WEEKLY MARKET RECAP: September 18 – September 22, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

According to Chairman Powell at Jackson Hole, the Fed "is navigating by the stars under cloudy skies." In the wake of this admission that the outlook is not terribly clear, investors turned their attention to the August CPI report, hoping for a better view of what might lie on the horizon. While the report revealed an acceleration in price growth, it was largely in line with expectations. Headline CPI climbed 0.6% m/m and core CPI rose 0.3%, as some prior disinflationary forces reversed course. Looking ahead, the key question is how long will these factors provide an inflationary impulse?

The details of the report revealed that energy prices were a significant contributor to the August acceleration, accounting for over half of the increase in headline CPI. Specifically, gasoline prices surged by 10.6% m/m, a consequence of production cuts by OPEC+ and increasing refinery margins. However, food prices edged up by a modest 0.2% m/m, and excluding volatile food and energy, the 3-month annualized core CPI stands at 2.4% y/y; this reflects the progress that has been made bringing inflation back to its target level. Looking ahead, an ongoing slowdown in Europe and expansion of refining capacity suggest further surges in gasoline prices are unlikely. Additionally, core services, helped by cooling rents and wages, should lead to further moderation.

This week, we expect that the Fed will leave policy rates unchanged, with the futures market pricing in a less than 5% probability of a hike. Furthermore, the Fed's commitment to a data-driven approach is likely to be reiterated. However, investors should note that central bank policy is becoming increasingly dispersed, and this deviation from the synchronized rate hikes seen in 2022 could lead volatility to rise into the end of the year.

Thanks for reading! Have a great weekend.

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