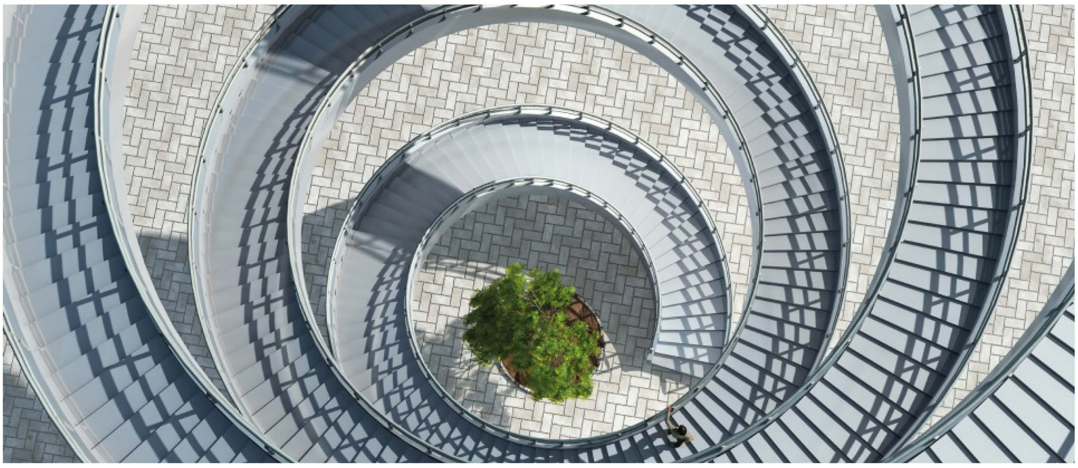
Home Weekly round-up



Article MARKET COMMENTARY

Weekly round-up: 21-25 July

Tom Watts recaps the past week's events and looks ahead to the next.

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This week

Forming an archipelago off the eastern edge of Asia, comprising of 80% mountains, steeped in natural beauty, and with the hustle and bustle of Tokyo, Japan enjoys a blend of tradition and modernity that is truly unique.

And while its stock market, populated with household names such as Toyota, Mitsui and Nintendo, is often overlooked by investors, the past week has certainly seen the land of the rising sun enjoy its place in the sun: making the headlines, and seeing its stock market rally in the process.

The beginning of the week saw the Japanese Prime Minister Shigeru Ishiba vow to remain in his post after his ruling coalition suffered in the country’s national elections. Although this produced some political instability and the Japanese markets were closed for a bank holiday on Monday when the news broke, the yen actually strengthened and Nikkei futures rose slightly, as the election results appeared to be largely priced in and not as divisive as feared.

The government will now be forced to enter drawn-out negotiations with other groups to gain a majority, after the far-right Sanseito party clocked the biggest gains of the night, adding 14 seats to their one previously elected.

They say the best place to see the iconic cherry blossoms of Japan is to visit Mount Yoshino in Nara, but where a new partnership was really blossoming this week was in Washington. Wednesday saw the US and Japan agree to lower tariffs on auto imports and spares in exchange for a $550 billion package of US bound investment and loans. As part of the deal, Japan will buy 100 Boeing planes and hike defence spending with US firms to $17 billion annually, from $14 billion previously.

Japan's automobile sector, which accounts for more than a quarter of its exports to the US, will see existing tariffs reduced to 15%, down from 27.5%. Duties that were due to come into effect on other Japanese goods from the beginning of August will also be cut to 15%, down from 25%.

The news sent Japan’s stock index climbing almost 4% to its highest in a year, just off all-time highs, led by Japanese automobile heavyweights such as Toyota, which was up more than 14%, and Honda, which was up nearly 11% on the day.

As efficient as the nation's famous Bullet Trains, Bank of Japan Deputy Governor Shinichi Uchida summed the deal up well, calling it "very big progress".

The euphoria was also felt in European markets, with the London blue chip index, hitting all-time highs throughout the week, with UK car manufacturers tracking their Asian counterparts higher, Aston Martin rose over 10%.

The first Europeans to arrive in Japan actually did so by accident rather than design. In 1543 a Portuguese ship was blown off course by a typhoon, shipwrecking the sailors on the island of Tanegashima, off the south-west tip of Japan. Eager to trade with Japan, the Portuguese soon established more formal links through the port of Nagasaki, formally establishing European and Japanese links.

It is in Europe where the final piece of big, noteworthy news came this week, as The European Central Bank (ECB) kept base rates unchanged. ECB President, Christine Lagarde, reiterated that she sees rates on the continent 'in a good place' with the inflationary outlook in line with the bank's 2% target, while growth has remained resilient despite the current challenges. Lagarde also pointed to the increased uncertainty tariffs were inflicting on the European economy, with upcoming levies on European goods entering the US as the real *anime*…

Next week

With the summer holidays now in full swing, investors won't be buying the notion that markets also wind down for the summer, as the upcoming week holds a wealth of economic data releases and central bank press conferences.

The start of the week allows us to see just what shoppers have been buying as the British Retail Consortium (BRC) releases its Shop Price Index numbers, detailing the change in the price of goods purchased at its member retail stores. The data, however, still carries some weight despite having a narrower scope than official government data as it only includes goods purchased from retailers who belong to the BRC.

Carrying on the Japanese theme of last week, the Bank of Japan (BoJ) will be holding a press conference on Thursday to announce its latest base rate. Japanese government efforts to moderate inflation do seem to be working, although underlying price pressures remain elevated. With this in mind, the BoJ is expected to remain on hold for the foreseeable future, making the outlook part of its statement even more important.

The announcement from the BoJ could well be overshadowed by their American peers, the US Federal Reserve, who come out during the middle of the week to set their own base rates. With markets not expecting a rate cut from the Fed until much later this year, again it will be the Fed's future guidance that should pique investor interest.

With US President Donald Trump having called Federal Reserve Chair Jerome Powell a "numbskull" accompanied by threats to sack him, as he demanded an interest-rate cut just a few weeks ago, it will be interesting to see not only if the man in the White House gets what he wants but how he will react when he doesn't.

The end of the week continues to take a distinctly US theme, first in the form of monthly Core PCE Price Index readings. Predicted to leave quite the impact on the markets after its release, the data differs from normal inflation readings in that it only measures goods and services targeted towards, and consumed by, individuals. CPI readings also only cover out-of-pocket expenditures on goods and services purchased. It excludes other expenditures that are not paid for directly, for example, medical care, which is usually paid for by insurance in the US. These are, however, included in the PCE reading.

As ever, the first Friday of the month brings US Non-Farm Payroll data, a key piece of information when determining the US central bank's thinking on inflation. The employment data itself will be accompanied by Average Hourly Earnings, allowing us to more accurately gauge future demand expectations as the more consumers earn, the more they tend to spend. It all combines to become a vital piece of data for the Fed and should take on added significance, considering the extra impetus put on such data going forward from US central bank officials.

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