

# Fed's mixed signals create swings in markets



## DOHA DATELINE

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**G**OLD AND SILVER prices had fallen before Yellen's statement on November 14 and recovered after her dovish statement. However, in this week statements from top Fed officials highlighted improvement in the US economy and once again resulted in the fall of precious metals. Fed's mixed signals creates swings in financial markets as gold slid below \$1,275/ounce and silver fell to \$20/ounce. We witnessed significant volatility in the last fortnight in financial markets on account of uncertainty pertaining to Fed tapering. The bullish trends on precious metals will no longer continue once tapering commences.

Fed tapering concerns had resurfaced recently on account of labour market improvements and stronger-than-expected growth of the US economy in the third quarter, which reflect signs of optimism for the recovery. Employers added 204,000 jobs last month, much more than expected and a sign that companies shrugged off the 16-day

shutdown however the US unemployment rate had arose to 7.3 per cent in October from 7.2 per cent in September. But it was partly because many Federal workers were temporarily laid off during the shutdown. The US economy expanded at a 2.8 per cent annually in the July-September quarter, up from a 2.5 per cent rate in the previous quarter. However, tapering concerns eased a bit as Janet Yellen, the nominee to lead the US Federal Reserve, stated that the country's unemployment at 7.3 per cent remains too high and reflects an economy running far short of its potential. Though this statement indicates continuity in quantitative easing, substantive recovery in US economy will enable Federal Reserve to plan the tapering measures. The global capital markets, which had witnessed a fall in August-September on account of possible tapering, recovered on possible deferment of tapering. Currently US markets year-to-date (YTD) growth is between 20 and 30 per cent. Nikkei is close to 45 per cent. Emerging market indices such as India and China have a YTD close to five per cent and Brazil had fallen by close to 10 per cent. European markets namely Germany, France and UK had a YTD growth between 14 and 20 per cent.

The currency markets had also witnessed significant volatility. US



**A trader works on the floor of the New York Stock Exchange. The global capital markets, which had witnessed a fall in August-September on account of possible tapering, recovered on possible deferment of tapering. — Bloomberg**

dollar index is close to 80.70 and had fallen on hopes of continued easing by the US Federal Reserve. The emerging and Asian market currencies such as Indian rupee, Brazil real, Russian rouble, Indonesian rupiah and Malaysia ringgit have fallen by 13 per cent, 10 per cent, seven per cent, 18 per cent and four per cent respectively against the dollar. Such currencies witnessed a nose dive in August on

concerns of tapering, however, recovered on hopes of continued easing measures. The US 10-year bond yield is currently at 2.67 per cent, however it touched almost three per cent in September 2013 on tapering concerns. The yields will once again spike if data reflects improvement in US economic recovery and possible tapering measures. Brent crude is currently at \$108/barrel and WTI is at \$93/

barrel however they witnessed a surge earlier after Yellen's dovish statement.

The global bond markets witnessed issues exceeding \$3.39 trillion for the year to date however the global bond issues were down in the first nine months of 2013 when compared to the same period last year.

The GCC bond issues were more than \$40 billion in 2012. In 2013 GCC bond issues have reached more than \$40 billion. The major conventional bonds in 2013 were issued by the emirate of Abu Dhabi, the emirate of Dubai, Investment Corporation of Dubai, Qatar Telecom and Qatar National Bank. The major Islamic bonds in 2013 were issued by Saudi Sovereign, Investment Corporation of Dubai and Dubai Islamic Bank. Qatar Central Bank has come with quarterly bond issues since March 2013. The global sukuk sales exceeded \$46 billion in 2012 and in current year it has touched \$35 billion. GCC issues have contributed more than 50 per cent of the global sukuk till date. Global sukuk deals are down in 2013 when compared to 2012. The five-year sovereign CDS of Qatar was at 66.9 basis points, Saudi Arabia: 60.21 basis points, Dubai: 218 basis points, Abu Dhabi: 60.17 basis points and Bahrain: 250 basis points respectively.

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**“ The bullish trends on precious metals will no longer continue once tapering starts**

