



# INCISIVE INVESTOR

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## WEEK IN REVIEW: FED NEARING RATE HIKE

### Review of the week ended October 7, 2016

- **US September nonfarm payrolls rise 156,000, unemployment rises to 5%**
- **British pound falls to lowest level since 1985**
- **Hurricane Matthew lashes Florida's Atlantic Coast**

The markets were little changed for the week with a modest rise in bond yields and firmer oil prices. Recent data is looking favorable for a December rate hike from the Fed. Volatility was nearly unchanged this week with the VIX at 13.4. Oil prices continued to firm in the wake of an OPEC production cap agreement last week, with West Texas Intermediate crude rising to \$50.25 per barrel from \$47.90 a week ago. The yield on the US 10-year Treasury note rose from 1.56% to 1.73%

### **ECONOMIC NEWS**

#### **December Fed hike probable after employment report**

The US employment report for September was somewhat weaker than expected at the headline level, but not weak enough to dent anticipation of a quarter-point hike in the federal funds target by the US Federal Reserve before the end of the year. The

market is pricing in a roughly 72% chance of a hike at the final Federal Open Market Committee meeting of the year in December. It was encouraging to see the average hourly earnings rise 2.6% on an annual basis.

#### **Pound sinking like a rock**

The British pound had a very bad week, dropping to its lowest level since 1985. It began the week by falling to a fresh post-Brexit low of around \$1.26 before suffering what can only be termed a flash crash Thursday evening in the United States and Friday morning in Asia. Some reports had the pound falling as low as \$1.14 briefly before recovering at close to \$1.24. Traders are still looking for the cause of the sudden price dislocation. A trading error or an algorithm run amok is the most likely explanation.

## **Florida spared Matthew's worst**

Matthew, a Category 3 hurricane, stayed just off Florida's east coast, bringing heavy rain and high winds but sparing the populous region from a direct hit. At last count, around 600,000 Floridians were without power. Georgia and the Carolinas remain in the storm's path.

## **ECB throws shade on taper speculation**

One news source this week reported that the European Central Bank will begin to taper its quantitative easing program. The report prompted a backup in yields in Europe and elsewhere before the ECB countered the speculation. A spokesman said, and the subsequent release of the minutes of the last meeting of the

Governing Council showed, that no discussion of tapering had taken place.

## **CORPORATE NEWS**

### **Bass Pro goes fishing for a deal**

Bass Pro Shops, the giant outdoor retailer, this week agreed to buy Cabela's, a competing retailer, for around \$5 billion. The deal will need to pass regulatory scrutiny.

### **Henderson buys Janus**

UK-based Henderson Group agreed to buy Denver-based Janus Capital Group in a deal valued at \$2.6 billion. The combined firm will have approximately \$320 billion in assets under management and be headquartered in London.

## THE WEEK AHEAD

- **The fall meeting of the IMF in Washington, D.C., concludes on Sunday, October 9**
- **The minutes of the September meeting of the Federal Open Market Committee are released on Wednesday, October 12**
- **China releases trade data on Thursday, October 13**
- **US retail sales numbers are released on Friday, October 14**
- **Fed chair Janet Yellen speaks in Boston on Friday, October 14**