5 November 2021

THE WEEK AHEAD

Taper Arrives Without a Tantrum in Sight

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 11/9	NFIB Small Business Optimism	Oct	98.5	▼	99.1
Tue 11/9	Producer Price Index	Oct	0.6% M/M	▲	0.5% M/M
Wed 11/10	Consumer Price Index	Oct	0.6% M/M	▲	0.4% M/M
Fri 11/12	JOLTS Job Openings	Sep			10439 K
Fri 11/12	University of Michigan Sentiment (Preliminary Estimate)	Nov	72.5	▲	71.7
Europe					
10/31-11/12	COP26 Climate Change Summit		--		--
Thu 11/11	U.K. GDP (Preliminary Estimate)	3Q21	1.5% Q/Q	▼	5.5% Q/Q
Thu 11/11	U.K. Industrial Production	Sep			0.8% M/M
Fri 11/12	EZ Industrial Production	Sep	0.2% M/M	▲	-1.6% M/M
Asia Pacific					
Sun 11/7	China Exports	Oct	22.4% Y/Y	▼	28.1% Y/Y
11/8-11/15	China Aggregate Financing	Oct	1570 B	▼	2900 B
Wed 11/10	China Consumer Price Index	Oct	1.3% Y/Y	▲	0.7% Y/Y
Wed 11/10	China Producer Price Index	Oct	12.3% Y/Y	▲	10.7% Y/Y
Thu 11/11	Japan Producer Price Index	Oct	6.9% Y/Y	▲	6.3% Y/Y
Thu 11/11	Japan Machine Tool Orders (Preliminary Estimate)	Oct			71.9% Y/Y

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- Longer-lasting supply chain disruptions are leading to stickier inflation, which suggests that the **October CPI** will remain elevated.
- With increased labor demand, we will watch the **JOLTS job openings for September** to see if and how labor supply is responding to open positions.

Europe

- We are following **COP26 decisions** to assess progress towards a net-zero world and green investment financing.
- **U.K. GDP** and **industrial production** will be released Thursday, November 11. We expect to see the pace of economic expansion slow in line with expectations.

Asia Pacific

- **China aggregate financing** may see continued variability amid regulatory tightening in the property sector.
- **China PPI will likely remain elevated** given the rise in energy prices, while **CPI should continue to normalize** as base effects from pork prices gradually fade away.

What This Week Means For Markets

The FOMC announced it will begin taper this month, but clear communication ahead of the announcement successfully avoided a taper tantrum. While Fed Chair Jerome Powell remained dovish, viewing price pressures as transitory, he noted increasing risks to the outlook, which suggests a 2022 liftoff could be more likely. However, movement in the U.S. Treasury curve was fairly benign, given multiple rate hikes were already priced in for 2022 and there were fears of a more hawkish tone. Moreover, major indices hit record highs following the meeting. Elsewhere, the BoE struck a more dovish tone than expected, leading the 2-year U.K. government bond to fall, signalling a reduction in expected policy tightening. Separately, OPEC+ is sticking with its current pace of supply increases, despite requests for a faster pace given elevated demand and prices. This could add more pressure to consumers who will bear the brunt of higher prices. Data is largely in line with our economic outlook and an economy that must grapple with stickier near-term inflation pressures, but central banks are committed to supporting a full recovery. Please see our Monthly Macro Dashboard.

IN REVIEW

FOMC Tiptoes the Tight Rope

At Wednesday's FOMC press conference, Fed Chair Jerome Powell announced the tapering of asset purchases will begin this month and end in mid-2022. As expected, the pace will be $15 billion per month—$10 billion in Treasuries and $5 billion in agency mortgage-backed securities. The committee expects a similar pace each month, unless changes in the economic outlook warrant it. Risks tilt towards a faster pace, rather than a slower one. The strong communication about the beginning of taper helped avoid a taper tantrum.

