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Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of September 13, 2021 By Amundi Research

The week at a glance

- **Markets**: Low volatility on markets as the spread of the Delta variant might delay the slowing of the Fed's asset purchases.
- **United States**: Labour market data are below expectations but broadly suggest that the job market keeps improving.
- **Eurozone:** Eurozone economy grew at a quicker rate than previously estimated, with consumer spending the key driver.

KEY FIGURE

14.3%

Year-on-year growth for Eurozone in second quarter.

Focus

Suga's departure seen as a near-term positive for Japan

Suga announced he was withdrawing from the ruling LDP's presidential election, scheduled for 29 September, indicating he will resign as Japan's prime minister, effective late September. A special Diet session will then be held on 4 October to approve the new LDP President as Japan's new PM, followed by formation of a new cabinet just ahead of the general election.

Equity markets have taken Suga's resignation positively, since it reduces political uncertainties and the tail risk that the LDP-Komeito coalition would fail to secure a majority in the lower house. As no major macro policy change is expected from the top running candidates, the impact on the Japanese Yen is likely to be neutral or slightly negative. Historically, high political uncertainties tend to favour the currency.

KEY DATES

22nd September	**23rd September**	**26th September**
US Fed monetary policy meeting	BoE monetary policy meeting	German federal elections

Source: Amundi Research.

Our weekly analysis

The ECB announced a slowdown in bond purchases but this is not a tapering. This is a recalibration of a flexible program as the recovery is already well underway and financing conditions have strongly improved during the summer. Under the current €1,850bn European pandemic emergency purchase program (PEPP) envelope, we expect the ECB to buy an average of €70bn per month between September and the end of March.

The most important point concerning the ECB is the continuation of monetary support after March. The ECB must maintain a stable cost of financing of public debt as long as economic fragmentation prevails in the Eurozone. Fiscal policy can only be effective if sovereign yields remain low and stable even in the face of growing deficits. In the absence of a significant rise in growth expectations, the ECB stands alone in trying to avoid financial fragmentation. We expect the dovish majority to keep driving major monetary policy decisions.

According to Christine Lagarde, the December meeting will be the one to watch for the monetary support after March.

Regarding growth, the tone was upbeat. She said that the Economic rebound is ‘increasingly advanced. The Eurozone economy is seen returning to pre-crisis level at year end. Lagarde threw a string of metaphors to emphasize the ECB’s assessment that the recovery isn’t yet done: the euro area isn’t out of the woods, and, for the golfers, “we’re not on the green.”

The ECB still sees the inflation Surge as transitory. The inflation forecast for 2023 was only slightly raised to 1.5% - well below the ECB’s medium target of 2%. The Governing Council seems to be becoming more attentive to upside risks to the inflation outlook even though Lagarde does not seem particularly alarmed compared to the more hawkish members of the Governing Council, who have pointed out that inflation could pick up more strongly than expected. She said that the ultimate impact of supply-side bottlenecks that have raised costs for producers remains to be seen, and that there’s still not much of a sign of a pickup in wages.

Indice	Performance			
Equity markets	10/09/2021	1 W	1 M	YTD
S&P 500	4508	-0.6%	1.6%	20.0%
Eurostoxx 50	4186	-0.4%	0.0%	17.8%
CAC 40	6691	0.0%	-1.9%	20.5%
Dax 30	15664	-0.7%	-0.7%	14.2%
Nikkei 225	30382	4.3%	8.9%	10.7%
SMI	12121	-1.9%	-1.9%	13.2%
SPI	15664	-1.6%	-1.1%	17.5%
MSCI Emerging Markets (close -1D)	1300	-1.2%	0.0%	0.6%
Commodities - Volatility	10/09/2021	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	73	0.3%	3.1%	40.6%
Gold ($/ounce)	1796	-1.7%	3.9%	-5.4%
VIX	18	1.1	0.7	-5.2
FX markets	10/09/2021	1 W	1 M	YTD
EUR/USD	1.18	-0.4%	1.0%	-3.1%
USD/JPY	110	0.1%	-0.6%	6.5%
EUR/GBP	0.85	-0.4%	0.8%	-4.5%
EUR/CHF	1.09	0.0%	0.4%	0.4%
USD/CHF	0.92	0.4%	-0.6%	3.6%

