Week in review: road map for tapering hinted at, yet more data shows exuberance in US economy

Rare talk of tapering from Fed president; James Bullard (president of the St. Louis branch of the Federal Reserve) hit the news wires last week with a wide-ranging set of comments, noting that while it was premature to think about tapering (away from current accommodative monetary policy settings), the Fed does have a roadmap for doing so. One of the possible triggers for normalisation being touted is a 75% vaccination rate - equating to roughly 250 million vaccinations, currently this is round 100 (assuming two vaccination doses per person) .

Data shows strength in the economy; Retail sales rose an impressive 9.8% on the month, dashing expectations of 5.8%. A combination of better weather, strong employment growth and another wave of stimulus payments are said to be the main components of the increase. Sales are now 12% above their pre-pandemic peak. Meanwhile, jobless claims (the number of Americans signing up for unemployment for the first time) printed a new cyclical low of 576,000, much below the forecasted 700,000 figure. Continuing claims, meanwhile, were in line at 3.73 million. Regional US Federal Reserve surveys from New York and Philadelphia - key gauges of factory activity- also demonstrated strong increases with the Federal Reserve Bank of Philadelphia's ("Philly Fed") improving from a reading of 44.5 in March to 50.2 (forecasted at 40.0) - reaching its best level in nearly 50 years. Inflation also rose in March, with the Consumer Price Index (CPI) rising 2.6% at the headline level.

UK GDP grows 0.4 per cent in February despite lockdown; rebounding from a 2.2% decline in January, the UK economy recorded a 0.4% uptick in growth in February according to the Office for National Statistics (ONS). Manufacturing and construction accounted for the largest growth constituents with 1.3% and 1.6% increases respectively. Wholesale and retail trade sales picked up slightly, but consumer-facing services industries remained subdued and well below pre-pandemic levels. The services sector grew by 0.2 per cent. The economy remains 7.8% smaller than it was before the pandemic hit in February 2020.

Europe continues to battle high infection rates; according to the World Health Organisation, around 9,600 people an hour are testing positive for COVID-19 and estimates that over 1/3 of the total deaths from the virus can be accounted for in Europe. With much of the continent still under lockdown restrictions, owing to the slow roll-out of vaccine programs thus far, economic growth is likely to lag that of the United States and the United Kingdom.

Equities near record highs once again, vaccine related exuberance as well as better economic metrics are said to have helped drive several major US indices to record closing levels yet again on the week. The yield on the benchmark US 10 year Treasury note meanwhile eased to around 1.60 – around 8 basis points lower than last week. The Pound recaptured some of the exuberance displayed towards the early part of the year, heading back towards the $1.40 level and pushing higher on the weekly range of 1.3669 – 1.3842 as US Dollar weakness continued to assert itself as a theme across most G10 currencies. The Euro meanwhile, traded on the front foot, closing up at around $1.19 on the week despite maintaining narrow week's range of under two cents: $1.1871 -1.1995 - also underpinned by a stronger US Dollar. The price of a barrel of West Texas Intermediate crude oil meanwhile rallied to around $63 per barrel, a decrease of $4 on the week.