

Market News 27-09-2021

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German election latest is that the **SPD party headed by Olaf Scholz has won a narrow victory with 25.7% of the votes**. The main rival, the **CDU/CSU alliance, polled 24.1%**, their **worst result for decades**.

Sadly, there is **no real outcome** in terms of **what direction Germany will take** and what **effect this will have on our markets**. This is because the SPD will now go into **negotiations with the Greens and the FDP to form a coalition**, which **could take months** before a working government is decided upon.

In the meantime, Merkel will remain in charge, possibly until Christmas if negotiations are protracted.

Reaction to the election has been muted with the German Dax up, but no more so as it tracks other international indices higher which are higher this morning.

The Euro is however modestly weaker across the board.

Review

FTSE +88 +1.26% DOW +215 +0.62% S&P _22 +0.52% NASDAQ unch
DAX +42 +0.27% NIKKEI -251 -0.82% Hang Seng -728 -2.92%

Stock markets had to contend with several Central Bank policy meetings last week. The US and UK central banks look like they are about to start on a new cycle of tightening by starting to unwind their respective QE programs that was brought in at the start of the global pandemic last March.

The **Norwegian central bank** last week announcement a **rate rise of 0,25%** from zero. This is the **first rate rise from a major central bank**. Olsen, the Norges bank governor also said it was unlikely to be the last which is rather stating **the obvious** – bearing in mind the **rate has only now gone positive**.

So, the **FOMC announcement** means the US central bank will **likely start the process of unwinding their \$120 BLN QE program in November**. It is expected that the program will be concluded by mid 2022.

In another development there are now **nine** members of the FOMC committee that expect the first rate raise next year. This compares with **seven** members who declared their hand in the **June meeting** so more and more members are coming round to the belief that **rates will have to start to rise next year** as opposed to 2023.

The **US dollar drifted higher** into the end of the week whilst **equities continued their rebound from the news regarding Evergrande** at the beginning of the week.

With the **impending tapering of QE being more certain** you might have thought equities would have reacted negatively. Clearly the **end of cheap money** is now coming into **sharper focus**, but stock market participants still consider the **FED to be largely dovish** whilst accepting the **inevitable end of QE**.

The **Financial sector was responsible for driving US equities higher** into the end of the week as **banks rallied 2 to 2 1/2 % on the news** – Banks tend to do better in a higher rate environment as their margins increase.

EURUSD UNCH GBPUSD -0.63 -0.45% USDJPY +1.03 +0.93%

The **US Dollar drifted higher** following the FED's announcements. The Euro fell against both the USD and Sterling. Traders speculated about a possible rate rise in the UK before the end of the year which helped [push Sterling after the BoE meeting. The BoE surprised the markets by stating that it would consider a rate rise before terminating its bond buying program.

Gold -4 -0.22% UK OIL +2.78 +3.7% US OIL +2.06 +2.86%

Gold continues to lurch on the downside following bouts of corrective activity. The improvement in the US Dollar's fortunes has been the main bearish factor for the precious metal and was the cause of the sharp fall on Thursday.

Oil pushed higher again, reaching multi-months highs, as gas prices rise inexorably giving further weight to crude markets where supply remains tight.

Russia has been blamed by many for gas price surge as Gazprom restricts supply resulting in further price pressure when stocks are already very low.

Data / Events this week

Less busy schedule of data & events this week. Largely dominated by a plethora of central bankers' speeches at various events throughout the week.

The FT headlined the release of the new Bond film this week – clearly not a busy week.

Monday

ECB Lagarde testifying before the Committee on Economic and Monetary Affairs

US Core durable goods. Still growing? USD and equities sensitive.

UK BoE governor Andrew Bailey speaking at society of Professional Economists Annual Dinner, in London.

Tuesday

US CB Consumer confidence. A modest rebound.

Wednesday

ECB ECB forum at which Lagarde, **Bailey**, Kuroda and Jay **Powell** will be speaking. Could be lively as any comments on tapering would be jumped on by the markets.

US Crude oil inventories

Thursday

China Manufacturing PMI – holding its head up water – just.

US Final GDP – slight uptick in previous number. Not so important.

US Chicago PMI – individual reading on Chicago district.

US Various members of the FOMC speaking at different events.

Forex Factory has highlighted these as market participants are keen to get as much colour on the Federal Reserve's intentions over the next few months as the next tightening cycle begins.

Friday

US ISM Manufacturing PMI – gradually slipping back from the red-hot readings above 60.

US Revised UoM Consumer sentiment. Still not back up top pre-pandemic levels. August was the lowest reading for a long time – with little sign of any improvement this month.