Week ahead. Week beginning 25-04-2022

Equities weaker this morning with far east and Europe reacting to the sharp sell-off in US equities Friday night.

Macron wins the **French Presidential election** although by a smaller margin than last time. France is saved from the more extreme policies of le Pen but Macron has a tough time ahead. After all **only 27.8%** voted for him in the **first round**.

Markets Review / Preview –

In the holiday shortened week last week, markets had been generally holding ground. The news out of Ukraine does not get any better with the focus now on east Ukraine as Russia goes for the land grab.

With a Russian **oil embargo off the table** for the this year, following a damning report from the Bundesbank of the potential impact on the German economy, the oil market is left to focus on the real global economy.

Then last Friday the US equity markets suddenly woke up again to the **threat of inflation**.

Jay Powell, the chairman of the Federal Reserve, said last Thursday **"it is appropriate in my view to be moving a little more quickly".** This suggests that the Fed is **likely to raise rates by 0.5%** at its meeting in early May – something that the rate futures on the CME have forecast for some time now.

With **inflation at a 40-year high** it has been the opinion of many market observers that this should be the case. Along with all central bankers, the **Federal Reserve is behind the curve and playing catchup.**

Treasury secretary Janet Yellen, a past fed chair, said it was likely that **elevated inflation would last for "a while longer".** …….how ever long that means.

The problem for the Fed and other central bankers worldwide is that **inflationary expectations** are becoming **baked-in or self fulfilling**.

On Friday a **gauge of marketing inflation**, the **US 10-Year break-even**, jumped to 3.08%. So the market now expects inflation to0 average 3.08% over the next decade – that's the highest level in 20 years.

To put this in perspective the **10-Year Breakeven Inflation Rate was 2.33%** on **Juanury 20th**.

Review

FTSE -95 -1.24% DOW -914 -2.635 S&P -160 -3.61% NASDQ -931 -6.76%
DAX -22 -0.15% NIKKEI unch Hang Seng -879 -4.09%

Equity markets were knocked by the sell-off in US equities which started with **Jay Powell's interest rate comments** on Thursday. On Friday US equities experienced their biggest daily fall of the year, with all major indices slumping.

This had the knock on effect in Europe and elsewhere although much of the fall continued after Europe shut Friday afternoon.

At the same time the US dollar was also on a march following Powell's comments which partially cushioned Europe from some of the worst fall seen in US equities, especially the technology sector. The **FTSE and Dax falls** were **modest** in comparison to those seen in the US, where the Dow fell over a 1,000 points on Friday.

The **gloom in the markets** was made worse by the **IMF's growth forecasts** for individual countries. The update from January to April made sombre reading with global growth slashed across the board.

EURUSD unch   GBPUSD -2.23 -1.7% USDJPY +2.13 +1.68%

Forex markets had a busier week than expected with **sterling slumping** against the US Dollar. **Poor retail sales** released Friday was the culprit. **Sterling fell** through the **psychological 1.30 level** for the first time since November 2020.

With a **fall in retail sales of 1.4%** month on month, the **second fall in a row**, economists now expect the **Bank of England to scale back** its **plans** to **raise intertest rates** as the economy **struggles with the cost of living crisis**.

The Euro was under pressure as well, touching the lowest level versus the USd since April 2020. Seems the **Macron** election victory has done little to bolster the Euro early Monday morning.

Gold -41 -2.08% UK OIL -2.8 -2.5% US OIL -4.95 -4.65%

Bitcoin -842 -2.07%

Pressure metals continue to struggle with the strong Dollar.
You would think the global macro picture would be far more supportive of gold in these times but Gold is not cheap to own. It doesn't pay dividends, there are insurance and storage costs and now the **opportunity-cost rises** with every **rise in interest rates**.
Oil continues to track equities which have woken up again to the threat of inflation. Russian oil embargo will not happen this year – until Europe can insulate itself from the effects of such action.

Data / Events this week

Another important week for data this week, although its Q1 results that are the focus, rather than economic data releases.

Bank of Japan policy meeting is the only key central bank meeting this week.

Monday

Germany	**German IFO business climate**. Large survey of manufacturers and retailers. Gradually slipping over the past 8 months. More of the same expected.

Tuesday

US	**Core Durable goods**. Excludes large ticket items such as planes. A rebound from last month's surprising fall.
US	**CB Consumer confidence**. A slight uptick but unlikely to amount to much with inflation getting uglier and rates rising in just over a week.
US Earnings	**Alphabet**,

Wednesday

US Earnings	**Meta**

Thursday

Japan	**Bank of Japan Policy Meeting**. Still swimming against the tide. BoJ continues to maintain loose monetary policy. See that yen continue to slide.
US	**Advance GDP reading Q/Q.** The first reading of **GDP in Q1**. Clearly slowing down as the twin effects of inflation and the war in Ukraine take their toll on economic growth.
US Earnings	**Amazon, Apple**,

Friday

US	**Core PCE price index**. A favourite measure of inflation pressure used by the Federal reserve.