Market News 25-10-2021

Chinese markets slightly firmer overnight helping European markets start the week slightly higher.

The US Dollar continues to slip versus other major currencies as risk-on theme continues.

Review

FTSE -29 -0.41% DOW +382 +1.29% S&P +76 +1.64% NASDQ +193 +1.29% DAX -44 -0.28% NIKKEI -264 -0.91% Hang Seng +795 +3.14%

Despite the **below consensus Chinese GDP** data at the start of last week, overall, the **data last week was positive**. The **PMI data** from most western economies was **better than the consensus** with stand-out data from both the UK and US.

However, the **Eurozone services sector suffered an unexpected fall** which is likely due to the **spike in energy and general commodity prices** brought about by these global supply bottlenecks that all economies are experiencing.

News last Friday from **Evergrande**, the massively indebted Chinese property development group, **helped markets to recover losses** from the start of last week.

Evergrande managed to **pay at the eleventh hour** the **missed interest payment on foreign US Dollar bonds** which has given some very **short-term relief** to the **Hong Kong** market although the debt remains and so does the **risk that the company could default** without offloading some assets.

However, equity markets continue to believe what central bankers are telling us about the prospects for inflation.

Here in the UK, analysts are now pricing in a **near 80% probability of a rate rise** before Christmas. There has been some criticism of the Bank of England's **aggressive market speak** with the **Economist publication** calling for the bank to **pause with any rate rise**.

An interesting article in the FT highlights how investors view what Central Banks are up to.

The yield on the **two-year UK gilt and 2-year treasury** (US sovereign debt) have been **risen sharply in the last two months** reflecting the likelihood of a **start in the tightening cycle in both the UK and US**.

In the UK, **2-year gilts are now yielding 0.7%** - not much to write home about – but just **two months ago they were 0.1%.** Similar in the US, where 2-year bond yields are at **0.49% have risen from 0.25%.**

However, if we look further **along the yield curve or duration**, we see that the yield on **long term bonds** in both markets have **not moved much at all** which suggests that the market suspects that **inflation will be tamed quickly**. Remember that long term bond yields are **very sensitive** to the **corrosive effects of inflation.**

So, put it another way – **investors** are **currently implying** that that both the **BoE** and **Federal Reserve** could be making a **policy error in raising rates** and **tapering QE**.

This means, these central banks could end up **choking off some of the post pandemic recovery** risking stagflation in the medium term and the **likelihood** that these **rate rises would have to be reversed**.

Of course, these moves in the **bond markets could change again** should inflation **really** take hold.

EURUSD +0.49 +0.42 GBPUSD Unch USDJPY -0.23 -0.2%

Little action in the forex market last with the US Dollar losing more of its gains since early September in anticipating of the start to QE tapering.

Gold +24 +1.35% UK OIL +1.04 +1.23%   US OIL +1.7 +2.06%
Oil continued its relentless rise, adding another $1 from the previous week. The Yen experience some profit taking halting the slide from the previous week although the energy squeeze will have a direct impact on Japan which has to import significant quantities of oil and gas.

The successful launch of the **Proshares Bitcoin Strategy ETF**, to give its full name, **last Tuesday on the New York Stock Exchange** gave another **boost to Bitcoin and other Cryptos.** The Bitcoin ETF, or BITO as its called, **attracted more than $1 Bln from investors** making it was of the fastest growing ETFs.

Data / Events this week

ECB, BoC & BoJ policy meetings, the UK budget, and US GDP data to look forward to.

Monday

Germany	**German IFO business climate**. Large survey of manufacturers and retailers. Gradually slipping from levels four months ago.

Tuesday

Wednesday

Japan	**Bank of Japan** policy meeting. Following upgrade in outlook the bank is expected to make **no change** to official rates.
UK	**UK's Autumnn Statement presented by Chancellor Rishi Sunak**. Almost all the policy announcements seem to have been trailed ahead of the announcements in parliament so markets will probably have little in the way of any meaningful surprises.
Canada	**Bank of Canada** – **no change** ahead of FED's FOMC policy meeting in early November.
US	Core Durable Goods orders. **Still on the rise but slowing**.

Thursday

Eurozone	**ECB policy meeting**. Whilst investors have started to price in a **slight rise in Eurozone rates** by end of 2022, the likelihood of **anything happening** in the short to medium term is **very low**. Markets are **predicting** the Eurozone **rates will increase by 0.1%** by the end of 2022. Hardly noteworthy – actually noteworthy for **how dovish investors** are about **prospects for a rate rise.** Most analysts expect the ECB to maintain a more dovish approach, contrary to what the BoE have been saying. **They can't both be right, or can they??**
Us	**GDP data**.

Friday

US	**Revised University of Michigan Consumer sentiment**. Stabilising??
US	**Chicago PMI** – Still falling.