

Weekly Money Market Report

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President Lagarde announces that tapering will occur at a “moderately lower pace”

Highlights

- Europe’s largest economy reports lower economic sentiment, yet still indicates optimism
- Reserve Bank of Australia indicates increases in gradual tapering
- Bank of Canada lives up to its hawkish reputation and announces to raise interest rates before tapering
- Guinea power shifts skyrockets aluminum prices, China’s in a critical position

United States

Markets Eyeing the Next FOMC Meeting

Last week we saw the US dollar rebound back from 1-month lows after the disappointing jobs report. The dollar index gained as much as 0.90% on a weekly basis before closing the week at 92.582. The gains in the US 10-year treasury yield supported the currency as yields reached 1.3834% which is the highest since mid-July as investor digested the tapering possibilities and the possible implications on markets. On that note, current probabilities for a hike by the Fed in December 2022 remain around 80% which has been the market’s expectation for some time now. The FOMC will be meeting next week and markets will be looking for clues on the next steps and potential timeline for any monetary actions to be taken by the Fed.

Monthly Final & Core PPI

The monthly producer’s price index (PPI), which tracks the change in price for finished goods and services provided by producers, came in at 0.7% versus the expected 0.6%. Disruptions in the supply chain have pushed production costs higher. Additionally, the yearly producer price index has increased around 8.3% year-to-date. There have been various challenges with increases in materials costs, a rise in labor expenses, combined with shipping bottlenecks. The core PPI, which tracks change in prices of finished goods and services by excluding food and energy prices, revealed similar figures as it rose to 0.6% versus an expected change of 0.5%.

Europe

ECB Policy Meeting

In Europe, the European Central Bank (ECB) governing council held a highly anticipated meeting last week. President Lagarde stated that tapering should be implemented at a “moderately lower pace” following the “increasingly advanced” economic rebound in the Euro region. The ECB has deployed around \$95 billion of monthly bond purchases in the last two quarters of 2021. Therefore, such a statement from Lagarde makes the December 16 meeting highly influential to the timeline of central banks’ stimulus programs. Additionally, Lagarde’s balanced message has kept the market from negatively reacting.

The Euro reached the 1.1900 level amid the weak US non-farm payrolls the prior week. However, throughout the beginning of last week the single currency has witnessed a decline of 0.58% from Friday till Wednesday. Following the ECB meeting, the Euro managed to gain around 0.15% and has recovered from the 1.1800 lows. The single currency rose to 1.1830 after the report and closed the week at 1.1814 against the greenback.

German Economic Sentiment

In Europe, German economic sentiments dropped to 26.5 versus the 30.2 expected. The figure is a large drop from the 40.4 points in the previous month. Nonetheless, this month’s figure was well above the 0.0 mark, which indicates optimism in Europe’s largest economy.

Australia

RBA Policy Statement

Australia is one of the first developed economies to begin tapering. Initially, the RBA decreased the cash injected into the economy from \$5 billion to \$4 billion, and the plan was to start reducing its weekly bond buying program gradually. However, the RBA decided to continue extending its \$4 billion a week bond-buying until mid-February. Although the Australian economy has been able to withstand its weight, central bank officials believe assistance from the Reserve Bank of Australia is still needed.

Canada

BOC Monetary Policy Meeting

The Bank of Canada (BOC) announced that they would raise interest rates before gradually reducing monetary stimulus. The BOC unveiled its intentions to retract bond-buying gradually. However, it would do so at a neutral pace without withdrawing extraordinary support from the economy. The BOC's hawkish decision to raise interest rates indicates that the central bank predicts a positive economic outlook for the country. Additionally, raising interest rates will help the BOC to curb any unwarranted increases in inflation.

Commodities

Crude Market

Moving to commodities, on Monday, Saudi Arabia shocked the market by slashing its flagship crude prices by \$1.70 for Asian buyers. Therefore, Saudi Arabia showed aggressive competition among crude sellers. Nonetheless, Brent crude remained relatively unchanged last week between the lows of \$72.29 and a high of \$72.73 a barrel.

Furthermore, the delta variant has put the brakes on rising crude prices as new cases continue to dampen demand expectations. China's rigorous policies to counter the variant, allowed the world's largest oil importer to contain the delta variant. Therefore, China has helped create a positive outlook for crude as expectations suggest that the market would tighten towards the end of the year.

Aluminum

Guinea has recently become the main center of attention, with aluminum hitting a decade high amid political unrest. However, there are no signs that aluminum shipments and mines have been affected by this shift in power, yet the power vacuum will likely impact Guinea's aluminum industry. Similar to most commodities, aluminum had already climbed about 38% year-to-date prior to the coup. Such a price spike is significant to China as it gets more than half of its bauxite, a rock containing high amounts of aluminum, from Guinea.

Kuwait

Kuwaiti Dinar

USD/KWD closed last week at 0.30070.

Rates – 12th, September, 2021

Currencies	Previous Week Levels				This Week's Expected Range		3-Month
	Open	High	Low	Close	Minimum	Maximum	Forward
EUR	1.1882	1.1886	1.1802	1.1814	1.1700	1.1875	1.1840
GBP	1.3855	1.3889	1.3727	1.3839	1.3775	1.3950	1.3855
JPY	109.71	110.44	109.62	109.91	108.00	110.90	109.81
CHF	0.9136	0.9235	0.9128	0.9180	0.9090	0.9200	0.9157

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