SMBC Capital Markets, Inc.

fxPoetry

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Fears That Exist

Whatever the fears that exist
Today they've been largely dismissed
Though news has been scant
The ominous rant
Of bears has lost much of its gist

Some days are far more interesting than others and today falls on the dull side of the coin. A combination of the time of year, the end of August when trading desks on both sides of the Street are traditionally thinly staffed, and the fact that we have both a key data point, NFP, and the Labor Day weekend approaching, it is not that surprising that market activity has slowed down. In fact, it is exactly what would be expected.

Truthfully, it is difficult to find much in the way of news this morning to drive things. For instance, on the data front, we have seen the German State inflation reports, ranging from 7.3% to 8.4%, as we await the national number expected to print at 7.8%, a new high for the cycle. But given both the trend and the fact that energy prices continue to be extremely well supported, this is hardly surprising stuff. Eurozone confidence measures were all a touch softer than expectations and all lower than last month, but again, if you have read anything at all about Europe over the past month, this can be no surprise.

As to commentary from key government or financial leaders, this too was thin on the ground. Chinese Premier Li Keqiang explained that the latest stimulus package rolled out is "more forceful" than that in 2020, but it seems to me if you have to tell people that is the case, it must not be very "forceful" at all. Perhaps my favorite comment was from Ursula von der Leyen, the European Commission president discussing the ongoing energy crisis in Europe. She explained," *we will have to develop an instrument, that will happen in the next days and weeks, which ensures that the gas price will no longer dominate the electricity price.*" Of course, the implication is they need to find something other than NatGas on which to rely to generate electricity. I have a suggestion, they could reopen all the German nuclear plants, but I'm guessing that won't be part of the discussion. The point is, some days, and today is one of them, there is precious little to discuss.

Which means we can head to the markets and monitor the modest rebound from the post Jackson Hole selloff. Thus, after two down days in a row, some green is finally showing up on our screens. In Asia, the Nikkei (+1.1%) was the leader while both the Hang Seng (-0.4%) and Shanghai (-0.5%) were apparently less than impressed by Premier Li's comments. Europe, however, is a different story with the DAX (+1.9%), CAC (+1.2%) and FTSE 100 (+0.3%) all higher. Remember, with London closed yesterday, the FTSE is just catching up to the two days of activity. US futures are also higher this morning, somewhere either side of +1.0% just before 7am.

Yields are generally lower this morning after a continued sharp rise yesterday in the wake of the extreme hawkishness of the Powell speech and concurrent views by other FOMC members. So Treasuries (-3.9bps) are edging back toward 3.0% in the 10-year, but still reasonably above. European yields have generally fallen a bit more (Bunds -4.6bps, OATs -5.2bps, BTPs -7.1bps) although Gilts (+10.6bps) are also catching up to yesterday's price action.

Commodity markets are giving back some of yesterday's gains with oil (-2.1%) and NatGas (-2.0% in the US, -6.6% in Europe) leading the way down. Gold (-0.2%) and copper (-2.0%) are also under pressure and we see weakness in the grains as well. However, this feels very much like a trading reaction and less like a long-term story.

As to the dollar, it is definitely on its back foot today with only CHF (-0.3%) fading in the G10 space while AUD (+0.55%) leads the pack followed by SEK (+0.5%) and NZD (+0.45%). However, given the dearth of news, this all feels very much like a technical bounce for these currencies after prolonged dollar strength. EMG currencies are also largely firmer this morning led by HUF (+0.75%), INR (+0.65%) and MXN (+0.5%). The forint has been benefitting from expectations that the central bank there is set to tighten policy further and raise the base rate by 100bps to 11.75% with more hawkishness expected to follow. Meanwhile, the rupee was the beneficiary of a growing belief that rupee bonds will be included in the global bond indices thus encouraging purchases by those money managers who track the index. Finally, the peso looks more like a technical bounce after a couple of bad days of trading than anything else.

On the data front here, Case Shiller House Prices (exp 19.2%), Consumer Confidence (98.0) and the JOLTs Job Index (10375K) are on the docket as well as speeches from Richmond's Thomas Barkin and NY Fed president John Williams. Arguably, the latter will be the most interesting as we have not heard from Williams in a while. However, one can only assume that he will be toeing the party line which is currently raise rates til something breaks.

And that is really all there is today. As I said at the beginning, some days are just less interesting than others and thus far, today is shaping up to be one of those days. I see nothing that has changed my longer-term view of the Fed staying true to their word, so higher rates, a stronger dollar and a negative impact on stocks and bonds.

Good luck and stay safe
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