

# MCD's Hot Topics of the Week

16th October 2022



## Expect the Unexpected

Given the Fed's hopes that one of the worst inflation concerns in decades is beginning to fade, this week's report on US CPI was a major blow.

The index showed a concerning increase on a monthly basis, reflecting that underlying inflationary pressures are yet to slow down, in fact, they are still accelerating; After removing volatile items such as energy, the 'core' CPI measure was up 6.6% YoY.

Larger than expected, the increase puts the Fed in a tight corner with regards to pressing ahead with a fourth consecutive 0.75 percentage point increase at its upcoming policy meeting in November - a blow to financial markets and the global economy, which the IMF has suggested is imminent to facing its 'darkest hour.'

## On the Hunt for Kwasi

The sacking of UK chancellor Kwasi Kwarteng has been followed by an emergence of an optimistic Jeremy Hunt who promises to win back the trust of the financial markets.

Kwarteng's announcement of a string of unfunded tax cuts in absence of a set of independent economic forecasts has set Investors into heavy selling of British government bonds, with knock-on effects forcing the Bank of England into an emergency intervention.

Now, Hunt wishes to win back Britain's economic credibility by fully accounting for the government's tax and spending plans. Following a dismantling of Truss' proposition that tax cuts would spur economic growth while supplementing public spending, he has led a reversal in government plans for an alternative proposal of tighter spending and tax hikes.



## Make oil not war

It has been revealed that Ukraine's state-owned oil and gas giant, Naftogaz, is in talks with US drillers regarding pumping untapped reserves to Europe by the end of the decade.

Such a move could help countries transition away from expensive liquified natural gas (LNG) imports and enable Europe to find new sources of gas following their scramble to find alternative supplies amidst Russia's invasion of Ukraine.

However, it has been said that tapping into these reserves will likely depend on the trajectory of the war, with the majority of Ukraine's gas production laying east of the Dnipro River, which cuts through its centre. This news has done little to comfort the markets, with UBS analyst Henri Patricot stating that he 'expects prices to remain volatile' given the potential of a further drop in Russian exports or even a full interruption.