

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

19 October 2021

MARKETS CALM DOWN AS BITCOIN STARTS TO SURGE

Last week, markets were concerned about the persistent nature of higher-than-expected inflation, its implications for tighter monetary policy, and the eventual negative impact of tighter monetary policy on financial markets. But this week, in the true spirit of market volatility, it seems as though investors have made peace with this fact. Not only did global markets end the week strong but the S&P 500 had its best day since March, while the Dow and Nasdaq also saw big gains. Not even oil prices breaching \$85 a barrel could hold the markets back. News, mostly from the United States (US), seems to have calmed the markets.

Figures showed that new applications for unemployment benefits fell below 300 000 for the first time since the COVID-19 pandemic started, providing fresh evidence to support the recovery narrative. US consumers also stepped up their spending in September, causing retail sales to post a surprise month-on-month increase of 0.7%, much higher than the anticipated contraction of 0.2%. Another factor contributing to the recovery narrative is the strong kick off to the US earnings season. Last week, the US banking sector showed stellar performance and the outlook for the next couple of quarters did not shy away from optimism.

The idea that most developed countries had was that loose monetary policy and all its negative implications, as well as fiscal support that raked up trillions in debt, could boost the economies enough to get them back to full employment. This idea seems to be working well, at least in the case of the US. All that is left now is to get off the high of easy monetary policy, unwind a bloated Federal Reserve (Fed) balance sheet, and somehow pay off trillions of dollars in debt. This is no small task.

In other interesting news, Bitcoin breached \$60 000, only somewhat lower than the April all-time high of \$64 870. After Bitcoin became legal tender in El Salvador, sparking enthusiasm about global adoption, it first had another sharp contraction before the cryptocurrency started its steady increase. The latest price increase came on the back of growing hopes that the Securities and Exchange Commission (SEC) will allow the first US Bitcoin futures exchange-traded fund (ETF). Many observers believe that the first of these futures ETFs will be launched within the week. Having Bitcoin trade like other financial instruments can potentially make it more attractive to traditional investors and draw in the next wave of crypto investors. Given that the supply of these cryptocurrencies is limited, higher demand means higher prices.

In China, the central bank finally broke their silence over Evergrande's debt troubles when they reported that the risk of spill over from the embattled property giant to the financial sector was controllable. The bank went on to explain that they were performing risk disposal and resolution work to ensure that stability follows. They also noted that, in recent years, Evergrande has been poorly managed and was, therefore, unable to operate cautiously in accordance with market changes.

