PeaQ News
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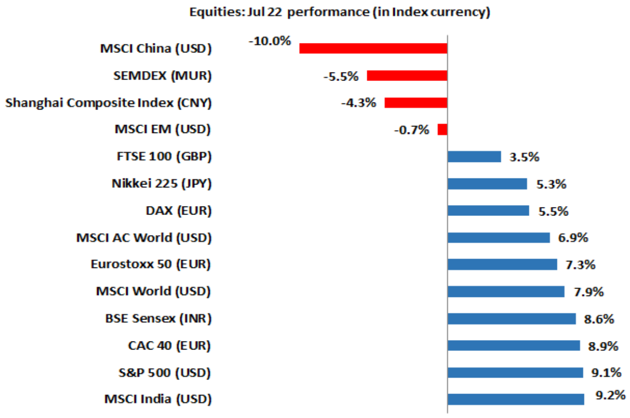
MARKET SUMMARY



- Globally, most equity markets were buoyant in July.
- The US Fed and the ECB hiked interest rates by 75 bps and 50bps respectively.
- In the UK, the final two candidates for the Conservative Party leadership election are Rishi Sunak and Liz Truss, and the winner will be announced by September 5th.
- Equities in China fell as growth prospects were marred by resurgent Covid 19 outbreaks, an ongoing property crisis and authorities' cautious approach in introducing more policy support.
- The SEMDEX fell during the month as the downgrade of Mauritius by Moody's added to foreign selling pressure, though the credit ratings of the three main banks were maintained at status quo and outlook changed from negative to stable.
- In Mauritius, headline inflation for the 12 months ended July stood at 8.4% (vs 2.6% for the previous period).

THE EURO-DOLLAR PARITY

- The euro, shared by 19 out of the 27 EU member countries, is the official currency used by approximately 341m people. It is the second most-used currency worldwide after the US dollar.
- In July the currency sunk to its lowest level since 2002 against the US dollar and reached parity (1:1 ratio with the USD), an important psychological level for investors.
- Since the beginning of the year, the euro has been trending downward against the US dollar and lost approximately 12% of its value versus the latter. At the beginning of January, the exchange rate was at 1.14.
- The euro selloff is the result of several major factors, which include the war in Ukraine and central banks' policies.

War in Ukraine

- Europe is suffering the most from the war between Russia and Ukraine due to its high dependency on Russian gas. In 2020, Russia was the largest supplier of gas to the EU and exported more than 40% of its gas to the region. Since the second half of 2021, gas supplies to Europe have been significantly reduced and as at end of July 2022, Russian state gas producer Gazprom announced that it would cut flows through the Nord Stream 1 pipeline to 20% (from 40%) of its capacity. The energy crisis has hit the region's economies and the euro, this could potentially push the EU into a recession.

Fed vs ECB policies

- In this high inflation environment, the Fed and the ECB have adopted a different pace in their normalisation process. The Fed has been more aggressive in raising interest rates to fight inflation than the ECB, driving the dollar higher vs the euro.
- US consumer inflation rate rose to 9.1% in June from a year earlier, a level not seen in more than four decades. At its July meeting, the Fed raised its benchmark interest rate by 75bps to 2.25%-2.50%, following a 75bps hike in June (largest interest-rate increase since 1994). The committee anticipates that further increases in the target range would be appropriate.
- Eurozone inflation hit a record high of 8.9% over the year through July – up from 8.6% in June. In July, the ECB hiked its key interest rates by 50bps for the first time in 11 years, exiting from negative interest rates. Interest rates on the main refinancing operations, the marginal lending facility and the deposit facility have been increased to 0.50%, 0.75% and 0.00% respectively. ECB also plans further hikes for the rest of the year.
- Although a weaker euro could stimulate economic growth in the eurozone by making exports more competitive, surging inflation in the region is making imports more expensive and outweighing the above potential benefits.
- In this highly volatile market environment, PeaQ has rebalanced its portfolios to account for market uncertainties.

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For more information about our services, please contact:

André Chung Shui
Managing Director
+230 52 51 22 16
ac@peaqadvisors.com

Michael Yap San Min
Investment Advisor
+230 55 00 90 88
my@peaqadvisors.com

Ishrat Cheeroo
Investment Advisor
+230 55 01 29 00
ic@peaqadvisors.com

Source: Fed, ECB, European Union, IMF, WSJ, Bloomberg, SEMDEX, Statistics Mauritius.