Week in review: Energy price volatility adds fuel to the inflation debate, risk off sentiment takes hold

German politics shifts left; The German Social Democratic Party edged to a slight majority in federal election last week granting leader, Olaf Scholz, an opportunity to establish a government. Current incumbent, Angela Merkel, and her Christian Democrat party suffered their worst ever showing at the ballot box, albeit only being out of contention by less than 2% of the overall vote. With the vote being highly fragmented, as the once strong foothold populist parties seemed to fade in influence since the last election in 2017, the Social Democratic party will require a coalition of at least three other parties to reach the requisite coalition in the Reichstag. This process is expected to take several months, during which time Angela Merkel will remain at the helm.

Elizabeth Warren to oppose Powell's re-nomination as Fed chair; While most in the market expected the re-election of current Fed Chair, Jerome Powell, as a foregone conclusion, Progressive Massachusetts Senator ,Elizabeth Warren, hit the wires last week with a very different take, referring to the current incumbent as a 'dangerous man' given his prior proclivity for banking deregulation. Powell, whose term comes to an end in February , is said to have garnered the support of President Biden during his tenure given the Fed's proactive monetary response to help coral the detrimental economic effects of the pandemic. Elsewhere, Eric Rosengren and Robert Kaplan, two regional Federal Reserve Bank presidents, left their posts under a cloud of controversy following an expose of their personal stock trading account, leading many to question their propriety as Fed representatives. The Fed has, as a result, committed to reviewing its code of conduct and bill of ethics.

China attempting to avert the insolvency of Evergrande; Chinese authorities have been quietly upping the ante on parastatals and local governments to purchase assets from the beleaguered developer in order to avert insolvency and paving the way for an eventual re-organisation. Meanwhile, the Central Bank of China has been flooding the market with liquidity in an effort allay local market liquidity fears.

Inflation pressure continues to mount amidst energy price rises; Price rises continue to dominate mainstream current economic discourse with soaring energy prices the latest component adding credence to the debate. Eurozone inflation printed a decade-plus high of 3.4% last week, based on a year-on-year comparison from last September. Central bankers have been united in their position on inflation recently, regarding it as a temporary phenomenon, to be looked through, rather than at, as supply chain contrasts work themselves out in the short-term. This was indeed the position both Christine Lagarde, president of the ECB, and Jerome Powell, Chair of the US Federal Reserve, abided with last week. Albeit with Powell admitting that inflation may remain elevated for some months more before falling back towards the Fed's target of 2%, but also that the Fed stood ready to act should inflation prove an ongoing concern.

Meanwhile, markets-wise global equities have fallen out of favour; 'Risk on' sentiment faded in earnest as we entered October, with September marking the end of a seven month winning streak for the S&P 500 as concerns continued to mount about the sustainability of elevated equity market valuations in the midst of rampant inflation (rising input costs), supply chain constraints, profit warnings and a marked rise in US yields. The yield of the benchmark US 10 year Treasury note peaked at just below 1.60%, before settling back down towards 1.50%. Volatility in the FX market has also been recently evident, with USD strength a general theme across most pairs. EURUSD fell to a low of $1.1563 on the week, having touched $1.20 in mid-September. GBPUSD meanwhile fell to its lowest level since the beginning of the year, at $1.3412, before stabilising around the $1.35 level. Oil is treading comfortably within the mid $70 per barrel level, closing the week at $74.