



## **CIO OFFICE MORNING MARKET WRAP – 9th August, 2021. ALSO AVAILABLE ON ALEXA.**

Asian stocks are mixed this morning, US futures are slipping and precious metals tumbling on growing conviction that the Fed is closer to pulling back stimulus. Commodities are overall not faring well, commodity currencies like the Australian dollar are underperforming and the dollar is edging higher.

Since the beginning of the year the euro has been trading very much in line with the December 2022 eurodollar future. This makes sense, as currencies are sensitive to short-term rate-differentials and the underlying of the eurodollar futures is the 3-month Libor, so the December 2022 contract is now telling us where the Libor will be in less than two years from now. Following the Friday's strong jobs report eurodollar contracts were under pressure, with the December 2022 discounting almost two rate hikes by the end of next year, so the euro slumped, as investors anticipated a tighter Fed's policy. Gold slumped as well, underperforming the previous drop in rates, but reacting quickly now that they are rising. The euro is not trading that far from a 5-month low, while gold recently found strong resistance at the 200-day moving average, and today it is tumbling, so technically could be entering a negative phase. Are the euro and gold telling us something? The former that markets are getting more convinced about a growing policy divergence between the Fed and the ECB, the latter that the tapering deadline is drawing closer and will not be put back.

Investors are sensing that the combination of growth and inflation lying ahead will be reverberating across the rates spectrum, both at the short end, where currencies have a higher beta, and at the longer end, where gold is most responsive. Tapering implementation is expected in early 2022, and meantime inflation reports will be closely watched to see if price pressures, key in driving Fed policy, will be as transient as Powell has put them across to be. Tapering is not really round the corner, neither gold nor euro strength should be.

The outlook for tighter, rather than looser, Fed policy should drive a stronger dollar, at least for the remainder of 2021, and this should be confirmed by signs of weakness in the commodity space. As a matter of fact, copper has not made a new high since May this year, Brent crude reached a high in July, but its futures curve is extremely inverted, which usually suggests unsustainably high prices in the shorter term and we have already mentioned what gold's prospects could be. Overall, it looks like commodities could take a breather after an impressive post-pandemic run.

The \$550bn infrastructure bill, much coveted by the Democrats, is set for approval in the Senate as soon as today, after clearing the last procedural hurdle. The bipartisan backing for the legislation achieved in the Senate is not at all there in the House, where Democrats have room only for three defectors in case Republicans vote cohesively against the bill. The House speaker Nancy Pelosi also reaffirmed Friday that the House will not take up the infrastructure bill until the Senate also passes the more sweeping \$3.5tn legislation, the rest of Biden's economic agenda. The Democrats will try to push the latter through Senate without GOP support, which is irking Republicans and setting both parties for quite a fight in the House over the approval of anything related to the president's agenda. Minority Leader Mitch McConnell not only said that no Republicans will vote on the legislation in the chamber, but also that the Democrats going it alone on more "reckless" spending will imply that they will have to do the same to raise the debt limit. That would be quite problematic and have some spill over effects on markets too.

Stay safe.

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