FTSE 100 set for slight bounce after heavy falls but Bitcoin remains in the doldrums

T
he FTSE 100 Index was set to make a partial recovery from yesterday's heavy falls but Bitcoin was showing no signs of any rally.

Share prices and crypto currency valuations fell heavily on Thursday, the former due to increasing nervousness about the Covid pandemic worldwide.

Investors are concerned the Delta variant is spreading wildly in many parts of the world. In countries like the US and the UK, where vaccination programmes have been rapid, some are worried about the impact of reopening too quickly and triggering a new surge in cases and variants.

Alongside those concerns are early stage worries that the economic rebound that boomed earlier in the year in the UK may be slowing somewhat in recent weeks, hitting companies' profits.

Having fallen more than 120 points – or 1.7% – yesterday, the FTSE was expected to open up 13.5 at 7045 when trading starts this morning.

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Bitcoin, however, has kept on falling following yesterday's 5% slide, losing a further 0.2% in the past 24 hours to $33,114.

The word spooking investors now is "stagflation" – a situation where prices are rising but the economy is stagnating. Rising commodity prices and wages are setting in with a vengence in the UK and elsewhere. British cities in particular are seeing a shortage of EU labour, making it harder to fill roles and forcing up wages.

Meanwhile, global rises in shipping costs is pushing up the price of critical food products like grain and oilseeds after ports were disrupted by Covid lockdowns. Rising fuel prices have added to the conundrum facing central bankers who feel they must keep interest rates low and retain QE policies to prop up weakened economies, but risk driving prices higher by doing so.

World food prices in May rose at their fastest pace in over a decade.

Reflecting such concerns, Asian shares this morning fell again to their lowest point in two months as investors flocked to bonds, with National Australia Bank analyst Rodrigo Catril telling Reuters: "Risk aversion is in the air."

The MSCI Index of Asia Pacific stocks fell a further 1%, while the Nikkei in Japan lost 2% and China's CSI 300 1.2%.

Japan's decision to put Tokyo into a Covid state of emergency shortly before the Olympics begins has clearly spooked the region. The feeling was not helped by South Korea imposing tougher restrictions in Seoul today.

Bond yields have fallen sharply as a symptom of the concern about global economic recovery. At one stage last night, yields on the 10 year Treasury bond fell to 1.25% before bouncing back, although it is still down around 0.8% on the week, having fallen 1.4% in June.

These are huge moves, and, as CMC's Michael Hewson said: "The slide in yields is telling us that the recovery is either in trouble, or merely being delayed."

Bond yields reflect markets' expectations of central bank interest rates, and yesterday the European Central Bank changed the way it targets inflation goals with its rate-setting policy. Under the new rules, it is allowed to tolerate higher inflation before acting to tighten monetary policy.