



PEREGRINE  
WEALTH

# WEEKLY MARKET WRAP

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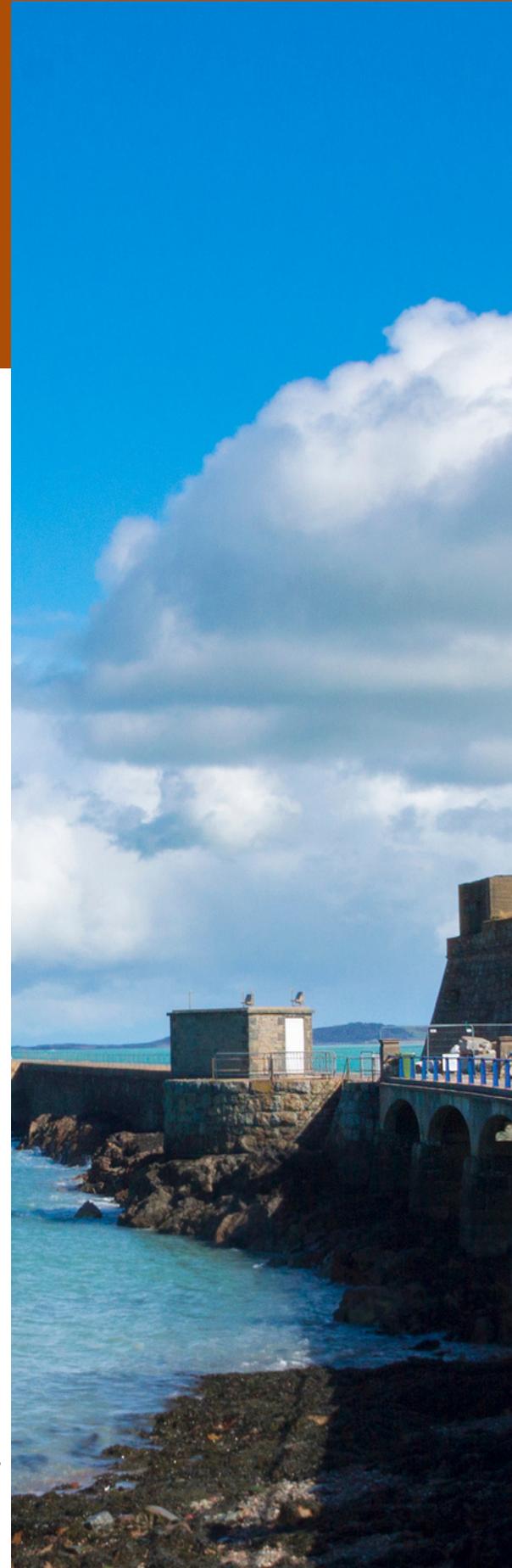
## A VIEW FROM THE TOP

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The address by the United States (US) Federal Reserve (the Fed) Chairman, Jerome Powell, at the Jackson Hole Economic Symposium was disappointing in the sense that it provided none of the clarity that markets were hoping for.

Powell did reiterate the Fed position that inflation is transitional, and that the central bank will not take any action in terms of asset tapering or interest rate hikes until they are certain that these actions will not negatively affect the recovering US labour market. This wait and see approach resulted in a renewal of risk appetite as market participants positioned for a longer period of accommodative monetary policy.

Meanwhile, US politics, and in particular the recent withdrawal from Afghanistan, continue to make headlines, with the removal of US troops from the country once again exposing the clear divides between Democrats and Republicans. The Republicans called for the impeachment of President Biden, following the death of 13 US service members and 170 Afghans in a bomb explosion at Kabul's airport. While there is much to be said about the failures of the withdrawal from the war-ridden country, many have lauded the US military for their swift and efficient rescue of 122,000 people. The Taliban was also quick to revel in its victory after the US withdrawal, showing off dozens of US armoured vehicles and weapons during its victory parade in Kandahar.



Global investors are also continuing to keep a concerned eye on China as the world's second largest economy shows signs of an economic slowdown, while worries over the State crackdown on private businesses adds fuel to the fire. Adding to these concerns, Evergrande, one of China's largest property developers, continues to face severe financial pressure, warning that it could potentially default on its debts. The effects of such a default will be felt across the Chinese banking system. Chinese property has been under pressure since the government took steps to curb excessive borrowing and speculation in the sector earlier this year and defaults by companies such as Evergrande would be a significant blow to an already fragile environment.

