

Altitude sickness shakes markets

US stocks struggled late yesterday after nearing all-time highs - this doesn't mean a lot except that investors lacked the conviction to push them higher



altitude sickness

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Market sentiment

There were some very odd headline stories today. One talked about gold correcting lower because market risk appetite had improved. I think if you want to understand the gold story, and it is a complicated one, it is exactly because market risk sentiment has been strong, enabling the USD to weaken, that it has risen. There's obviously more to it than just that, but the sentiment story also jars with the equity market's failure to make all-time highs yesterday, having flirted with the highs again. There is no particular reason why stocks ended up lower than they started the day, except that the momentum pushing them higher was insufficient to overcome the nerves that emerged at higher prices. Call it altitude sickness if you want. Selling then begat more selling, but not for long.

The explanation that it was the upside surprise to PPI that led to the decline was also curious. Half the explanation for holding gold is wrapped around concerns about higher inflation. So that could have been supportive on the day. We get more US inflation data later today. And then the news about the Russian Covid-19 vaccine. This has been approved by President Putin. That doesn't make it safe, or effective. It might be both, but I can't see a good reason that risk sentiment should perk

up on this, and if it did, why is the dollar still looking perky? Shouldn't it be selling and EM currencies soaring on the better outlook?

In the end, I think much of the explanation for all these moves is that all these various asset classes, gold, the USD, equities, have been trading in a very correlated fashion for weeks now, if not months. So all of them were exhibiting the same signs of strain - being either overbought or oversold depending on which asset or currency you focus on. Basically, these markets were all tired and needed a breather to generate fresh longs/shorts. I think that's all that is happening. We will doubtless see a further attempt at US equity all-time highs before long. Nothing to see here.

Kamala Harris picked as Biden's running mate

Finally, we have found out who is to be Joe Biden's Presidential Election running mate - Kamala Harris. I won't say anything much here on that choice as this is pure politics and therefore tricky for me to write about without getting into hot water. But I will repeat an interesting observation I heard recently about this choice, which pertains to the fact that Biden is quite old, and therefore may not stand a second time if he wins this election.

Vice President, John Garner (1932), is famously quoted as describing the Vice Presidency as being "not worth a bucket of warm spit". But this nomination would likely propel Harris to the top of the Democratic nominations for the next Presidency if Biden wins this one and does not stand again, so it's probably worth considerably more than a bucket of warm spit this time. That probably explains why Biden has taken such a long time to make his decision. We'll see what the polls make of this choice in due course.

New Zealand in the news

New Zealand is in the news currently, and not for the right reasons, as Auckland has been placed back under lockdown after a number of community Covid-19 cases emerged recently. It is encouraging to see New Zealand still acting quickly, which increases the chances of them nipping this in the bud. But it also adds an extra element of interest to the Reserve Bank of New Zealand meeting due this morning at 10:00SGT.

With a unanimous view of no change, this was destined to be a non-event. But Governor Orr is an interesting character, and with the Covid-19 news tilting higher, and threatening the NZ economic outlook once more, Orr might be more dovish than anticipated. And with the NZD also looking a touch softer recently, this could push it lower still.

South Korea unemployment falls

And finally, South Korea's July unemployment rate declined to 4.2% from 4.3%, helped by the ongoing post-Covid economic recovery that is taking place. The guts of the labour report show (in seasonally adjusted terms - the year on year comparisons are totally meaningless at this point) a small increase in employment, mainly concentrated in the construction industry, retail, and services. There were further declines in manufacturing and agricultural employment.

There was also a corresponding decline in the numbers of unemployed - down 90 thousand from June, and a 39 thousand fall in the economically active population will also have helped deliver the fall we observed in the unemployment rate (which is the ratio of the numbers of unemployed to this population measure).

Finance Minister Hong Nam-Ki is reported as downplaying the improvement, noting that there is still a long way to go before pre-Covid levels of employment can be reached. We concur.

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