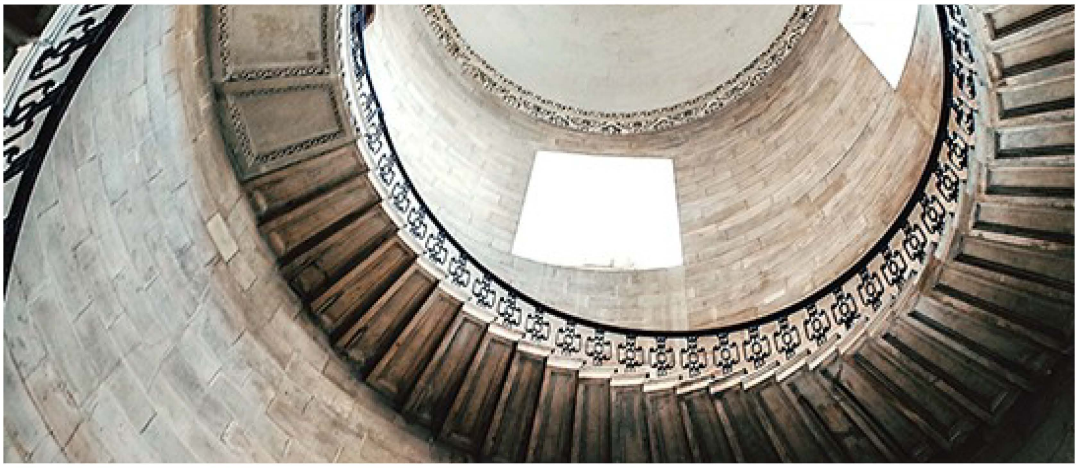

Article MARKET COMMENTARY

Market round-up: 9 October – 13 October

Tom Watts recaps the week and takes a look ahead to next week.

Author

Thomas Watts

Investment Analyst

Duration: 4 Mins Date: 13 Oct 2023

This week just ended

After the events over the weekend in the Middle East, the beginning of the week started in mixed fashion, with safe haven assets such as gold providing investors with a degree of solace. With Treasury yields spiking towards the end of last week on the back of stronger than expected US employment data, much of the moves were reversed by Tuesday, also benefitting from investors' flight to safety.

The beginning of the week also allowed oil prices to arrest a decline that had started back during the end of September with worries over potential supply disruptions if the situation in Israel worsens, surging by $3.50 a barrel on Monday. However, Wednesday did see black gold settle somewhat after top OPEC producer Saudi Arabia pledged to help stabilise the market, helping prices return to $85.82 a barrel.

After a choppy start to the week, more positive news was to come for markets as a slew of central bankers in the US seemed to hint that further rate hikes could now be off the table. Perhaps the most dovish press conference came from Fed Vice Chair for Supervision, Michael Barr, who downplayed the strong labour data from last Friday, "There are important elements of the labour market that are showing that labour supply and labour demand are coming into better balance," Barr said, citing cooler wage growth. "The picture is one that is showing that we have made significant progress on bringing inflation towards the direction we want."

After such calming words, futures markets are now pricing in a less than 10% chance of a 0.25% rate rise from the Fed during their next meeting, down from 30% last week.

By Thursday, with global shares hitting a three-week high, it was time for UK Gross Domestic Product (GDP) data to be released. Measuring economic growth on a monthly basis, the domestic economy partially recovered in August after a sharp drop in July, but the bigger picture remained one of only sluggish growth. Growing by 0.2% in August from July, in line with estimates, the numbers were doused somewhat by the wetter than usual summer months and strikes by various unions.

Although the data snowed Britain s dominant services sector grew by a slightly stronger than expected 0.4% in August from July, investors do not see the data as too alarming when it comes to requiring action from the Bank of England, with less than a 25% chance being priced in that the bank will look to raise base rates further by the end of the year.

The tone for the end of the week was well and truly set by Thursday afternoon as the US Bureau for Labor Statistics released its Consumer Price Index (CPI) numbers. Although CPI increased by 0.4% on a monthly basis and 3.7% annually, both slightly ahead of consensus, investors were given hope that inflation is beginning to relent by core CPI, which strips out volatile areas such as energy and food. Coming in at 0.3%, dragged down in part by falling second-hand car prices.

The numbers also chimed with US producer prices data released earlier in the week that showed an increased 0.5% during September, lifted by higher petrol and food prices, though underlying inflation pressures at the factory gate continued to abate.

This coming week

The coming week brings with it a raft of economic data that could potentially set the tone, at least on domestic shores, for a while to come.

In a UK-heavy week for economists, we start on Monday with Rightmove's Housing Price Index numbers, measuring the change in the asking price of homes for sale listed on the property company's website. The data will be nicely complemented by a press conference from Huw Pill, the Bank of England's (BoE) Chief Economist, in the afternoon. Due to speak about the current economic outlook at the OMFIF (Official Monetary and Financial Institutions Forum) Economic and Monetary Policy Institute, his words can have a great impact on how investors will view future policy. Being a member of the BOE's Monetary Policy Committee, Pill actively votes on where to set the nation's key interest rates and often uses his public engagements to drop subtle clues regarding future monetary policy.

The domestic data doesn't stop there, with Tuesday seeing the Office for National Statistics releasing its claimant count numbers. With the BoE consistently referencing the persistent strength of the UK labour market when raising rates over the last two years, data detailing how many people are claiming unemployment-related benefits during the previous month can prove invaluable. Although it's generally viewed as a lagging indicator, the number of unemployed people is an important signal of overall economic health because consumer spending is highly correlated with labour market conditions. Unemployment is also a major consideration for those on Threadneedle Street when considering future rate policy.

Perhaps the most important piece of domestic data released next week will arrive on Wednesday, with Consumer Price Index numbers detailing the rate of inflation. With inflation having dropped more than expected for last month's reading, consumers, economists and politics alike will be hoping for a repeat performance this time around as the UK bids to catch up with many of its western peers in terms of consistently cooling inflation.

This isn't to say that the entirety of next week is domestically focussed. The US retail sales release on Tuesday will allow us to gain a better handle on how the American consumer is feeling. The consumer is at the heart of most economic activity, with Tuesday's numbers acting as the primary gauge of consumer spending. The numbers should also prove interesting for the Federal Reserve who will be looking for signs that the US economy is continuing to slow.

The information in this blog or any response to comments should not be regarded as ftnanctal adutce. If you are unsure of any of the terminology used you should seek financial aduice. Remember that the ualue of inuestments can go down as well as up, and could be worth less than what was paid in. The information is based on our understanding as at 13 October 2023.

Back to top

Risk warning

The value of your investments can go down as well as up and you may get back less than you paid in. Tax rules can always change in the future. Your own circumstances and where you live in the UK could have an impact on tax treatment.

abrdn