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Markets Swing Weekly Between Glass Half-Full and Half-Empty Sentiments

I would describe all markets as being pretty moody at present – in the last weeks we have seen both glass half-empty downbeat mood and glass half-full optimism, and who knows what next week will bring. But overall, the volatility that we are seeing is still within a determined range, and we haven't really broken away from that range despite the daily fluctuations.

What is Your Outlook for Inflation?

Inflation fears in the US appear to have eased for the time being, and that's why if you were the US Federal Reserve Bank, you would say "ok, I told you so" that the higher prices are going to be transitory. But at the same time, the market is not really convinced that the Fed will back away from tapering and/or raising interest rates. The sense is that the markets are still quite wary of any move that the Federal Reserve could make, and while inflation may have eased in the US, elsewhere, like in the UK we are seeing data that shows inflation has reached 10-year highs.

Do you see any other clouds on the horizon?

I think we should follow closely the developments with the giant Chinese real estate firm 'Evergrande', which is falling into bankruptcy and that can spell trouble for the Chinese economy, and by default the global economy. It seems to be heading into administration because it's not able to pay its massive debt. I saw some commentators referring to it as a possible Chinese Lehman moment, but I doubt it's going to be of that scale. The Chinese government is unlikely to sit and watch such a giant collapsing with all the social repercussions and economic costs. But it's also a reflection of the fragility of what's going on in China. And that by itself should make us a little bit more concerned about the economic outlook for the developing world led by China.

What about the Hurricane season in the Gulf of Mexico?

While the hurricane season is still hitting the U.S., it is creating, in my view, exaggerated supply fears because it's not like we're talking about a market where supplies are tight and not able to keep up with demand. The recent OPEC oil market report forecasts for oil demand to still grow by 6 mbpd in 2021. They have a much more positive outlook for oil demand in Q4. Whether that will hold or not, I think it depends on various factors, including the news coming out of China. ■

**Paraphrased comments*

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