IN BRIEF

What happened

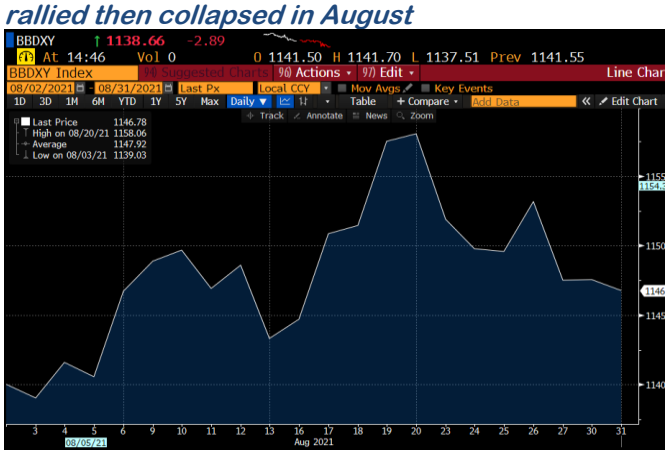
- The Buck escaped with a half percent rise in August despite a big downward swing last week
- Euro fortunes changed end of month, allowing recovery from its lowest level since November
- Pound lost 1.0% of its value as economic indicators revealed a slowdown
- Emerging-Market currencies pulled off a comeback with a faster than expected recovery in economic activity
- Federal Reserve officials noted they were seeing enough signs of economic improvement to consider tapering before end of the year

Tempus' view

- Fed plans for tightening policy are complicated by deficient job creation
- Expect Euro volatility as we head into German elections and post-Merkel EU
- September will test oil prices after the International Energy Agency (IEA) said it overestimated its demand for the year
- U.S. agenda for infrastructure spending delayed as Congress members remain hesitant to give the go-ahead
- China's difficult third quarter could spark further doubt globally, causing dollar spikes

IN FOCUS

BDXY: Per Bloomberg, the Buck first rallied then collapsed in August



Where is the Dollar going? One moment it is a safe haven; the next it is a liability

- Thus far, the greenback has appreciated by over 2.0% in value since the start of the year
- While no herd-immunity was achieved nationally, Summer witnessed a revival in outdoor activity and commerce
- Economists are concerned that spending is starting to slow down in goods though while increasing in services similar to 2020
- A hard knock on the labor sector in August and the lowest Consumer Sentiment levels since 2011 have many wondering if Buck stays up

THE VIEW – Long-term vision blurred by disappointing data

Fed hands are tied as indicators suggest Delta slowed down everything

This is a tough time to make commitments. Almost every central bank in the world is searching for guidance on when this pandemic will start cutting us all a break. Everywhere from China to Tanzania experienced a return to medical worries as the Delta variant of the COVID virus forced the return of restrictions to try to minimize worrisomely high hospitalizations, growing numbers of infected despite being vaccinated, and ultimately, deadliness.

The Emerging-Market economies suffered the most as a new wave of affected people meant that the progress made in the medical battle regressed. Globalization's darlings in India, Brazil, and South Africa are hurting. Many traders wonder if this could mean changes in the administrative leadership of these large countries, especially by way of protest.

Nevertheless, currencies like Brazilian Real (BRL) and Indian Rupee (INR) climbed as the level of economic activity seen was better than most people expected. On the other hand, in places like Russia, inflationary growth was considered too high not to do something about it; thus, the central bank increased interest rates, same in Brazil.

Most certainly, many loose monetary policy tools have been used globally, and some central bankers are hoping they can start reducing their grip over markets. Unfortunately, Delta made this mentality challenging to hold since it seems we are regressing instead of making progress.

The lack of clarity is undoubtedly pulling the Dollar in different directions. For example, the Mexican Peso had seen a bad streak that totally flipped in the last week of August, which meant the currency's highest weekly gain in over ten weeks. Although the IEA is trying to invoke rain on oil's parade, traveling across Mexico has risen, and the currency may have more room for growth with carry-trade demand since it offers investors a high yield compared to other tenders when used for exchanging goods.

It has become challenging for the Fed to see a way out of all the interventions it currently has established here in the States. The start of August experienced a hawkish mood as the increase of jobs in July signaled that the American economy was advancing and hitting the correct parameters for the Federal Reserve to start considering how to pull out. Officials came out and seemed to support a more optimistic outlook than Chairman Jerome Powell, who barely dared to set a timeline for cutting back on sovereign bond purchases, much less for increasing borrowing costs via incrementing interest rates.

One of those voices countering Powell's skepticism was Fed Vice-Chair Richard Clarida, who believes the time for raising interest rates is 2023. Him and others have started to form an argument against the current state of affairs because many economists fear that too much monetary loosening with a high rate of inflation could lead to "stagflation," a problem particular of the 1970s when prices were high in the midst of a recession, thus seeing high unemployment and economic downturn. The reality is the U.S. is in a more advantageous position than most countries to start taking away some of the measures aimed at economic recovery, but if the Fed's goal is to see full employment before tightening, they could be in for a longer wait than anticipated.

For starters, last month saw a significant amount of people return home unable to perform their jobs because of the Delta variant outbreak. In July, 5.2 million people reported they could not work because of COVID, while that number increased to 5.6 million in August. At the time of writing, the release of the Employment Situation for the month revealed shockingly low figures that were not even close to matching estimates for ongoing job growth.

August Non-Farm Payrolls were expected to increase by 733K, considered good but a slowdown for July when over 1.0MM were added. Instead, the figure came in less than a third of the expectation at a measly 235K. More importantly, joblessness remains high regardless of the U.S. returning to pre-pandemic levels of growth. Out of 19.6 million jobs lost during March and April 2020, we have gotten back about 13.0 million. It will be quite a task to get 19.0MM, but it can be helped if the government steps up its fiscal obligations via tons of spending.

In the Pacific theater, the Reserve Bank of Australia reiterated that it would reduce its Quantitative Easing (QE) purchases starting in September, going from AUD$ 5.0BN a week to 4.0BN. We shall see if they can stay on track following news that the Chinese economy is slowing down after sharp declines in Factory Orders and Retails Sales. Additionally, Purchasing Managers Index readings for August turned out to be contracting instead of expanding, thus handing the world's largest economy its worst PMI levels since April 2020, during their peak of COVID damage.

The Reserve Bank of New Zealand already refused to go on with its telegraphed interest rate hike citing the need to let the pandemic die down before any moves disturb the still fragile financial environment. Will the dovish mood catch on?

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