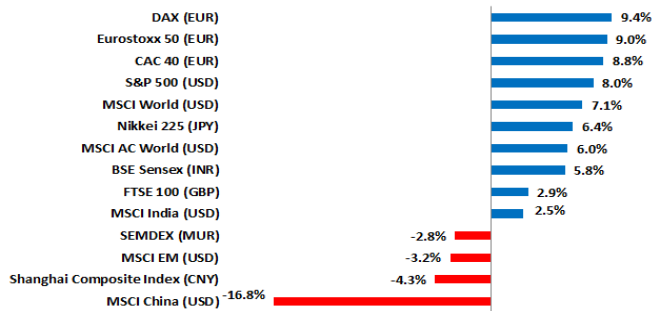


## MARKET SUMMARY

Equities: Oct 22 performance (in Index currency)



- Global equity markets witnessed a strong rebound over the month of October due to expectations that central banks might slow down the pace of interest rate hikes.
- In the UK, Rishi Sunak and Jeremy Hunt were appointed as the new prime minister and the Chancellor of the Exchequer respectively. The main measures included in the September mini-budget were cancelled.
- Emerging Asian markets were impacted by losses in the Chinese markets. The Communist Party's congress was held in October and President Xi Jinping was re-elected for a third term as the party's Secretary General.
- The SEMDEX posted negative returns, after two months of positive figures, as foreign selling pressure started to weigh on local stocks.
- Headline inflation for the 12 months ended October stood at 9.9% (vs 3.4% for the previous period) in Mauritius. The BoM increased repo rates by 100bps to 4% on November 4<sup>th</sup>.

## THE ENERGY CRISIS

- The world is currently experiencing an unprecedented global energy crisis, with natural gas and oil prices leaning to the upside. Cyclical commodities have been the best-performing asset class this year, particularly the energy sector. YTD (as at October 31, 2022), the S&P GSCI index posted a total return of 30.0% whereas the S&P GSCI Energy index was up by 54.0%.
  - 1. War in Ukraine and OPEC+ production cut**
    - Russia's invasion of Ukraine has led to a deepening energy crisis in Europe after Russia reduced its natural gas supply to the region significantly in response to a series of sanctions imposed by the West. Gas exports to the EU from Russia are down by approximately 80% since Ukraine's invasion.
    - Before the war, the EU was highly dependent on Russian natural gas. Russia's share of European gas demand

increased from an average of 30% in 2005-2010 to 40% in 2015-2020. In 2021, total energy accounted for 62% of EU's total imports from Russia (including gas, oil and coal imports).

- The US has banned all Russian oil and gas imports and the UK will be phasing out imports of Russian oil by end of 2022 (in 2021, Russia was UK's largest refined oil supplier at 24.1% of the supply) and has announced that it will end imports of Russian LNG as soon as possible thereafter. EU sanctions include banning imports of coal, solid fossil fuels, crude oil and refined petroleum products from Russia.
- Russia's curtailment of gas deliveries to EU led to a surge in demand for LNG imports from other countries such as the US, Qatar and Nigeria – during the first eight months of 2022, net LNG imports in Europe rose by approximately 66% vs the same period in 2021.
- In October 2022, OPEC+ announced that it would cut its oil production by 2m barrels per day from November (biggest slash since Covid-19 pandemic in 2020) to ensure security and stability to the energy markets, amid a slowing global economic growth. This surprise move is likely to add upward pressure to already high global energy prices.

### 2. Government policies

- The energy crisis has prompted governments to implement several measures to address the supply crunch and lower the energy cost.
- In October 2022, the EU agreed on joint gas purchasing and aggregation of demand to negotiate better prices and reduce bidding wars among members on the global market. The EU will also be implementing the default solidarity rules between member states to mitigate the impact of supply shortages. EU countries would receive gas from other members in exchange for fair compensation.
- Last Spring, the US authorized the sale of 180m barrels (with the last 15m to be sold in December 2022) of oil from its Strategic Petroleum Reserve (SPR) to help in stabilizing the oil market. The US SPR is the world's largest emergency reserve with approximately 400m barrels remaining (as at October 2022) and can hold more than 700m barrels of oil.
- Energy commodities face headwinds from a strong US dollar and rising recession risks. However, it remains an important asset class for diversifying clients' portfolio risk and will continue to benefit from ongoing elevated geopolitical uncertainty.

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Source: Office for National Statistics UK, European Commission, The White House, World Economic Forum, IEA, WSJ, SEMDEX, Statistics Mauritius, MSCI.

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