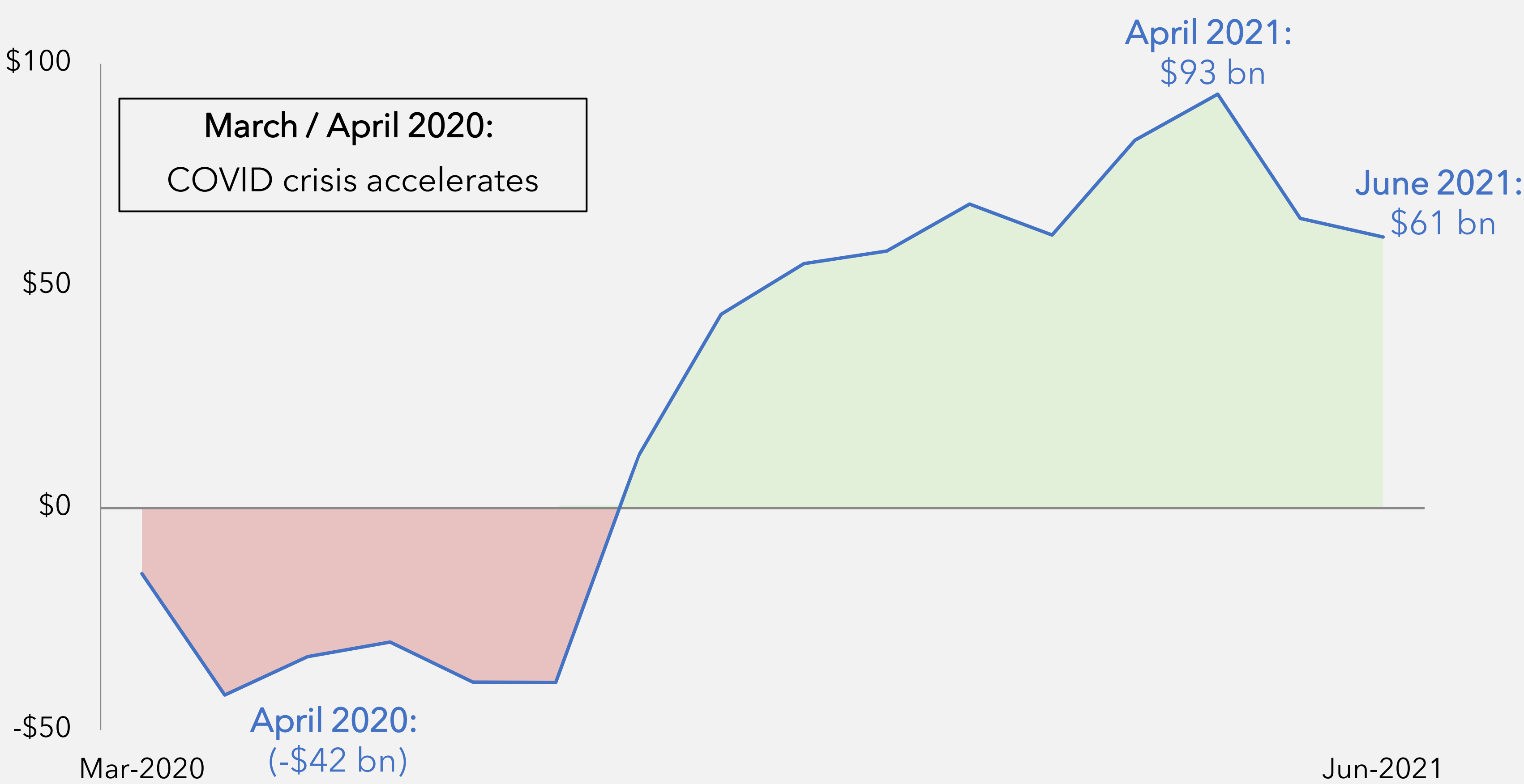
Capital Markets Strategy
Essential inCights for the C-Suite

MUFG

Chart of the Day

A number of factors should contribute to a "tantrum-less" Fed taper this Fall, including: (i) foreigners as strong net buyers of Treasuries since COVID crisis began (see chart below); (ii) additional demand (up to $500 bn) from the Fed's new Standing Repo Facility; (iii) economic growth strong, though "uneven" (Powell quote) and decelerating; (iv) inflation rising, though still contained, for much of the economy (especially durable goods); (v) the Fed's early policy change signaling; and (vi) a gradual two-step process with "dovish" balance sheet taper preceding rate tightening. In the view of MUFG's US Rates Strategist, George Goncalves, the September FOMC will be an opportunity for the Fed to align itself for a dovish taper that is more likely to be announced in November.

Net foreign purchases of US treasuries, USD bn



Source: (1) Oxford Economics "Macro Strategy Themes Cross Asset -Jackson Hole memo: Don't fear the taper" (September 1, 2021). Net foreign purchases of US treasuries is 2-quarter moving average.

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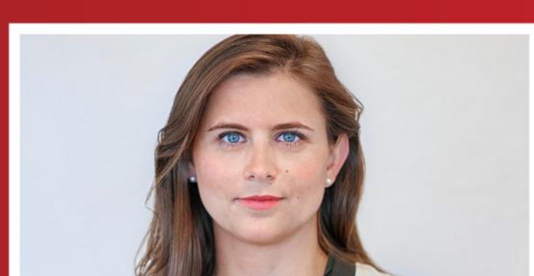

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