

Rates Spark: Watch your Lane

The FOMC minutes refer to the pre-vaccine era; contextualise them against that (and Yellen as Treasury head). Today's US holiday allows European markets to focus on domestic issues - foremost the question of what the ECB will do in December. The central bank will release the minutes of the October meeting and Chief Economist Lane will speak.



Federal Reserve

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At first glance its more of the same from the Federal Reserve's minutes, but then again ...

The minutes from the 5 November Federal Reserve meeting maintain a tone of concern on the medium-term trajectory for the US economy. Discussion on the bond buying programme was biased in the direction of greater impact, as opposed to any sense of winding down. Extension of buying further out the curve has been mooted as a direction the buying programme could take. Nothing has been decided though. Even consideration on a future taper of the programme was within the commentary remit.

That said, we must contextualize this against two key factors. First, the 5 November meeting was before the first vaccine announcement on 9 November. While a vaccine was expected, the positive

market reaction proved that it is never done until it is done. The vaccine confirmation would cheer up the Fed.

Second, we've had the US election outcomes become clearer since, including former Fed chair Yellen as the Biden administration's choice for Treasury Secretary. This should please the Fed too; one of 'their own' heading the US Treasury should help to appease fears that cries for more fiscal help are not being listened to.

The Federal Reserve would like to see government take up some of the strain on the economy through the passage of a decent stimulus. Political developments should push in that direction, and the vaccine confirmation should help to ease the worst of the medium-term concerns.

Therein lies the push and pull for the markets, and the reaction said it all. Market rates down first on the headlines. But then on reflection, the realization that we need to look at things through a more rosy prism than before. That 1% level for the 10yr remains a strong magnet to aim for, should the stars align, and provided contemporaneous Covid fears are at least contained.

More hints for the all-important ECB December meeting?

Today's US holiday allows European markets to focus on the domestic issues. At the forefront that is the ECB. The central bank will release the minutes of the October meeting where Lagarde pledged to "recalibrate" its instruments at the upcoming December meeting. One should note again that the last meeting took place before the positive vaccine news helped bolster sentiment.

However, since then many officials have come out to say that this did not materially alter the outlook. And many have flagged the pandemic emergency purchase programme (PEPP) and the targeted liquidity operations (TLTROs) as possible recalibration targets. Against that background the minutes might be thin on actual news. The ECB Chief Economist's speech planned for today on "Monetary policy in a pandemic: ensuring favourable financial conditions" might prove more insightful.

Today's events: Lane speaks, consumer sentiment data

It is a quiet day in data with the US off for Thanksgiving. In the Eurozone we will get consumer confidence data out of France and Germany. More closely watched should be the speech given by the ECB's Chief Economist Lane.

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