



WEEKLY LIQUIDITY & TREASURY

November 4th 2021

FOMC Meeting of November 3, 2021

The Fed initiates tapering

As a follow-up to the last FOMC meeting in September 2021, the FED confirmed the start of the reduction in the monthly pace of its securities purchases from November.

"In light of the substantial further progress the economy has made toward the committee's goals since last December, the Committee decided to begin reducing the monthly pace of its net asset purchases" Jerome H. Powell

The Fed has announced that it will gradually reduce the pace of its purchases of securities by 15 billion dollars per month:

- 10 billion dollars for US Treasury securities
- 5 billion dollars for agency Mortgage-Backed Securities

It says that through its measures, it continues to provide strong support for the recovery of the economy.

However, the Fed has indicated that it could adjust the pace of the decline in securities purchases if the economic outlook worsens.



Monetary policy

Policy rates unchanged : As expected, the Fed has kept the target range of its key rates unchanged between 0% and 0.25%.

The Fed wanted to be reassuring, stating that *tapering* would not lead to an increase in rates soon.

Indeed, this rate hike should not take place before 2022, at least not before a robust recovery in the labor market. The normalization of its monetary policy is not yet relevant.

"Our decision today to begin tapering our asset purchases does not imply any direct signal regarding our interest rate policy. We continue to articulate a different and more stringent test for the economic conditions that would need to be met before raising the federal funds rate " Jerome H. Powell

Macroeconomic outlook :

The central bank is now forecasting US GDP growth of **5.9% for 2021.**

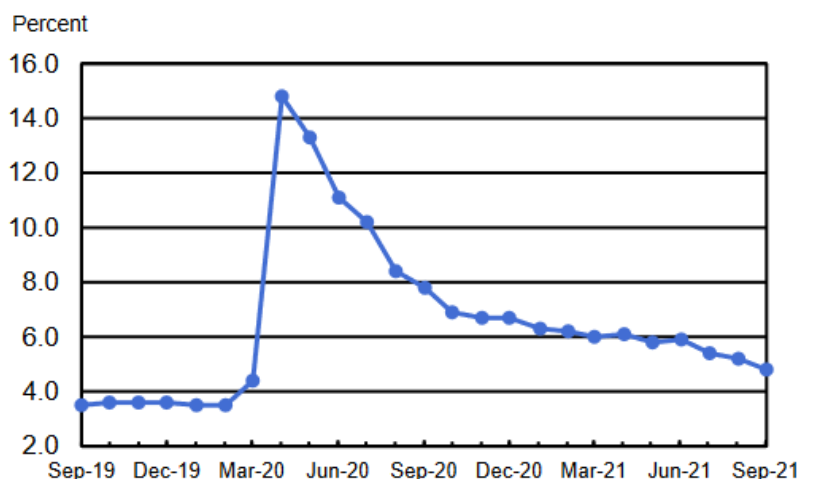
Inflation reached 5.4% in September (vs 5.3% in August)

The Fed insists that the rise in inflation is transitory, but expects it to continue to rise due to supply issues, before starting to decline in mid-2022.

On the employment front, the number of job creation (NFP) reached **194,000 in September**, down 0.4% compared to August, but the recovery remains difficult and **the unemployment rate is now estimated at 4.8% for 2021.**

The job creation figure for October, which is due to be published on November 5th, is therefore particularly expected by investors.

Chart 1. Unemployment rate, seasonally adjusted, September 2019 – September 2021



Market impact :

3-5 year rates edged up after the Fed's statements, while long rates remained broadly stable.

The 10-year rate has fluctuated between 1.20% and 1.40% since the start of the summer. It stood at 1.577% following the Fed's speech.

Evolution of US 10-year rates (%)



Source : Bloomberg

MONEY MARKET

	Spot	Median	Low	High	Δ YTD	Δ 1W	1Y Histo		Spot	Median	Low	High	Δ YTD	Δ 1W	1Y Histo
EURO	bp							US	bp						
EONIA*	-48	-48	-50	-47	+1	0		FedFunds*	8	8	5	10	-1	0	
€STER*	-57	-57	-58	-56	-	-		OIS 1 M	8	8	6	10	-1	-0	
OIS 1 M*	-49	-48	-49	-47	-1	0		OIS 3 M	8	8	6	10	-0	+0	
OIS 3 M*	-49	-48	-49	-47	-1	0		OIS 6 M	9	8	7	10	+2	-0	
OIS 6 M*	-48	-49	-50	-47	+1	-1		OIS 12 M	20	9	7	21	+12	+0	
OIS 12 M*	-46	-49	-52	-43	+5	-2									
EURIBOR 3M	-57	-54	-57	-53	-3	-2		ICE LIBOR USD 3M	0.15	0.14	0.11	0.24	-0	+0	

GOV RELATED BONDS

	Spot	Median	Low	High	Δ YTD	Δ 1W	1Y Histo		Spot	Median	Low	High	Δ YTD	Δ 1W	1Y Histo
Bunds	bp							US Govt. Bonds	bp						
2 Y	-65	-69	-78	-59	+5	-4		2 Y	47	16	10	50	+35	-2	
5 Y	-48	-62	-77	-39	+26	-4		5 Y	118	80	35	124	+82	-1	
10 Y	-17	-30	-60	-9	+40	-3		10 Y	159	145	91	174	+68	+1	
30 Y	15	21	-20	46	+31	-2		30 Y	202	204	164	245	+38	+4	
Bunds Curve	bp							US Curve	bp						
2-5 Y	18	7	-4	22	+22	-0		2-5 Y	70	63	24	79	+46	+1	
5-10 Y	31	31	16	40	+14	+1		5-10 Y	42	63	37	84	-14	+2	
2-10 Y	49	39	12	58	+36	+1		2-10 Y	112	119	79	158	+33	+3	
10-30 Y	32	49	24	58	-10	+1		10-30 Y	43	67	38	86	-30	+3	
SWAPS Spreads EUR	bp							(Semi Annual)							
2 Y	36	21	18	36	+16	-0		2 Y	21	9	5	21	+13	+4	
5 Y	43	32	26	43	+15	+0		5 Y	10	9	4	14	+3	+6	
10 Y	38	34	27	40	+7	-0		10 Y	4	1	-5	9	+3	+4	

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