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LIVE MARKETS-U.S. inflation and the dollar - Reuters

13-Jan-2022 13:12:22

Sentiment: Mostly negative

- STOXX 600 ticks down
- Tech, autos lead gainers
- Dollar down after US CPI surge
- Wall Street futures edge up

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U.S. INFLATION AND THE DOLLAR (1208 GMT)

Higher inflation = hawkish Fed = rate hikes = stronger dollar, common wisdom goes.

So the dollar falling sharply yesterday when data showed a December CPI reading of 7% left many investors scratching their heads.

But according to Commerzbank, the "higher inflation rates might be more likely to have a USD-negative effect".

Why? Because the Fed is unlikely to speed up its rate hiking cycle which, it's expected, will consist of a first hike in March and 100 bp over this year, Commerzbank analysts argue.

In the "long term, the market will continue to expect negative real interest rates," they explain.

MUFG analysts also point out that a lot was priced in.

The "FX market is certainly well-positioned for the commencement of Fed tightening", they wrote.

Indeed, the latest weekly data shows long U.S. dollar positions amongst leveraged funds to the 4th January at the largest seen since January 2019.

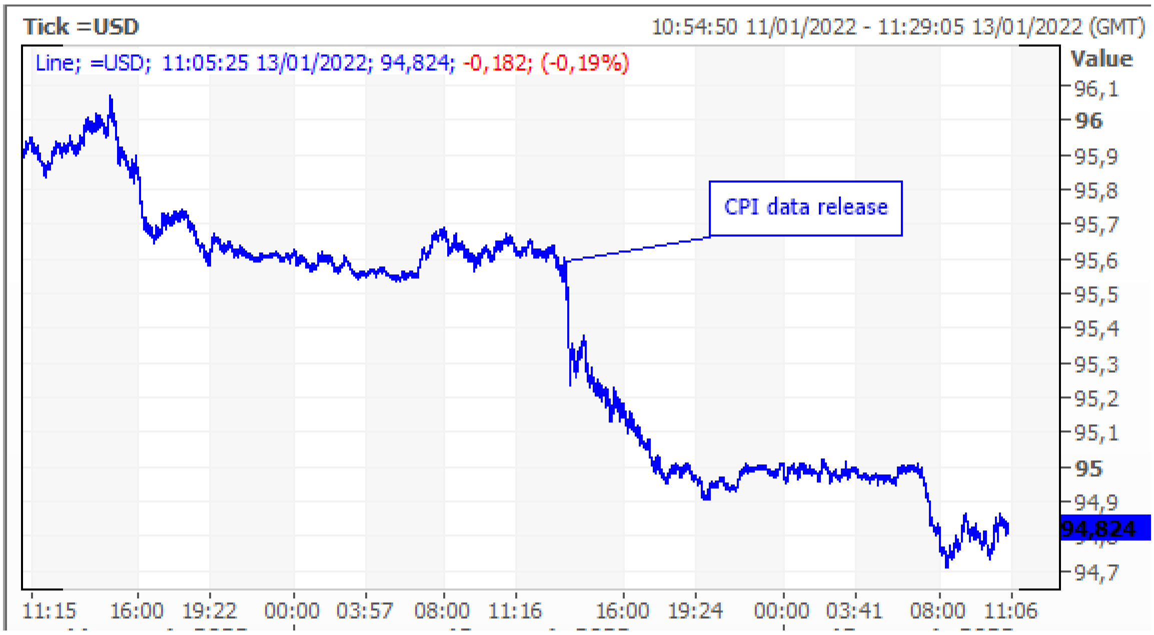
For the dollar to strengthen further, it would take data showing more robust than expected U.S. growth.

That would trigger terminal fed funds rate to shift higher, MUFG analysts argued.

There's another straightforward way to explain the surprise decline of the dollar yesterday.

As Berenberg puts it, the dollar reacted to inflation “in the beautiful ‘buy the rumours - sell the facts’ pattern.”

U.S. consumer prices increased solidly in December, culminating in the most significant annual rise in nearly four decades. (Full Story) The chart below shows U.S dollar index =USD moves after data.



(Stefano Rebaudo)

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STOXX DIPS, UK RETAILERS UPGRADES NOT ENOUGH (0906 GMT)

European equities are off to a tepid start this morning as investors take a break following a wild start of the week that saw them recover from their initial heavy losses as fears over rate hikes in the U.S. eased.

The STOXX 600 was down 0.3% in early deals after a strong two-day bounce and while moves across sectors showed no clear direction, single stock moves offered some excitement, specially in the UK with some trading updates.

Among the highlights were retailer stocks Tesco and Marks & Spencer which fell 1.7% and 6% respectively, despite improving their profit outlook on strong Christmas performance.

"Retailers have been strong thus far and Tesco and Marks have continued the theme, although the anticipated full-year profit upgrades were rather mild... Investors were primed for a bit more," said Neil Wilson at Markets.com.

European indexes

.STOXX	STXE 600 PR	↑	484.79	-0.29%
.STOXX	ESTX 50 PR	↑	4307.99	-0.19%
.FTSE	FTSE 100 INDEX	↓	7535.42	-0.22%
.FTMC	FTSE MID250	↑	22984.70	-0.27%
.GDAXI	XETRA DAX PF	↑	15970.29	-0.25%
.MDAXI	MDAX INDEX PF	↓	34892.710	0.02%
.IBEX	IBEX 35 INDEX	↑	8779.4	0.1%
.FCHI	CAC 40 INDEX	↑	7193.860	-0.6%
.FTMIB	FTSE MIB	↓	27707.65	-0.02%
.SSMI	SMI PR	↓	12595.43	-0.59%
.AEX	AEX-Index	↑	792.140	0.22%
.V2TX	EURO STOXX VOL	↑	18.4865	1%

(Danilo Masoni)

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BUSINESS AS USUAL (0759 GMT)

It's business as usual on Wall Street it seems, in a show of confidence the Federal Reserve can smoothly turn off the tap on stimulus with little damage to the economy and company profits.