The EU is also making headlines. Disagreements between member states on key issues is nothing new, however, with increased geopolitical and socioeconomic tension, the divisions are becoming more visible than usual. The legitimacy of the EU Parliament has been called into question, as many politicians within the Union are refusing to enact certain rulings. Last week, for example, EU Commission president, Ursula von der Leyen, wrote to the president of the EU Parliament, David Sassoli, stating she was declining to act on a resolution - that had been passed by a huge majority in the EU's legislature - to cut off central funding for Hungary and Poland. The reasoning behind this resolution relates to what is deemed a "violation of the EU's rule of law" by the two countries for "violating the independence of the judiciary" and "discriminating against lesbian, gay, bisexual, transgender and queer or questioning (LGBTQ) communities". However, many believe that these acts of ignoring the calls from the Parliament have very little to do with principle but are rather an act of self-promotion by power-hungry politicians who are driving their own agenda.

## ALUMINIUM AND COAL LEAD THE CHARGE

Aluminium futures surged past \$2,700 a ton for the first time since May 2011 on growing demand, shipping disruptions and tight supply. China suppressed smelting to reduce pollution and meet green targets while in India, the second-biggest producer of the energy-intensive metal, inadequate coal supply threatens local production. Adding to shortages, is the short supply of containers used to move industrial metals from Asia to the US and Europe. Meanwhile, global aluminium consumption this year has risen by 8% on the back of climate change investment.





Coal futures traded around \$175 per metric ton, the highest level on record, amid soaring electricity demand, infrastructure woes and a surge in global gas prices. A heat wave in Zhejiang, Jiangsu and Guangdong, China's biggest industrial provinces, and a rebound in industrial output pushed demand higher despite government's pledge to cut carbon emissions. Meanwhile, China authorised the restart of production for a year at 15 coal mines across northern provinces including Shanxi and Xinjiang region, as inventories declined to near-historic lows since August due to peak summer electricity demand and transportation bottlenecks, exacerbated by last month's severe floods and typhoon. Elsewhere, a trade spat with Australia has curbed imports while global supplies remain limited due to a closed mine in Colombia and flooding in Indonesia and Australia.

West Texas Intermediate (WTI) crude futures rebounded from early losses to trade above \$69 a barrel on Thursday, as investors digest the extended Organisation of Petroleum Exporting Countries' (OPEC+) latest decision and a gradual recovery in US Gulf of Mexico production. On Wednesday, the alliance pledged to add 400,000 barrels per day each month until the end of December, despite pressure from the US to pump more oil. Meanwhile, 80% of US Gulf of Mexico oil production remains shut-in, as Hurricane Ida passed over the area. Most companies however escaped major damage and could return to work in the next few weeks.

Gold remained steady around the \$1,815 an ounce level this week, as traders await the US non-farm payrolls release due today. Gold recovered some lost ground following the dovish statements by Fed Chair Powell last week at the Jackson Hole Symposium.

Platinum futures traded around \$1,000 per troy ounce, hovering at levels last seen during November 2020, as the demand outlook worsened. The decline in expected demand followed announcements on output cuts by major players in the auto industry amid a global semiconductor shortage. Volkswagen stated its plant in Wolfsburg, the world's largest car manufacturing plant, planned to restart production with only one shift, while its subsidiary Audi decided to extend the summer break by one week. Earlier, Toyota had already announced the suspension of operations at 14 of its Japanese factories for the month of September. Platinum, used in catalytic converters, has already been under pressure due to a spike in COVID-19 cases across the globe and discussion from the US Fed regarding the removal of monetary stimulus.

## DOLLAR ON THE BACKFOOT

The dollar index remained near four-week lows of 92.5 on Thursday, as initial jobless claims fell more than expected to a new pandemic-low and the ADP National Employment Report, released on Wednesday, disappointed. Market participants look forward to Friday's payroll report for a clearer direction of the labour market as the Fed is still looking to set the timeline to monetary policy tightening in the US, which will ultimately provide new direction for the US currency.

The euro changed hands at \$1.185 for a large part of the week, hovering around its strongest level in nearly a month, as investors continued to sell the dollar. At the same time, ECB Governing Council member, Robert Holzmann, said on Tuesday that the central bank should start considering scaling back emergency bond purchases and focus on tools that would help achieve its 2% inflation target sustainably, while ECB Vice President, Luis de Guindos, told a Spanish newspaper that the bloc's economy is growing quicker than the ECB expected, paving the way for the eventual withdrawal of excessive stimulus.

The British pound held above \$1.375 this week, its strongest level for over two weeks, after posting an over 1% monthly loss against the greenback in August, as the dollar remains subdued. Meanwhile, the Bank of England signalled that "some modest tightening" of monetary policy over the next two years was likely to be necessary if the economy continues to improve.

We start the day with the pound at 1.3835 versus the dollar and 1.1655 against the euro.

*Written by Bianca Botes, Citadel Global Director, a fellow subsidiary of Peregrine Wealth and part of the Citadel Group of companies.*

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