Powell continued to disconnect the timelines of tapering and rate hikes. FOMC members still look for further improvement in the labor market and noted that current inflationary pressures are being driven by supply constraints—a factor the Fed's tool would not impact. Asked about the impressive growth in the Employment Cost Index (ECI) for wages and salaries—which beat expectations and rose 1.5% Q/Q in Q3—Powell noted that in real terms, wages remain contained. He does not see evidence of a wage-price spiral in which wages rise persistently above productivity gains. The FOMC changed language from elevated inflation "largely reflecting transitory factors" to "reflecting factors that are expected to be transitory." While Powell remains dovish, he seemed to have less conviction, which provides more support for liftoff in 2022, particularly given dispersion among FOMC members; his dovish stance suggests the path will be less aggressive than current market pricing. Market reaction was relatively muted, as about 2 rate hikes in 2022 were already priced in, and Powell refrained from turning hawkish.

Bank of England Backs Off Interest Rate Rise

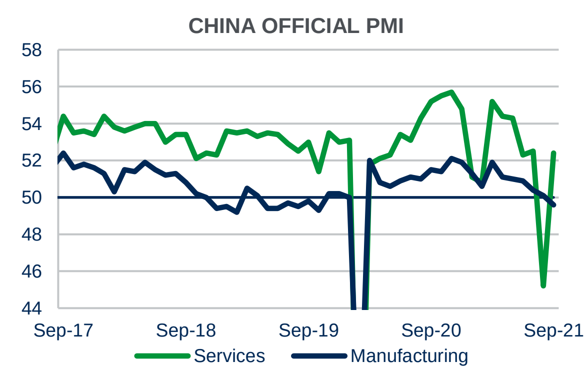
The Bank of England (BoE) surprised markets, leaving its main policy rate unchanged at 0.1% after concluding that the existing stance of monetary policy remains appropriate, despite CPI inflation that is expected to peak at 5% in April 2022. The vote count was particularly unexpected, with only two of nine Monetary Policy Committee (MPC) members voting for hiking. Hawkish comments from Governor Andrew Bailey and Chief Economist Huw Pill had led markets to believe the MPC was split evenly between those who wanted to raise rates now and those who did not. After the announcement, the yield of the 2-year U.K. government bond dropped 15 basis points, pricing out the November cut markets expected. However, the Committee has judged that some tightening of monetary policy is likely necessary to meet the 2% inflation target sustainably in the medium term.

EA Economy Expands, Regardless of Conditions

While supply chain disruptions, slow improvement in the manufacturing sector, and rising consumer prices negatively impacted the recovery, euro area Q3 GDP still grew 2.2% Q/Q, slightly over market expectations—supported by the strength in demand. France and Italy led the EA expansion (advancing 3% and 2.6%, respectively). On a yearly basis, EA GDP increased by 3.7% (consensus 3.5%) after 14.2% growth the previous period. We expect EA GDP to return to pre-pandemic levels by the end of the year, supported by consistent, strong demand and easing supply-side disruptions. Italy and France should grow faster than Germany and Spain in the next quarter.

China's Blue Skies Clouded By Stormy Horizons?

The official manufacturing PMI in China stayed weak, coming in at 49.2 in October (from 49.6), below expectations and showing the impact of the power crunch and production cuts on energy-intensive sectors. The rise in commodity prices and raw materials also weighed on activity, particularly as the input price and producer price subcomponents both rose to or close to highs. The services sector fared better but weakened to 51.6 (from 52.4 prior), despite a boost from tourism activity during the Golden Week holiday earlier in the month.



Source: Bloomberg. As of November 3, 2021.

Looking ahead, several headwinds—including weakening consumer confidence and elevated commodity prices—may continue to weigh on growth, decreasing the odds of a meaningful Q4 bounce. Rising cases are also a concern, particularly given authorities' seeming reluctance to drop its zero-COVID approach in light of the upcoming 2022 Winter Olympics in February. Similarly, production curtailments may also remain persistent through Q1 2022 as authorities keep pollution curbs around the capital intact as part of its "Blue Skies" initiative for the games.

KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.05%	0 bps	0 bps	0 bps	4 bps	-5 bps	-2 bps
3 Month USD Libor	0.14%	1 bps	1 bps	2 bps	-4 bps	-9 bps	-10 bps
3 Month Euribor	-0.57%	-2 bps	-3 bps	-3 bps	-4 bps	-5 bps	-3 bps
3 Month U.S. T-Bill	0.06%	0 bps	1 bps	0 bps	4 bps	-4 bps	-2 bps
2-Year U.S. Treasury	0.48%	-1 bps	21 bps	31 bps	33 bps	31 bps	36 bps
10-Year U.S. Treasury	1.58%	5 bps	11 bps	40 bps	-3 bps	70 bps	66 bps
10-Year German Bund	-0.17%	1 bps	7 bps	32 bps	5 bps	46 bps	41 bps
10-Year U.K. Gilt	1.07%	6 bps	6 bps	55 bps	23 bps	81 bps	87 bps
10-Year JGB	0.08%	-2 bps	3 bps	7 bps	-1 bps	4 bps	6 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.15%	N/A	-0.3%	-0.5%	-1.8%	-2.5%	-2.7%
Barclays Capital U.S. TIPS	1.34%	N/A	-1.2%	0.6%	-0.1%	6.8%	4.5%
Barclays Capital U.S. Aggregate	1.67%	32	-0.3%	-0.4%	-1.4%	-0.6%	-1.7%
Barclays Capital Global Aggregate	1.27%	33	-0.3%	-0.5%	-2.7%	-1.5%	-4.2%
Barclays Capital U.S. ABS	0.87%	36	0.0%	-0.4%	-0.6%	0.2%	-0.1%
Barclays Capital U.S. MBS	1.89%	22	-0.1%	-0.4%	-0.8%	-0.5%	-0.9%
Barclays Capital U.S. Corporate Investment Grade	2.24%	85	-0.4%	-0.4%	-1.6%	1.8%	-1.2%
BAML Euro Corporate Investment Grade	0.42%	89	0.0%	-0.4%	-1.5%	0.4%	-0.7%
Barclays Capital U.S. Corporate High Yield	4.25%	291	0.0%	-0.1%	0.5%	9.9%	4.4%
BAML European Currency High Yield Non-Financial	3.08%	337	-0.1%	-0.5%	-0.6%	7.7%	2.9%
JPM CEMBI Broad Diversified	4.52%	301	-0.2%	-0.6%	-0.7%	5.1%	1.0%
JPM EMBI Global Diversified	5.17%	357	-0.4%	-0.1%	-1.7%	3.6%	-1.5%
JPM GBI-EM Global Diversified	5.67%	N/A	-1.1%	-2.2%	-4.5%	-0.5%	-8.1%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,660.57	1.23%	2.4%	7.1%	5.7%	40.4%	25.5%
Euro STOXX 600 (Local)	481.22	2.74%	1.5%	6.3%	3.4%	35.2%	20.6%
U.K. FTSE 100 (Local)	7,248.89	3.40%	-0.1%	3.2%	2.0%	25.3%	12.2%
Japan Nikkei 225 (Local)	29,520.90	1.57%	1.5%	2.6%	6.8%	26.7%	7.6%
China Shanghai Composite (Local)	3,498.54	2.08%	-1.8%	-2.0%	1.5%	7.0%	0.7%
MSCI AC World (Local)	752.89	1.75%	1.6%	5.8%	4.3%	35.4%	20.3%
MSCI Emerging Markets (Local)	1,262.46	2.40%	-1.3%	1.6%	-1.5%	15.0%	2.0%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	580.72	-1.6%	3.3%	9.5%	14.0%	66.6%	41.8%
WTI Crude ($/bbl)	80.86	-2.2%	6.4%	14.5%	25.4%	116.0%	67.2%
Copper ($/lb)	4.33	-1.4%	3.2%	-1.3%	-4.8%	40.1%	23.1%
Gold ($/oz)	1,763.45	-1.8%	0.4%	-2.7%	-0.2%	-7.6%	-6.6%
U.S. Dollar Index	93.86	0.1%	-0.2%	1.9%	3.2%	0.3%	4.4%
Euro (USD/EUR)	1.16	-0.1%	-0.1%	-2.3%	-4.1%	-1.2%	-5.3%
British Pound (USD/GBP)	1.37	-0.4%	0.9%	-1.7%	-1.9%	4.5%	-0.1%
Japanese Yen (Yen/USD)	114.08	0.3%	2.8%	4.7%	4.7%	9.1%	10.5%
Chinese Yuan (CNY/USD)	6.40	0.1%	-1.0%	-1.0%	-1.1%	-4.3%	-2.2%

Source: FactSet and Bloomberg. As of November 4, 2021.

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