# Daily Update

***Your daily market news, moves and outlook***

SEASPRAY PRIVATE
Wealth Management Solutions

## Thursday, 6th of January

## Markets Outlook

**Equities:** Stock markets are between 1% and 1.5% lower across Europe on Thursday morning, following a sell-off on Wall Street last night after the release of the FOMC meeting minutes. This would suggest that traders on this side of the Atlantic are beginning to position for an ECB rate hike during the second half of this year, after US markets ramped up rate hike bets last night. The pace of central bank tightening this year will undoubtedly be key for equity markets, which in turn will be driven by inflation results along with unemployment and the performance of the general economy. The VIX volatility gauge in the US is higher for the third day in a row, trading to $20.45 this morning as a slightly cautious tone returns.

**Currencies:** Wednesday was another relatively quiet day of trade for FX markets, with Euro and Sterling seeing some slight strength against the greenback, EUR/USD once again at 1.13 today and GBP/USD at 1.351. Currency traders, especially with regard to Dollar pairs, will now look to tomorrow's US jobs data and next week's inflation results for any signs of what the Fed will do later this month, trade will likely remain subdued for the rest of Thursday. Cryptocurrencies have sold off sharply overnight, with the benchmark Bitcoin down almost 8% since last night's release.

**Safe-havens:** Bond yields on all timeframes have moved higher between last evening and this morning, on the back of a seemingly more hawkish set of Fed meeting minutes. Notably 10yr yields in the US have today reached a high of 1.74% for the first time since April 2021 and are approaching levels last seen in early-2020. Similarly, German Bund yields this morning have broken a resistance point and have touched -0.05% for the first time since 2019.

**Looking ahead:** After this morning's stronger than expected German CPI inflation print, the highlight of the rest of the day will be the US Services PMI figure for December, due at 3pm Irish time. Tomorrow morning we are due to see the CPI figure for the whole Eurozone, forecast to come in at 4.8% y/y, while in the afternoon Canada and the United States will release Non-Farm Payrolls and their monthly Unemployment Rate readings.

## Key Events to Watch

06/01/2022 - US 'ISM Services PMI'
07/01/2022 - Eurozone CPI
07/01/2022 - US Non-Farm Payrolls
12/01/2022 - US CPI

## Market Moves

| Equity Indices | Value | Daily Change | YTD Change |
|---|---|---|---|
| S&P 500 | 4,700 | -1.94% | -1.38% |
| DAX | 16,271 | 0.74% | 1.22% |
| EuroStoxx | 4,392 | 0.56% | 0.77% |
| ISEQ | 8,706 | 0.52% | 3.11% |
| FTSE | 7,516 | 0.16% | 1.79% |
| Nikkei 225 | 28,487 | -2.88% | -1.06% |

| FX | Value | Daily Change | YTD Change |
|---|---|---|---|
| EUR/USD | 1.1313 | 0.25% | -0.68% |
| EUR/GBP | 0.8344 | 0.06% | -0.44% |
| GBP/USD | 1.3554 | 0.16% | -0.19% |
| USD/CHF | 0.9168 | 0.08% | 0.80% |
| USD/JPY | 116.10 | -0.03% | 0.70% |
| EUR/JPY | 131.34 | 0.22% | 0.03% |

| Fixed Income | Value | Daily Change |
|---|---|---|
| US 10yr | 1.700 | 0.051 |
| US 2yr | 0.829 | 0.070 |
| German 10yr | -0.124 | 0.004 |
| Irish 10yr | 0.284 | -0.006 |
| UK 10yr | 1.081 | -0.007 |
| Japanese 10yr | 0.116 | 0.014 |

## Financial News Round Up

### *Fed Minutes*

Yesterday evening the Federal Reserve made public the minutes from their most recent monetary policy meeting, which took place on December 15th, causing risk assets and stores of value to move lower and US Treasury yields to reprice higher.

It has become clear that Fed officials last month were concerned about the initial spread of the Omicron variant, but still believed the US economy had recovered enough that interest rates could be increased sooner than was at-the-time expected.

"Participants generally noted that, given their individual outlooks for the economy, the labor market, and inflation, it may become warranted to increase the federal funds rate sooner or at a faster pace than participants had earlier anticipated. Some participants also noted that it could be appropriate to begin to reduce the size of the Federal Reserve's balance sheet relatively soon after beginning to raise the federal funds rate" part of the minutes stated.

Inflation readings in the States, which Jerome Powell has admitted have been higher and longer-lasting than the central bank had previously predicted, have put significant pressure on the Fed to raise rates this year, after the latest US CPI result for November came in at multi-decade highs of 6.8% y/y. "Participants generally continued to anticipate that inflation would decline significantly over the course of 2022", but "almost all" are forecasting higher inflation this year, and many in 2023.

The Fed of course has a dual mandate, firstly to ensure an average rate of inflation at 2%, but also to strive for maximum employment in the region. With US unemployment now down to 4.2%, many officials believe now is the time to tighten policy.

### *Irish Exchequer Returns*

The Department of Finance has seen its highest ever tax take of €68.4 billion, bringing the Exchequer deficit down to €7.3b in 2021 (from €17b in 2020). The Department has estimated that the general government deficit will come to about €9b (equivalent to 2% of GDP or 4% of gross national income, among the lowest in the OECD).

Tax receipts were reportedly 19.7% higher than that of the previous year, up by a robust €11.2b, and equating to the nation's strongest ever tax yield.

"While uncertainty remains around the trajectory of the pandemic, particularly in light of the omicron variant, the very robust performance in 2021 is a positive indicator for the resilience of the economic recovery heading into 2022" the Department said.

Cumulative income tax receipts came in €3.9b (17.4%) stronger than in 2020, at €26.6b. This positive development highlights the ongoing recovery in the labour market along with growth in wages in the sectors insulated from the pandemic.

Importantly for Ireland, corporation tax receipts have continued to climb further, coming in at €15.3b for 2021, up 29.5% y/y. At present, €1 in every €4.50 collected in tax in Ireland is corporation tax.