

FX MID-DAY REPORT



Will Jerome Powell fire bazookas in Bond Markets? Besides the FOMC this evening, other events to watch are US retail sales and expectations of further fiscal stimulus in the US.

We are of the opinion that the baseline remains in favour of further runs in Risk Assets, as global liquidity is ample and the global rebound in equities is on course. Based on this we look forward to more dollar weakness during the afternoon. Jerome Powell already presented the Federal reserve new operating framework at the Jackson Hole symposium, what the market expects to hear from him is a guideline to give a better understanding of how the Fed will achieve its new goals. The market would be watching closely the FED'S [AIT] Average Inflation Target.

The US Fed has been aggressive lately and may be running out of ammo, as there is not much it can do to provide additional monetary stimulus, it can only extend its stimulus programs for much longer than previously anticipated to generate the desired inflation overshoot. The FOMC presents three risks for the bond markets and Risk Assets

- Recent Bond Purchases have had an average of -7.0yrs, which is little compared to purchases during the peak of other QEs
- In relation to A. Macro-dealings materials would produce a steeper curve
- If the Fed chooses to strengthen its forward- guidance by committing to a state-based outcome rather than a calendar-based outcome, Libor Rtes. would push lower which would impact negatively Credit Default Swaps. In the case the above risks materialise real yields would rise further, this would hurt equities and risk assets and the following scenarios will play out.

- Strengthen the USD
- Weaken precious metals
- Steepen the nominal 5s30s curve

Trade responsibly

You can WhatsApp this number for questions and comments

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