Source: Bloomberg, Amundi Research – 10/09/2021 – 15:00 pm

Indice	Performance			
Credit markets	10/09/2021	1 W	1 M	YTD
Itraxx Main	+45 bp	--	-2 bp	-3 bp
Itraxx Crossover	+227 bp	-2 bp	-8 bp	-14 bp
Itraxx Financials Senior	+51 bp	-1 bp	-2 bp	-8 bp
Fixed Income markets	10/09/2021	1 W	1 M	YTD
ESTER OIS	98.92	-1 bp	-5 bp	-39 bp
EONIA	-0.49	--	--	+1 bp
Euribor 3M	-0.54	-	-	-
Libor USD 3M	0.12	-	-1 bp	-12 bp
2Y yield (Germany)	-0.71	-	+4 bp	--
10Y yield (Germany)	-0.34	+2 bp	+12 bp	+23 bp
2Y yield (US)	0.21	+1 bp	-2 bp	+9 bp
10Y yield (US)	1.32	--	-3 bp	+41 bp
Eurozone Sovereigns 10Y spreads vs Germany	10/09/2021	1 W	1 M	YTD
France	+33 bp	-2 bp	--	+10 bp
Austria	+22 bp	-1 bp	-1 bp	+7 bp
Netherlands	+12 bp	--	--	+3 bp
Finland	+22 bp	-1 bp	-3 bp	+6 bp
Belgium	+31 bp	-1 bp	--	+12 bp
Ireland	+37 bp	-1 bp	-2 bp	+10 bp
Portugal	+56 bp	-2 bp	-1 bp	-4 bp
Spain	+66 bp	-3 bp	-2 bp	+5 bp
Italy	+104 bp	-2 bp	+4 bp	-7 bp

Asset class

	MARKET	AMUNDI ANALYSIS
Equity	**Equity markets declined slightly this week. As of Thursday evening, the MSCI World AC was down by 0.74% on the week.** However, Asian, European and US futures markets were stronger on Friday morning, pointing to a slightly negative performance on the week. Nonetheless, US market declines in four consecutive trading sessions (from Friday 3 September to Thursday 8 September, as markets were closed on Monday 6), something that had not happened in the past three months, suggested a slightly less peaceful state of mind on Wall Street.	Equity markets, US ones in particular, are looking for a second wind, as low August job creations are unlikely to keep the Fed from following through on its tapering plans. Other market concerns include the still uncertain outlook for a complete reopening of economies, the expected reduction in fiscal support, the issue of how transitory inflation actually is, and the turning point in China. Following their rally so far this year, equities clearly offer less, albeit still some, upside potential. Between protective relative valuations, growth that is slowing but will remain above trend, and healthy earnings, one-off corrections are unlikely to turning into a bear market.
Fixed Income	**10Y US yields barely moved this week after the publication of a mixed report last Friday.** Disappointing payroll growth lowered expectations that the Fed Reserve will rush to taper its asset purchases. The US 30Y yield fell on the back of strong demand. Elevated participation of indirect bidder at 30-year bond auctions may suggest strong interest from foreigners. Very low volatility as well on European bond markets. The German 10Y is up 2bp over the week.	At Jackson Hole, Fed Chair Powell stated that most FOMC participants are in favor of starting to reduce the pace of asset purchases this year if the economy evolves broadly as anticipated. Nevertheless, the spread of the delta variant might be holding back the Fed on its plan to taper asset purchases. What will be key for rates is how quickly the Fed will remove accommodation and when the purchases will end. The more hawkish Fed members would like to taper purchases faster than in past episodes. St. Louis Fed President James Bullard says he would like to see the tapering end by the first half of 2022. Discussions on the Future of the PEPP will take place in December.
Credit	**Credit markets performed well this week with spreads tighter again.** In addition, the volumes of new issues remained limited. The appetite for the asset class despite the delta variant remains strong.	In the US, the Non-farm payrolls (NFP) figures had little impact on credit market as they allayed fears of a decrease in the Fed's bond purchases. Likewise, the ECB reassured the credit market by announcing the continuation of monetary support after March 2022. Moreover, given that large majorities of corporate bond purchases are made through the Corporate sector purchase program (CSPP), the decision of the BCE's reduction in the fourth quarter in pandemic emergency purchase program (PEPP) had little impact on corporate credit.
Foreign Exchange	**Concerns over growth and fears of persistent pressures on prices weighed on risk sentiment this week.** Currencies' reaction has been on average muted but most of the rebound post Jackson Hole has inverted. NOK and GBP are the marginal outperformers in G10, where AUD, SEK, CAD and CHF are the losers of the session. ZAR, IDR and ARS the winners in the Emerging Market space, where CLP is down more than 2.5% with respect to last Friday. HUF, COP, PLN and KRW the other underperformers, as we speak.	The sequencing of slowing global growth and the Fed starting a modest policy normalization in the months to come is likely to continue to support the USD, in our view. Few cyclical currencies may have over-reacted ahead Jackson Hole and may offer some juice from current levels. As the rise in US rates should favour the real component though, we believe most of the cyclical bets have much less clear-cut potential, whilst low yielders may keep moving gradually lower. Being selective is key within Emerging Market currencies.
Commodities	**Commodities corrected further this week by -0.7%. WTI and Brent remained at $68 and $72, respectively**. Gold was stable at around $1800, while base metals retraced by -0.6%.	The overall scenario remains constructive for commodities and economic growth will be the relevant factor for the next few months. Supply chain and inventories will underpin base metals, while financial conditions should drive the gold price.

