Markets News - 13-12-2021

Global markets enjoyed a **risk-on rebound** last week as initial data suggested that **Omicron** results in **less severe disease**. However, this new variant is **more resistant to the vaccines** and the general advice seems to be that a **booster is required** to give people the sort of protection they had previously.

Markets continue the risk-on theme this morning although this week's calendar will be key for direction over the new year.

Globally there are **28 central bank policy meeting this week** with many expecting to hold back any moves whilst the **effects of the Omicron** variant are assessed.

The key policy meetings that we all want to hear from are the **Federal Reserve**, **Bank of England**, and the **European Central Bank**. There are two other banks, Bank of Japan, and Swiss National Bank, although both these banks are dovish, and we expect little change here.

Review

FTSE +169 +2.4% DOW +1,390 +4% S&P +173 +3% NASDQ +545 +3.6% DAX +469 +3.1% NIKKEI +853 +2.96% Hang Seng +229 +0.96%

Equities enjoyed a **big bounce last week** as markets assessed the initial findings of the Omicron variant and the possible effect on growth around the world.

The most closely watched **S&P5oo jumped 3% last week**, closing at **another all time high on Fiday**. There was little data out last week but what there was, was quite eye catching.

The **Core CPI (inflation)** data came in as expected, +0.5% MoM which equates to **4.2% year on year**, whilst the **headline** rate, which includes volatile components jumped to **6.8%.** Clearly the market was expecting something worse because **equities jumped on the news**. So, the **highest inflation reading in 39 years** was treated as mildly **positive news**!

This goes to underline how much the **bulls have taken control** of these markets. There is clearly still **no alternative** but this march higher in the face of **rising prices** suggests another **global macro event** on top of the underlying inflation backdrop could cause a serious correction.

But that is not where we are.

Sure, Russian troops may be massing on the Ukrainian border and China may be upping the rhetoric about Taiwan but so far these are just noises. But the warning signs are there.

Following the CPI data on Friday, it is much more likely that the FED will announce this week the speeding up of its vast tapering of its QE program.

EURUSD unch GBPUSD +0.37 +0.28% USDJPY +0.56 +0.5%

Forex markets are very much **on hold** ahead of this week's key central bank policy meetings. If, as expected, the Fed remain on course to taper at a faster rate than the ECB follows a more dovish approach, we may well see a further **appreciation of the Dollar versus other currencies, especially he Euro.**

Gold UNCH UK OIL +5.20 +7.55% US OIL +5.56 +8.37%
Bitcoin -6,476-12.07%

A flat USD hence a flat gold market as precious metals continue to follow closely the USD.

Oil markets responded to the risk-on move in markets and jumped last week, recouping half of the losses from the previous week.

Crypto continues to trade in a volatile range but price action in the short term paints a picture of lower highs for now.

Data / Events this week

As previous mentioned we have a **full calendar of events this week** with the all- important **central bank policy meetings**, with added Importance this month.

Monday

UK	**Andrew Bailey from BoE** holding press conference about Financial Stability Report.

Tuesday

US	**Core PPI** – Holding steady – a pointer to future inflationary pressures.

Wednesday

China	**Retail Sales** – expected to slip from last month's level.
US	**Core retail sales** – The see-saw in numbers from month to month but paints a steady picture.
US	**FOMC** – Federal Reserve policy meeting. An **important meeting**, not just for the US but for the **developed** and most importantly the **developing world**. Analysts now expect the **FED to end it bond buying program by March next year.** Expect announcement regarding end of QE program by March rather than the announcement last month regarding June. The FED's DOT plot, last updated in September, may well then suggest that the Fed could price in its **first rate rise in Q2 next year**. Press Conference at 7.30pm could be interesting Equities, Bonds, USD, and commodities could all react.
Thursday	
Eurozone, UK & US	**Flash Services and manufacturing data** – Softer numbers expected as Omicron takes effect.
UK	**MPC failed to raise rates in November** which was a surprise. Analysts now have a **25% probability of a rate rise** compared with **75% probability just two weeks ago.** Michael Saunders, a more hawkish member of the MPC stated last week that it might be a **wise to wait** until the **effects of the new Omicron variant** is more understood. In which case the **first rate rise is likely to be in the February meeting**, if we have not had an increase this week. Sterling has largely discounted this, so if we do get a rate rise then expect **Sterling** to fly.

Eurozone	Expect **announcement** regarding the **withdrawal of the massive QE program** . **Dovish** theme - No rate rise but how much will ECB commit to buying after March?

Friday

UK	**Retail sales** – modest recovery in place since August
Germany	**German IFO Business Climate** – The mood continues to darken slightly.