8th June 2021 – Fed's step forward, Fed's step back

Fed - Labor - Inflation - Fed

The Fed's still stray between curbing the prices and the labor market needs for cheap money.
We have seen the May US labor report showing adding of only 559k out of the farming sector, with average earning per hour rising by 2% year on year, while the consensus was referring to falling by 0.4%, after rising in April by 0.3% has been revised up to 0.4%.
The report was shocking as it came, after US ADP had shown adding of 978k in May and also, after five consecutive slides of US jobless claims ended to 385k in the week ending of 28th of last May and even the consensus was referring to adding of 650k.
May US ISM Manufacturing indexes have also highlighted that issue clearly by showing retreating of the employment index to 50.9 from 55.1 in April and barely setback of the prices paid index to 88 from all times high in April at 89.6.

Needed Reflation

Even over the financial stance, Yellen said during the week end US President Joe Biden's $4 trillion spending plans are needed even if it means higher inflation and interest rates.
Here comment came after passing 15% corporate taxes conviction among the G7 finance ministers in UK, while Biden was pushing for 21%.
Facebook welcomed the step by intelligent announcement in time before the market opening to close the door against the speculations of capitals moving outside US to offshore taxes havens countries and to avert a slide of its share on the back of that decision.

Unchanged ECB's stance awaited

In EU, we wait next Thursday for another ECB's governing council meeting and it is expected to end to keeping of the main refinancing rate at zero, the marginal lending facility at 0.25% and the deposit rate at -0.5% with extending the Pandemic Emergency Purchase Program (PEPP) to March 2022, totaling €1.85tr for purchasing the issued bonds by the EU governments which are in strong sake of lower money costs to finance their needed reflation plans to boost the economy.
No expected criticism against the EUR's appreciation which is working meanwhile to contain inflation in EU, not as the stance was in the beginning of the year, when EURUSD reached 1.2349 and has been faced by vocal interventions by several ECB members.
No expected considerable reference to CPI rising to the ECB's yearly target over the medium term at 2% as it's flash reading has shown or even reference transitory inflation rising as what's running currently in US on last year economic paralysis to the contain the virous infection which pushes up the current inflation yearly figures sky high.

Inflation-Growth neck to neck

As we are waiting ahead next Thursday also for May CPI figure of US which is expected to show rising by 4.7% y/y, after rising by 4.2% in April, reflecting the change between the current prices and the prices nearly a year ago, when WTI was close to 15$ per barrel.

1: Thanks to the relatively fast vaccination pace in US.
2: Thanks to the US governments consecutive reflation plans which drove the US debt level to unprecedented level at USD28.3tr currently and US Debt to GDP ratio to 127.7% at the end of 2020 third quarter, hurting the creditability of US "which has been lowered during Obama's Era by S&P

from AAA top tier to AA+ but now after Covid-19", it's OK", while it is still struggling to have faster growth rates and to restore nearly 7.5m jobs "out of the farming sector since last February" to the labor market.
The US economy has already got boosts by several reflation plans valued more than USD1.5tr, before the virus crisis, during Trump's era which watched also threats to the global economy because of his trade wars which drove the Fed to lower the Fed fund rate three times by 0.25% in the period from Jul. 31 to Oct. 31, 2019.
3: Thank to the Fed which sparked economic recovery in the second quarter of last year by its response to the crisis by lowering the interest between zero, increasing its holdings of Treasury securities by at least $500b and its holdings of government mortgage-backed securities by at least $200b, widening its balance sheet initially by USD2.3tr, before driving it up to surpass in May 2020 USD7tr level and meanwhile at the end of last May it reached another all times high at USD7.935703tr.
The Fed encouraged banks to keep their discount window opened as wide as it possible by removing the RRR to provides financing access using all of their available capital and liquidity to lend the household sector and spur business investment.
The Fed could support by these ways the small businesses and weigh down on the cost of borrowing for stimulating the economy generally and lower the US government borrowing costs to help it to finance its reflation plans by easier way.
You should also remember Jackson Hole symposium last August, when The Fed's chief Powell outlined new strategy of letting inflation to run hotter than normal in order to support the labor market and the broad economy prioritizing employment over price rises,
He showed by that outline more tolerance about The Fed's regular 2% yearly inflation expansion target it adopts over the medium term and this tolerance is running until now with the Fed's core PCE preferred gauge of inflation scoring of 3.1% yearly surging last April mainly on transitory factors as the Fed sees.

