

Market News 15-11-2021

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Last Wednesday the US published **CPI data** (inflation data) that was **way higher** than consensus forecast.

Consumer prices **surged 6.2%** from a year ago in October, the **most since December 1990**.

Core inflation, which strips out the volatile food and energy components, **increased 4.6%**, which is the **biggest gain since August 1991**.

So, the **interpretation** from this would be that the **Federal Reserve will likely raise rates sooner** than they have indicated.

Money markets imply a **+50% probability** of a **rate rise by June next year** whereas the **FOMC rate setting committee** talk about **early 2023**.

So, what was the result of this shocking inflation reading?

As you would expect, **stock markets fell** – higher rates are not good for equities.

Bond markets fell sharply – especially in the sensitive short end of issuances.

The 2-year treasury (US 2-year Note), where prices move inversely to yield, **fell sharply with expectation of higher rates**. The **2-year yield rose by 0.09%**, the **most it has risen since the start of the pandemic**.

All makes sense so far, as you would expect.

Another reaction was a significant **jump in the US Dollar**, which rose to its **highest level versus the EURO in 16 months** – not something that many were predicting at the beginning of this year.

Sterling also fell to its lowest level against the US Dollar since **late last year**.

And what about Gold? This has been **behaving strangely all year** in that the effects of a stronger US Dollar seems to be having a greater negative impact than the threat of high inflation.

Well, **normal service** seems to have been **restored** as GOLD took off last week. Seems gold was in demand as inflation really hit the headlines.

So, all seemed set last week until Friday, when **share prices rebounded** following comments by two Fed members suggesting inflation had peaked. Bold comments in the circumstances.

The **consumers sentiment reading ironically** seemed to **calm some investors** nerves that the FED might just raise rates earlier than expected. Consumer sentiment fell to its lowest level in a decade, as consumers fretted about higher prices. They certainly have **lost confidence** and don't believe prices will moderate.

Strange times for market watchers.

Review

FTSE +44 +0.6% DOW -227 -0.63% S&P -15 -0.3% NASDAQ -110 -0.7%
DAX +40 +0.25% NIKKEI +853 +2.96% Hang Seng +4576 +1.84%

Some stand out results from M&S and weaker sterling helping FTSE push further into new highs for the year. US mkts confounding analysts and the data but recovering from mid-week wobbles.

EURUSD -1.25 +1.08% GBPUSD -0.8 -0.58% USDJPY +0.46 +0.4%

US Dollar gaining further ground on the Euro following the surprising jump in core US inflation. The question is what will the FED do about it. Market rates more and more implying rate hike in H2 next year.

Gold +47 +2.59% UK OIL -0.54 -0.65% US OIL -0.52 -0.64%

Gold – at last. Inflation jump adds to the impetus in Gold that started the previous Friday.

For much of the last 6 months Gold has struggled as investors seem to prefer Crypto to Gold as their weapon of choice against inflation. But the spread between Gold and major Cryptos tempted buyers back in.

Data / Events this week

A **quiet week on the data front** following the past busy two weeks. A number of Central Bankers speaking.

COP26 has been and gone as have a number of central Bank policy meetings. Generally Central Banks appear to be close to the start of, or have started their tightening cycle, following the pandemic. Australia, Canada, US but not the BoE – but that's around the corner.

Monday

US Empire State Manufacturing Index – Seems to see-saw a bit. Manufacturing is slowing slightly.

Tuesday

US Core Retail sales. +1% expected. Pre-Black Friday sales

Wednesday

UK CPI – Inflation data. +3.8% expected from 3.1% in September.
Could hit its highest level in 10 years or more. Expectations are for further increases to perhaps 5% by year end. More nail biting for the markets and the MPC.

US Crude oil inventories.

US FED member speaking

Thursday

US Philly fed manufacturing index. Softer than the Empire State index?

US Two Fed members speaking

Friday

Eurozone Lagarde speaking at Frankfurt European Banking Congress. Clues for ECB mood on rates?

US Two more FED members speaking