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Workshop / Market News 12-07-2021

Unlock day today – ironically at a time when infections are surging but maybe we should not be looking at that data – maybe it's the **hospitalisations** and **mortality rates** where the **link with infections seems to have been broken**. Anyway, wherever you are and whatever you are doing, keep safe.

Markets lower this morning following the late sell off in US markets Friday evening.

News that **OPEC finally managed to agree production increases** for its members and non OPEC+ members (Russia) has had **little effect on Oil prices**. Perhaps due to the fact that **prices last week had already slipped \$2 to \$3 ahead of this announcement** yesterday afternoon.

On the **9th July US markets settled at another record high** but last week we saw the first signs of a pull back in these red hot markets since mid-June. The **blistering uninterrupted advances** in late June and have been **replaced with a more polarised outlook**.

The reason for the pullback is likely a combination of factors but the main concern is the **pace of US inflation**.

Last Tuesday the US CPI or inflation data came in at **5.4%, higher than the 4.9% forecast** whilst the **core rate**, which excludes volatile distorting components, also **came in higher than expected at 4.5%**.

FED officials continue to stick to the line that the **jump in inflation is transitory and down to supply bottle necks** as global economies open up. A case in point is the second hand car prices which jumped 12.5% which accounted for half the pickup in inflation. **Why used cars?**

Not entirely sure but new car production has taken a big knock due to **chip shortages** which has forced second hand car values higher.

Transitory or not, the **headline figure is worry for many investors** as the rate is looking uncomfortable high. When it starts to fall that when the Fed can breath a sigh of relief.

Other factors impacting equity and bond markets are the **pickup in Covid infections caused by the Delta variant**. Economies that have **low vaccination rates** are particularly vulnerable as the delta variant is especially infectious.

The increasing infection rates in the EU and the US have not been discounted by the markets yet – and may not need to be but countries such as Japan are particularly vulnerable due to low vaccination rates.

Review

FTSE -114 -1.6% DOW -182 -0.52% NASDAQ -275 -1.87% DAX -148 -0.94% NIKKEI -1714 -5.77%

US and global markets started to slip Thursday last week with strong retail sales reported for June offset by a weak consumer sentiment reading Friday which implies consumers may be more cautious in the weeks ahead.

UK markets maybe helped by a weaker sterling in the coming days.

EURUSD -0.76 -0.63% GBPUSD -1.46 -1.05% USDJPY unch

Forex markets remain subdued with the USD crosses almost becalmed as the debate rages over inflation and whether the FED may be forced to cool the red hot economic activity or just sit it out.

The FT reports that **bets that the US Dollar will rise have jumped to highest level in more than a year**. This is measured by the net long positions on the US Dollar index recorded by the Commodity Futures Trading Commission.

The Yen remains persistently high versus other currencies at a time when Japan is reeling from increasing covid infections at a time when it has relatively low vaccination rates.

The arrival of the tens of thousands of athletes and officials has also inevitable resulted in covid cases which means many athletes will self isolate due to the closeness of people within the Olympic accommodation.

Not sure why these games are going ahead. Tghere are no spectators which a weird competitive backdrop with no one cheering.

This Olympic games looks like the games the should not happen but is forced to due to the billion \$ contracts that need to be fulfilled. The opening ceremony happens this Friday

Sterling has **slipped against the USD** and to a **lesser extent the EURO** but is looking vulnerable to further falls as it touches the **lowest level since Mid-April**.

Gold +4 +0.22% UK OIL -2.42 -3.2% US OIL -3.25 -4.35%

Bitcoin -2,428 -7.1%

Gold has been on a move of late, recovering half its losses from the dramatic fall mid-June.

But US inflation data and increasing concerns about a possible shift in FED policy guidance may take its toll soon. A stronger US Dollar seems more important to Gold than a pickup in global inflations rates which is the traditional driver for the price of Gold.

Opec finally got its **production increases** over the line with the USE falling into line. The increase of 400K barrel per day in August leading to an eventual increase to 2 million barrels per day by year end seems modest in the context of the jump in demand seen over the past 6 months as economies surge post pandemic.

For now oil prices remain stable with little reaction to the expected move.

Data / events

A very light calendar this week with little data apart from ECB policy meeting and PMI data at the end of the week

Monday

No key data or events.

Tuesday

Australia Minutes from the last RBA policy meeting earlier this month

US Jeff Bezos flies into space – and hopefully he flies back down again!

Wednesday

US Crude Oil Inventories – still more drawdowns.

Thursday

Eurozone ECB monthly policy meeting. Governing council will update the markets on their new higher range for inflation, allowing for a temporary overshoot. Similar to the US and UK positions. No change in rates or guidance other than inflation outlook. Next meeting not until late September.

Let's hope inflation behaves itself over the summer weeks.

Friday

Probably the busiest day for releases this week.....

Japan Opening ceremony of Olympic Games

UK Retail sales

EU, UK and US Manufacturing and services PMI data. Basically tells us how well the two sectors, manufacturing and services sectors that comprise economies, are doing. Overall we are looking at softer numbers across the board albeit with most readings still implying red hot markets – just slightly less red hot than the previous month.

Equity and bond markets sensitive.

Q2 earnings releases – higher profile releases this week

Monday IBM

Tuesday Netflix

Wednesday Johnson and Johnson, Coca Cola

Thursday Twitter