



**CIO OFFICE MORNING MARKET WRAP – 15th June, 2021.
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Traders are undoubtedly preparing themselves for the Wednesday's Fed meeting. Should they? After all, the current narrative is that yields have been unexpectedly falling as markets bought into the Fed's claim that inflation is going to be a transient phenomenon. Or maybe not, as there is more than temporary price pressures to the story than meets the eye. The notion of temporary itself is vague, as various bottlenecks in the economy plus households awash with savings could see inflation subside significantly only towards year-end or in early 2022. Is this kind of temporary that Powell had in mind and traders bought into? What investors could care even more about is the tapering of asset purchases, expected to be mentioned at this June meeting, though it would be too early to start it now. There is a growing number of sell-side calls mentioning a hawkish risk to Wednesday's FOMC announcement. Inflation projections could be revised higher, which would put overbought Treasuries in a tight spot; and some market pricing of monetary policy seems too optimistic, with swap rates discounting only 100bps of cumulative tightening in the next four years. Whatever investors may have bought into, uncertainty about the FOMC outcome runs pretty high. Billionaire and legendary trader Paul Tudor Jones said that this could be "the most important Fed meeting in J. Powell's career".

Consumers do not seem as convinced about the transient nature of US price pressures. According to the New York Fed Survey of consumer expectations, year ahead inflation expectations rose to 4% and three-year-ahead jumped to an eight-year high of 3.6%. At the same time, the probability of losing jobs fell to a record low. As per consumer perceptions the Federal Reserve has already achieved its dual mandate! Its policy is anyway outcome-based and unemployment is still way away from its target level, so rates should remain low until 2023, though reasons for starting to discuss tapering seem to be starting to pile up.

Wednesday's Fed message will be relevant for more than just stocks and bonds. Positioning on euro according to derivatives contracts called risk reversals has shifted to the most bearish, on the shortest-dated contracts, in the last two months. Gold has pulled back from its four-month high and bitcoin should be quite sensitive to any shift in Fed speak, with the waves of fear and greed dominating cryptocurrencies driven by liquidity conditions.

The financial sector will require investors' full attention following JPMorgan CEO's warning that the pandemic-era trading boom may be ending. JPMorgan led US banks lower after Jamie Dimon said that trading revenue in the second quarter would decline by 38% versus last year. The bank's forecast for net interest income was also cut. Morgan Stanley's James Gorman cautioned that the investment bank's revenue will fall short of the level seen in the first quarter.

Stay safe.

MAURICE GRAVIER
Chief Investment Officer
Wealth Management
Emirates NBD

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