Economic indicators

	MARKET	AMUNDI ANALYSIS
United States	**US initial jobless claims dropped the most since late June.** Initial claims fell by 35k this week to 310k in the overall US economy, decreasing faster in the states ending pandemic benefits in September and with some increases in states affected by the severe storms. Pandemic program claims are moving lower as the end of the program approaches.	Labour market data broadly suggest that the job market recovery keeps improving, with the positive sign that the job market does not seem to be dramatically impacted by the new Covid-19 wave. Earlier in the week, JOLTS (Job Openings and Labor Turnover Survey) data also depicted solid labour demand, with layoffs announcements at lows, sky-high job openings, and evidence of workers moving for new jobs, most likely wage-inflationary.
Eurozone	**Second quarter Eurozone GDP growth was revised up to 2.2%** QoQ (from 2.0%) in the latest release by Eurostat, for 14.3% (from 13.6%) on a YoY basis.	Eurozone GDP expanded at a solid rate over the second quarter, benefiting from a broad-based easing of Covid-19 restrictions. According to the latest release by Eurostat, the Eurozone economy grew at a quicker rate than previously estimated, with consumer spending the key driver, expanding by 3.7% as people were allowed to return to shop, hospitality and leisure venues. Accordingly, Eurozone GDP stood at 2.5% below its pre-pandemic level at the end of the second quarter and is expected to grow strongly in the third quarter, benefiting from the further reopening of the economy, as also highlighted by ECB President Lagarde at the latest monetary policy meeting, held on 9 September.
Japan	**The August Economy Watchers Survey shows private sector sentiment continued to deteriorate in Japan**. The current business conditions Diffusion Index (DI) dropped sharply, by 13.7pt to 34.7, the biggest single-month decline since March 2020. Food, services, and retailing declined the most, dragging household activity down by 15.9pt. The Outlook DI dropped 4.7pt to 43.7.	The spread of the Delta variant led to an expansion of the state of emergency in Japan, causing steep falls in household DI. In addition to Covid-19 uncertainties, the Outlook DI reveals that global supply chain disruptions were the major concern for manufacturers. Supply bottlenecks may well extend beyond the auto sector, weighing on the outlook.
Emerging Market	**The Central Bank of Russia (CBR) hiked the policy rate again by 25bps to 6.75%** on September 10th, as inflationary pressures continue to persist and inflation expectations remain at multi-year highs. August inflation YoY reached 6.7%, accelerating from 6.5% in July-- well above the target range of 4%. According to the CBR, annual inflation is expected to slow down to 4-4.5% in 2022 and stay close to 4% from 2023 onwards.	The CBR left the door open for further rate hikes in the future. For the time being, we expect a final 25bps hike before year-end. We expect the hawkish stance of the CBR, together with twin surpluses – fiscal and current account-- to continue to be supportive of the RUB.