Week in review: Jerome Powell in for another term, Europe infection rate woes

Jerome Powell retains position as Fed Chair; for a second term, with the vice chair position going to Lael Brainard. This was fairly in-line with market expectations given the current incumbent's perceived solid handling of the economic fallout from the Covid-19 pandemic. Despite speculation that he might sack Donald Trump's appointee, Joe Biden cited the "decisive action" taken by Powell during the early stages of the crisis as a reason to reappoint the 68-year-old Republican for another four years. The White House said Lael Brainard – the only Democrat on the Fed board, whom some had tipped as a possible replacement for Powell – was its choice to become the vice-chair. The market's interpretation on the appointment is that is it marginally hawkish, insofar as Brainard was seen as somewhat more dovish than Powell, but in truth the differences in their current stances are not huge. This was evident in so far as there having been a slight sell off in the front end/flattening of the yield curve and rise in the dollar in the aftermath of the announcement, the outcome however is not ultimately expected to materially change the current course of market expectations.

Inflation and growth concerns persist in Europe; persistent supply chain bottlenecks and soaring energy costs are slowing Eurozone growth and will keep inflation high for even longer than had been thought, European Central Bank President Christine Lagarde last week. The ECB has been banking on a rapid decline in inflation next year, but policymakers are now openly admitting that their forecasts, already revised up several times, are still too low. However, Lagarde continued to push back on calls and market bets for tighter policy, repeating the ECB's message that conditions for higher interest rates are unlikely to be met next year as inflation is still expected to return to below the bank's 2% target further out.

Trade wars are back on the agenda as Biden and Xi meet virtually; US President Joe Biden and Chinese President Xi Jinping attended a virtual summit, last week, in the closest communication between the two countries' leaders since Biden took office in January. Both sides noted points of tension and issued public statements after the meeting that emphasized ways to avoid conflict. The closely watched conversation between the leaders of the world's biggest economies appeared to yield no immediate outcome but is widely seen as a joint effort to improve icy relations and avoid direct confrontation.

Covid-19 infection rates looking toppy in the Eurozone; with a number of countries enforcing measures in an effort to corral rising daily infection rates – now said to be in record territory. Austria will enter a fourth national lockdown, Germany shattered new records and the Netherlands reported a new record number of cases for the fourth day in a row, leading to a partial lockdown. Meanwhile, Belgium has mandated working from home and indoor mask use, the Czech Republic is set to limit unvaccinated people's movement from next week, and Slovakia's unvaccinated population will be placed under lockdown starting Monday.

US economic data underpins further inflation expectations; the Philly Fed index - a regional federal-reserve-bank index measuring changes in business growth- jumped to 39, well above expectations and its highest reading since April. The improvement was broad-based with; prices paid, new orders, unfilled orders, delivery times, and employment all tracking higher. Separately, Jobless Claims were largely in line, with a record number of workers in the US — 4.4 million, or 3% of workers — voluntarily quitting their jobs in September while the number of job openings remained above pre-pandemic levels. The US Department of Labour's monthly Job Openings and Labour Turnover Survey, or JOLTS report, reflected an uneven economy, with strong demand grating against labour and goods shortages, driving overall inflation to its biggest annual increase in 31 years.

Markets-wise, risk assets traded with trepidation; with global equities advancing slightly on the week but well off previous highs. The yield on the US 10-year Treasury note declined to 1.53% from 1.59%, while the price of a barrel of West Texas Intermediate crude oil dropped to $75.50 from $80.81. Meanwhile, Turkey's central bank slashed its policy rate by 100 basis points to 15% on Thursday and hinted at more easing despite inflation running near 20%, accelerating a downward spiral to all-time lows in the Turkish Lira. The bank said much of the price pressure was temporary and would persist through mid-2022, leaving it some room for another possible rate cut next month.

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