons: they eat into both corporate margins and the consumer purchasing power, and may require a faster/bolder monetary policy tightening. This deserves either a more prudent allocation, or significant hedging.

Vincent Chaigneau (vincent.chaigneau@generali-invest.com)