Week ahead. Week beginning 23-08-2021

Markets spent half the week **waiting for the FED minutes** for their last policy meeting as concerns about the pace of inflation has put investors on a more nervous footing ahead of the minutes.

As well they might be concerned, as the FED minutes recorded that the FED was preparing to **start reducing its massive QE program this year.**

What this means is that the amount of financial stimulus, that has been providing support for the vast US economy, will be gradually reduced – starting before year end. This is known as tapering.

Previously we have had **taper tantrums** from the markets as they reacted to the negative, but inevitable news.

Inevitable, because eventually if you throw enough money at a financial crisis, you will **restore normality**.

The market reacted badly to the news because **1) No one expected tapering** to happen this year **2) Tapering will inevitably** be followed by a **rise in rates**……at least **that's what the market believed**.

In fact, the Federal Reserve made it clear that the reduction, or tapering, of assets was not a precursor to an imminent rate hike.

But markets listen to the news but hear something different.

So why did the market fall and then rally Friday?

For some reason the FED guidance did not hit home until Friday last week.

The reduction in financial stimulus will likely result in the first-rate rise being brought forward – but this is still not expected until **November next year**, with expectations firming by 6% over the past 30 days.

No matter what message the FED may wish to convey, the markets fell as investors priced in the **impact of a cut in QE by year end**.

This caused equities to fall, whilst bonds held steady – pulled higher by falling equities and lower by the prosect of higher rates sooner than previously forecast. Something clicked on Friday though when investors rationalised the tapering which appreciating that rate rises had not suddenly been brought forward.

What is clear is the US Dollar reacted positively as Forex traders are very clear as to what this all means - a fall in monthly QE which will cause rates and yields in general to firm which is good for the Dollar.

<u>Review</u>

FTSE -130 -1.8% DOW -395 -1.1% S&P -26 -0.6% NASDQ -108 -0.73% DAX -170 -1.06 NIKKEI -963 -3.45%

Equities slumped following FOMC meetings Wednesday evening butt by the close Friday evening those loses had all but been clawed back.

The big stand out last week was in fact Japan which suffered the double whammy of increasing Delta covid infections and the mini taper-tantrum in the US.

EURUSD -0.96 -0.8% GBPUSD -2.43 -1.75% USDJPY +0.17 +0.15%

The US Dollar gained strength last week in reaction to the FED minutes and unlike equities, managed to hold on to most of the knee-jerk move.

Sterling was by far the standout currency last week. The reason was the fall in inflation to 2% against expectations of 2.3%. So, Sterling fell by 2.5% to the lowest level against the US Dollar since 20th July. This level is crucial – should it be breached then expect further falls to the 135.00 area.

However it seems most economists have written off this CPI reading as an aberration and expect inflation to track higher to above 4% before year end.

Reports in the media about food shortages and supply bottlenecks and now shortages of not just containers but also container ships will surely lead to a rise in prices.

Gold unch UK OIL -5.10 -7.27% US OIL -6 -8.84% Bitcoin +1,522 +3.1%

Gold continues to feed on the jump in inflation expectations although US dollar strength is hampering any meaningful advance for now.

Oil was without doubt the standout commodity casualty last week as it **fell precipitously** throughout the week – recording its **worst week since March**.

Oil is reacting to the increasing spread of the Delta Covid variant and the impact on global growth and hence oil consumption.

Data / Events this week

Quietish calendar this week…….

Monday

UK, Eurozone & US

Manufacturing and services sector data. Holding steady? Eurozone enjoying best growth spurt in 20 years – which looks like it is continuing looking at this morning's data.

Tuesday

Wednesday

G7 summit online – hosted by UK to try and avert the humanitarian crisis unfolding in Kabul.

US Prelim US GDP data – second reading in what was a little disappointing advanced reading.

Thursday

Jackson Hole Symposium Start of 3-day gathering in Wyoming of central bankers and financial movers and shakers. No press allowed but investors will be keen to hear what Jay Powell has to say about future US monetary policy and that QE tapering guidance.

Friday

Jackson Hole Jay Powell speaking at JH Symposium

US Consumer Sentiment – still falling?

Report in FT re an analysis by Citibank - Several closely watched US economic data points released over past few weeks have come in below consensus expectations, suggesting that the turbo charged economic growth from the depths of the Covid crisis may **be losing steam**