Eventual monetary tightening

However, the markets started to price on an inevitable step to tighten this ultra-easing policy amid momentum in the service sector and also in the manufacturing sector, labor market improvement and surely inflation upside pressure receiving at the end all these pumped liquidities even if the current yearly soaring rates are on transitory factors.

Philadelphia Fed President Patrick Harker could easily prompt last week what you can name initial wave of selling in the equities market amid yields increasing in the secondary money market boosted demand for the greenback by going along with his partner Robert Kaplan of Dallas giving barely hint about tightening of this policy, saying that it is time think about thinking about tapering of the current $120b QE pace of monthly purchasing!
Actually, the Fed told the same by even a stronger hint, when it decided last week to wind down its corporate bond and ETF program worth of $13.6, showing that there are tangible talks about that tightening and the Fed's looking into its tools to curb inflation as it said on its president tongue previously without naming these tools in his recent testifies, before the senate banking committee and the congress financial committee.
A stronger reference to looking into tapering of QE is expected on Jun 16, when the FOMC's members meeting is to end to new projections of interest rate, growth, inflation and unemployment, however no expected nearby action, before clear guidance and that can be later by this yearend by God's will, before the Fed's balance sheet to reach $10tr psychological level.

Longer end of QE tapering

The gold hedge against inflation could be underpinned, following the depressing release of May labor report and it is now trading near $1900, after it had been undermined by Harker hint, USD extended its slide versus its rival major currencies in the beginning of this week on persistence of UST 10yr Yield existence well below 1.6% as the US labor market can tackle the Fed's advance to tapering.
Equities are cheered by the speculations of having longer period of stimulation time for boosting the US labor market and expected more Biden's submissions to republicans to lower his taxes hikes proposals to finances his $4tr plan to make it passed soon, as he and his treasuries secretary wishes to have them intact by Jul. 4.

Financial stability risk

However, we can see also negative consequences and risks of this cheap liquidity like what we have seen recently of Game Stop stock manipulation which can easily be repeated with others to come as targets to make quick profits by short-term traders using excessive high leverages to make profits in the equities markets or even in commodities market which is looking waiting for its turn in this usual circulation of liquidity row to be boosted further fueling further inflation waves.
Game stop could really put doubts about the financial stability and highlighted the current serious need for taking measurements to tackle excessive use of leverage can threat the financial stability, amid the current pumped liquidities from central banks and governments into the financial and the banking systems to boost the real economy.
While it is hard to make such profits of manipulations with giant's well-bid blue chips equities in the market having solid fundamental and financial situations specially after what they have already made since March 2020.

OPEC+ watching out

Oil prices are still also well-bid on expected increasing demand on the current running global economic recovery, amid continued stimulating plans from the central banks and governments and that drove the Russian energy minister Novak to say during the OPEC and its oil-producing allies meeting that there is actually currently 1m barrels a day shortage in the market.
The meeting ended to the same plan to boost the output in July, according to OPEC+'s decision in April to give back 2.1m barrels per day to the market in the period between May and July.
OPEC+ agreed initially to cut oil production by 9.7m bpd last year, before lowering that cut to 7.7m, then eventually 7.2m from January to reach only 5.8m of cut by the end of July.
While Western-Iranian accord to bring it back to the market can bring back with it about 3m bpd. So, the news about nearby compromise weighs down on the prices in this period of time the OPEC and its allies are watching in to take their next decision on.

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