



Article MARKET COMMENTARY

Weekly round-up: 25 August - 29 August

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

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This week

With the news that the Royal Mail will be introducing 3,500 new solar-powered postboxes across the UK, and the value of small parcels shipped from China to the UK under an import tax exemption having more than doubled last year to £3bn, the week kept on delivering in more ways than one, for both consumers and investors.

The post box has seen its "biggest redesign in its 175-year history". The new post box will be big enough to accommodate parcels that would not have fitted into previous designs, has solar panels on the top and a digitally-activated drawer which will allow customers to deposit small packages at their leisure. With this in mind, it was the British Retail Consortium that delivered the first piece of economic data this week, releasing its Shop Price Index on Tuesday.

Its figures showed British shop prices see their largest rise since March last year, rising by 0.9% compared with August 2024, driven by a jump of 4.2% in food prices, the biggest since February last year. Perhaps a surge in chocolate cake baking is to blame, with staples such as butter and eggs seeing significant increases in price due to high demand, while a poor cocoa harvests had pushed up the cost of chocolate.

The news for the high street comes at a time when Chinese e-commerce giants such as Shein and Temu, are thought to be the drivers of an increase in sales of cheap goods to online shoppers in the UK. The value of small packages worth £135 or less that currently avoid customs duties from China, made up 51% of all the small parcels shipped to the UK from around the world last year, increasing from 35% in 2023-24.

The beginning of the week also saw US president, Donald Trump, attempt to *stamp* his authority on the Federal Reserve, the independent US central bank. Taking the unprecedented step of ordering Governor Lisa Cook to be removed from the Federal Reserve Board of Governors, saying questions about the mortgages on properties she owns which are the subject of a criminal probe by his administration, is sufficient cause for her dismissal.

No US president has ever attempted to remove a Fed governor before and so it still remains to be seen if it is within the Trump's remit. What is clear is that after Trump has demanded rate cuts from the Fed that haven't materialised, he now seems to be taking measures into his own hands by trying to replace members of the

bank with his own picks. "We need people that are 100% above board and it doesn't seem like she was," Trump told reporters, saying that he had several "good people" in mind to replace Cook.

The US dollar fell on this news, showing that sustained political pressure could erode confidence in the Fed's independence over time, leading investors to sell US assets. Key parts of the Treasury yield curve steepened, as short-term Treasury yields declined on stronger expectations of imminent rate cuts, whilst longer-dated yields rose on concerns that aggressive interest rate cuts could lead to higher long-term inflation. With Fed Chair, Jay Powell also signalling a rate cut could be in the offing in the US, a 0.25% reduction in September looks to be signed and sealed as investors now price in around an 80% chance of a cut.

Coming in with his own *special delivery* was Fed Governor, Christopher Waller, on Thursday evening. In a speech entitled "Let's get on with it", he once again called for rate cuts to be delivered in earnest. Waller, of course, was one of the governors in favour of a 0.25% rate cut in the Fed's July meeting and seems to be manoeuvring himself as a potential candidate to replace Jay Powell as Fed chair next year.

In company news this week, it was AI heavyweight, Nvidia, that many investors were relying on to post another strong set of results. As the world's largest company, forming 8% of the US S&P 500 benchmark on its own, it usually has a large impact on global markets due to its size alone. It fell slightly after the announcement, but ended the week higher.

The chipmaker expects revenue of \$54 billion for the third quarter, compared with general market estimates of \$53.1 billion, according to data compiled by LSEG. But its fiscal second-quarter results came up short of some analyst expectations in its important data centre segment, with some analysts suggesting cloud computing providers may be more cautious about spending. Demand has surged for

Nvidia's advanced chips over recent years, which can speedily process the large amounts of data used by generative AI applications, as businesses race each other to dominate the new technology.

In an *address* to investors, the company said that "sovereign AI" efforts, a push to sell AI chips and software to governments around the world, are on track to generate \$20 billion in revenue this year. AI efforts are on track to spur \$600 billion in spending by cloud and enterprise customers this year alone and could generate \$3 trillion to \$4 trillion in infrastructure spending by the end of the decade. However, much like the Royal Mail's new postboxes, the proof will all come in the delivery...

Next week

In what could be the last week of the summer holidays for many up and down the country, before returning to their respective educational institutions, it seems like investors will get the chance to learn a thing or two over the coming days as well.

Monday could be a day of "home learning", quite literally for many, as Nationwide releases its House Price Index. Detailing the change in asking prices of homes listed for sale, the data should act as a leading indicator of the housing sector's health. The numbers should confirm a rough trend of recovery in the housing market and should mark one of the final readings from the slower summer months.

With US markets closed on Monday in observance of "Labor Day", the beginning of the week has the potential to be a bit quieter than usual but that doesn't mean we can't learn a lot from what is going on in Europe. Especially in the manufacturing sector, as the continent releases its Purchasing Manager Index (PMI) reading. PMIs are particularly useful for economists as they give an insight into how businesses see market conditions, whose purchasing managers hold perhaps the most current and relevant insights into the company's view of the economy.

The data will be released for each constituent European country, alongside a composite reading for the continent as a whole, before a reading is also released for the US on Tuesday.

With the Bank of England (BoE) having cut rates last month by 0.25%, many investors are still wagering that those on Threadneedle Street will repeat the trick again by the end of the year. Wednesday should help us gain insight into this topic, as the Bank's top officials head to Westminster for a Monetary Policy Report hearing. During these hearings the BoE Governor and several committee members testify on inflation and the economic outlook before Parliament's Treasury Committee. The hearings are a few hours in length and can create market volatility throughout.

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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