Market News 11-10-2021

Whilst equity markets have arrested the falls from the end of September, bond prices have fallen further as **yields increase** ahead of the lik**ely start of tapering by the FED** in early November.

Yields on the 10-year treasury have **jumped** from 1.35% a month ago to **1.61% now**. The **jump in global energy** costs have also rattled investors as concerns mount that the jump in commodity prices could have a more **longer lasting effect on inflation**.

Its not just in the US either. **Bonds yields** have been on the **rise in all developed and developing countries** as **supply bottlenecks** have been exacerbated further with **"buying at any cost"** from the **Chinese** for **energy supplies**.

Explainer: Why do bond yields matter?

Governments and **businesses** issue bonds to **finance their operations**. The amount borrowed has an **annual coupon, or interest rate,** that is paid by the issuer to the owner of the bond.

If the **demand for Bonds starts to reduce** and **inflation picks up** – as discussed inflation is really the enemy of bonds – then the return or yield must rise to compensate those holders.

So, **if yields rise**, it **cost more for issuers** – that's governments and businesses – **to raise capital** which has a **direct impact** of their operations by raising financing costs.

Of course, that is **one of the reasons** why central banks carried out **QE**, the **active purchases of bonds** from the marketplace **to lower borrowing costs** and inject huge sums of cash into the financial system.

Here in the **UK**, energy prices have been headlines for three weeks now as the **steel sector and other large consumers start to feel the effects** of record high gas price, which have increased tenfold in some cases.

Investors were concerned that the **UK could suffer an imminent rise in interest rates** just when **growth was looking vulnerable** in the wake of these price shocks and supply bottlenecks.

Like in the US, **10-year bond yields here in the UK** have also been caught up in the global rose in bond yields with **yields jumping to 1.16%** from **0.65% a month ago**.

<u>Review</u>

FTSE +68 +1% DOW +419 +1.22% S&P +34 +0.8% NASDQ unch
DAX +47 +0.33% NIKKEI -722 -2.5% Hang Seng +262 +1.07%

Equities recovered their vigour mid-week but Non-Farm payroll disappointed with just 194K jobs created against an expectation of 500K, albeit the previous months was revised up 135K jobs, but it was still a miss of 165K jobs.

Despite the poor headline number analysts seem to think that the report contained enough positives, such as the drop in the unemployment rate to

4.8% and the upward revision of last month's number by 130K, to encourage the FED to start the tapering process in their November meet.

EURUSD -0.22 -0.2% GBPUSD +0.68 +09.5% USDJPY +1.15 +1.03%

The US Dollar nudged further higher last week and, like equities, slipped a little on Friday following the **underwhelming NFP data**.

Sterling continued to recover the losses from the start of the month as analysts weighed up the prospects of higher rates and the talk of stagflation.

Gold unch   UK OIL +3.33 +4.2%   US OIL +3.78 +5%

Despite pressure being exerted on OPEC by Biden administration, the **OPEC cartel did not move on its planned production**. The problem consumers have now is the **spill over effect from Natural Gas**.

The **price lats week for natural gas** is the **equivalent of $200 per barrel** for oil so you can see **why any consumer who could switch to crude would do**!

Gold made a **small increase early on last week**, but the stronger US Dollar reversed those gains for the metal to end up **unchanged largely on the week**

Data / Events this week

Calendar of data release is usually quieter the week after the US employment data – which is the case this week.

The key data, in light of jump in energy prices and these supply bottlenecks will be the US CPI – or inflation reading.

Also, the usual smattering of central bank speakers which seem largely to be concentrated from the US rate setting committee, the FOMC.

The UK's relationship with the EU will occupy the front pages as the Norther Ireland protocol

Monday

US US banks shut today in observance of Columbus Day, but most businesses and markets remain open; although liquidity will be lower in FX and bonds.

Tuesday

Germany ZEW economic Sentiment. Another dent as this institutional investor survey is expected to fall again for the fourth consecutive month…….

US FOMC Member Clarida speaking at event about the **economic outlook** and **monetary policy** at an online event hosted by the Institute of International Finance. Could be interesting when Q & A starts.

Wednesday

US CPI / inflation reading. Key release of the week in light of heightened market angst. We already know inflation is at a level that warrants the start of the FED's QE tapering …...but how high will inflation go?

Bonds very sensitive to a bigger jump than consensus.

US **FOMC minutes from September meeting**. Investors will be keen to gleam any information about the QE tapering that is likely to be announced at the 2/3rd November meeting.

Thursday

US Core PPI – producer Price Index. Measure the costs of good and services going into production. A **leading indicator to CPI or inflation**.

US Crude oil inventories. Delayed a day due to Columbus Day from Monday

Friday

US	**Core Retail sales** – a **pullback from last months**, as sales ebb and flow since April.
US	Prelim UoM Consumer Sentiment – **signs of a modest recovery**