Daily Update

Your daily market news, moves and outlook

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Markets Outlook

Tuesday, 20th of September

Equities: European markets have opened in a mixed but quiet fashion this morning after a broadly positive trading session on Monday, the United Kingdom returns to work today with markets in London catching up this morning - FTSE100 up by 0.4% at the time of writing.
Major indices on Wall Street last night closed higher, climbing off their 9-week lows and attempting to undo some of last week's losses. However, gains were tentative ahead of the much-anticipated Fed meetings which will take place today and tomorrow. The benchmark S&P 500 gained about 0.7% yesterday while the tech-heavy Nasdaq was 0.75% higher. The Fed won't be alone in raising rates this week, Sweden's Riksbank hiked earlier today by 100bp, exceeding analysts' expectations.

Fixed income: The US 10yr yield has today hit its highest level in over a decade at 3.52% as investors brace for another 75bp rate hike in the region. The more policy-sensitive 2yr bond also sold off yesterday and into this morning, further-inverting US yield curves and pushing its yield up to 3.97%. These increases have also helped to underpin the US dollar.

Currencies: The US dollar's strength for most of 2022 has been relentless, the Dollar index is currently up by circa 14% YTD. This has of course been driven by a number of factors - namely the relative direction and pace of interest rate moves in the US when compared to other regions. The greenback has also been supported this year by the invasion of Ukraine and the associated fallout, rolling Chinese lockdowns, and general fears about slowing global growth amid increasingly hawkish central banks.
Asian currencies were quiet overnight with the same expected from Europe and North America today and for most of tomorrow.

Looking ahead: Tuesday will be another relatively quiet day in terms of macro data releases - we saw higher PPI results out of Germany this morning and are due to hear CPI inflation data from Canada after lunch (expected at 7.3% y/y for August vs July's 7.6%). At 6pm today ECB President Christine Lagarde will speak at an event in Germany.
Markets will remain quiet tomorrow until after the FOMC (Federal Open Market Committee) statement and rate decision at 7pm, and Jerome Powell's press conference 30 minutes later. Thursday will also be dominated by central banks - with releases due from Japan, Switzerland, and the UK.

Key Events to Watch

20/09/2022 - ECB's Lagarde speaks
21/09/2022 - Fed Rate Decision
22/09/2022 - BOJ, SNB, BOE Rate Decisions
23/09/2022 - European & US PMIs

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	3,899	0.69%	-18.18%
DAX	12,803	0.49%	-19.40%
EuroStoxx	3,499	-0.03%	-18.59%
ISEQ	6,836	0.81%	-19.04%
FTSE	7,236	(Closed)	-2.00%
Nikkei 225	27,701	0.49%	-3.83%

FX	Value	Daily Change	YTD Change
EUR/USD	1.0022	0.00%	-11.72%
EUR/GBP	0.8763	-0.02%	4.37%
GBP/USD	1.1429	-0.04%	-15.37%
USD/CHF	0.9643	0.11%	5.70%
USD/JPY	143.20	0.31%	24.56%
EUR/JPY	143.50	0.30%	9.94%

Fixed Income	Value	Daily Change
US 10yr	3.494	0.039
US 2yr	3.946	0.075
German 10yr	1.796	0.031
Irish 10yr	2.357	0.034
UK 10yr	3.153	-0.013
Japanese 10yr	0.250	0.000

Financial News Round Up

Fed Preview

Policymakers at the Federal Reserve will once again be under pressure this week to prove they are serious about tackling elevated inflation in the United States - the Fed must now back up its hawkish rhetoric with a significant rate increase, and an updated set of interest rate projections for the region. After what will be a two-day meeting, the central bank will most likely raise rates by 75 basis points (for the third consecutive time) tomorrow evening as it attempts to slow down the overheating US economy.
A move of this magnitude, which at present is 80% priced in by the market, would bring the Federal Funds rate to a range of 3.00 - 3.25%, with the other 20% expecting a 100bp rate hike. While expectations are constantly changing, especially in the leadup to a Fed meeting, the market is currently pricing for the US central bank to hike to around 4.50% by year-end, and to then bring rates back down gradually over the course of 2023.
The Fed themselves will be releasing up-to-date rate projections (a.k.a. the dot-plot), after June's median prediction saw rates reaching 3.4% by December and 3.8% next year, before declining in 2024. In our view, tomorrow's projection will be more like 4+% for 2022 and peak slightly higher in 2023. These updated Fed projections will also be accompanied by new inflation and growth expectations for the US.

German PPI

At 7am this morning we got the release of Germany's latest Producer Price Index reading - which came in at an alarming all-time high of 7.9% m/m for August (and 45.8% y/y). This compares with economists' forecasts for just 2.5% m/m and the prior month's 5.3%. The index measures the change in the price of goods sold by manufacturers in the country, and is by nature a leading indicator of consumer inflation.
This data result only serves to increase the pressure that is already on the ECB to keep raising rates at an elevated pace. According to Destatis, Germany's Statistics Office, the largest factor behind the development was the surge in electricity prices. Energy prices as a whole were 139% (electricity up 175%) higher y/y and by 20.4% m/m.