Week ahead. Week beginning 13-06-2022

The start of a major week for global markets with three key central banks concluding their policy meetings – The Federal Reserve, the Swiss national Bank and the Bank of England all meeting to decide on monetary policy changes to tackle **out of control inflation**. More on this in our calendar review.

Markets Review / Preview

Review

FTSE -215 -2.86% DOW -1,506 -4.58% S&P -207 -5.05% NASDQ -672 -5.6%
DAX -698 -4.83% NIKKEI +63 +0.23% Hang Seng +724 +3.43%

Markets had a turbulent week last week with the hawks in the ECB council winning the interest rate argument. The announcement also suggested a **larger rate increase might be needed**, stating *“if the medium-term inflation outlook* *persists or deteriorates, a **larger increment will be appropriate** at the September meeting".*

Despite the **move to raise rates** and **end QE**, the **Euro fell sharply** but more importantly **bond spreads** between the benchmark German Bunds and heavily indebted southern states started to **show worrying stress.**

Last Friday the **US released its latest CPI** data which was **far worse** than expected with retail prices jumping higher than consensus at an **annual rate** of **8.6%** or 1% month-on-month.

Equities immediately too fright with the **S&P500 falling 2.9%** with the **NASDAQ falling 2.9%**. For the week the S&P500 was down 5.1% and the NASDAQ down 5.6%. These weekly falls were the worst since **January** and underline the **challenge** that the Federal Reserve is facing as it deliberates **interest rate rises** this week.

So why the sudden move in these Eurozone bond spreads?

When rates were at record lows and with the ECB buying Eurozone sovereign debt, investors were happy to join the party and invest in Italian, Greek and Spanish debt – countries who are very **indebted**.

The cost of the pandemic has seen **another big increase in the debt piles** in these southern states and now the music has stopped. The ECB last Thursday confirmed that it **would raise rates by 0.25%** in the **following two meetings**, pushing the Refinancing Rate to zero from -0.5%. Some expect the ECB to go even further.

That has now focussed investors minds on the **additional financing costs** for these indebted nations, as interest rates rise. We reported the previous week that **Italian bond yields were 1.91% above German bond yields**. That spread **jumped again** last Friday to **2.25%,** the **highest since 2014**.

On Monday morning that spread has **widened again** to **2.37%.**

The ECB made **little mention** about how the Bank would **support these southern state** bond markets. Investors will continue to run for the hills until they can see what help the ECB might provide.

These **warning signs** within the Eurozone were bound to happen and it is surprising to many that the **ECB had not prepared for this outcome**. **Inflation is clearly going to persist** and hence many central banks are having to take **drastic action**.

Analysts expect the ECB to announce some measures if the **Italian Bond spread reaches 2.5%** by which time the task will that much harder.

EURUSD -2.01 -1.87% GBPUSD -1.74 -1.4% USDJPY +3.57 +2.73%

The EURO teetered following the ECB announcement on rates eventually fell, not because of the interest rate news but because of the stress building within the Eurozone and the sharp jump in yields on those southern state's bonds.

Sterling also fell with analysts noting that sterling is probably the most **vulnerable of major currencies**. Despite this, Sterling actually fell 1.75% versus the US Dollar, marginally less than the Euro.

Interesting to note that some **Japanese officials** commented on the **weakness of the YEN**. Easily remedied but unlikely BoJ will budge. Whispers of intervention.

Gold +20 +1.1%   UK OIL unchanged US OIL unchanged
Bitcoin -605 -2%

Gold jumped in reaction to the **high inflation** number reported in the US but did not react like Gold would have done 15 years ago. The strength of the US Dollar will continue to hamper Gold's progress.
Oil supplies remain tight with more Russian crude oil effectively embargoed from many western countries, non-Russian crude supplies continue to tighten.
Bitcoin continues to follow Equities lower with another leg lower over the weekend.

Data / Events this week

An important week for markets with the **FOMC** and **MPC** rate setting committees expected to raise rates this week.

Monday

No major releases

Tuesday

US	**PPI data**. A leading indicator for inflation. Another jump expected in the cost of goods / services going into production.

Wednesday

US	Core Retail Sales. Another unwelcome jump – for the Fed.
US	Empire State manufacturing – A rebound from last month's disappointing number.
Eurozone	Lagarde speaking at the LSE. Some comment re bonds spreads. Unlikely.
US	FOMC. Investors have now pretty much **assumed 0.5% rate rises** are on the cards for the **next two meetings**, with some expecting a **whopping 0.75% increase in the July** meeting followed by **another 0.5% in September**. This could, if reality matches expectation, result in US rates hitting the **2.5% to 2.75%** by September.

Thursday

Switzerland	No change…again. The SNB is not your usual Central bank, with its focus mostly on the strength of the CHF.
UK	MPC rate setting committee. A **certain 0.25% rate rise** is on the cards, with **risk** of a **more aggressive 0.5% rise**. Sterling would jump if this were the case, but equities would likely swoon.

Friday

US	Jay Powell speaking at Conference in Washington about the International role of the US Dollar. Markets sensitive to anything Powell might say about policy.