Article MARKET COMMENTARY

Market round-up: 06 November – 10 November

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

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This week just ended

Following on from the winning streak global markets enjoyed last week, it was only apt that Las Vegas made several headlines in the business press over the past few days. Wednesday saw a historic deal reached with the city's casino worker unions, putting their cards on the table concerning pay rises, just two days before a strike threatened to close down the whole Strip. Caesars Entertainment, the second-biggest Las Vegas casino operator by number of employees, said the deal now provides "meaningful wage increases" for its employees and aligns with plans to bring more union jobs to its hotels and gaming tables.

The news did set into motion something of a casino themed week for markets, as a slew of central bank press conferences and data releases led many to place their bets as to whether we will see a rate hike or cut next.

They say the house always wins, and with news on Tuesday from mortgage provider, Halifax, that house prices had unexpectedly risen monthly, the adage seems doubly as apt.

Halifax's Housing Price Index rose 1.1% during October, much higher than the 0.2% expected, whilst breaking a run of six consecutive monthly falls. However, it wasn't all good news, with Halifax commenting that "Prospective sellers appear to be taking a cautious attitude, leading to a low supply of homes for sale. This is likely to have strengthened prices in the short-term, rather than prices being driven by buyer demand, which remains weak overall."

Domestic markets were given a great deal to mull over from central bankers too during the beginning of the week, focusing on remarks from the Bank of England's (BoE) Chief Economist, Huw Pill, who commented that pricing in financial markets of a first rate cut in August 2024, "doesn't seem totally unreasonable."

However, adopting more of a poker face was BoE Governor Andrew Bailey, who on Wednesday, said it was "really too early to be talking about cutting rates." Markets are currently fully pricing in a 0.25% BoE rate cut in August, and roughly a two-thirds chance of such a cut in June. An August cut was seen as likely, but it seemed all bets were off after Pill and Bailey's remarks.

It was interesting to hear Huw Pill again towards the end of the week, who's public engagements seemed to have been something of a roulette recently. In a shift of tone, calling the markets bluff, he remarked that it was essential interest rates stay at their current level in order to tame inflation. Two-year gilt yields rose as Pill spoke for the second time, with markets scaling back pricing for a June rate cut, although they still price in at least two 0.25% cuts for next year.

The stakes were high during the second half of the week as a stuttering Chinese economy released its inflation numbers, showing that domestic demand remained weak. With prices falling by -0.2% versus consensus of -0.1%, the gauge was partly dragged lower by a further slump in pork prices, down 30.1%, speeding up from a 22% slide in September, amid an oversupply of pigs and weak demand. You could say that the stakes were high, but actual steak prices are now quite the opposite in China...

However, even core inflation, which excludes food and fuel prices, slowed to 0.6% in October from 0.8% in September, pointing to China's continued battle with disinflationary forces and the risk of again missing the government's full-year headline inflation target, set at around 3%.

The end of the week was wrapped up with domestic GDP, the broadest measure of an economy's health. The data showed that Britain's economy remained stagnant during the 3rd quarter, compared with a forecast for a 0.1% fall, narrowly avoiding recession.

Interestingly, Britain's economy now stands 1.8% above its level in late 2019, making its post-COVID recovery stronger than that of Germany but a long way behind the United States, where the economy has gone all in, growing by more than 7% from its pre-pandemic level.

This coming week

As we head towards the end of the year, a lot of the data being released over the next week or two could really work to set the tone for 2024. The beginning of the coming week sees investors having a job of their own, keeping on top of a raft of domestic labour data is released by Tuesday.

With the enduring strength of the employment market a key consideration of the Bank of England (BoE), Tuesday's data released from the Office for National Statistics (ONS) should make for particularly interesting reading. Coming in three parts, we will have the chance to firstly examine the change in the number of people claiming unemployment related benefits during the previous month, the change in the average hourly earnings level over the last quarter and the overall unemployment level. All three should give us a comprehensive view of the state of the labour market here in the UK and could well have a large impact on the BoE's thinking when considering future rate policy.

Later in the day comes US inflation figures in the form of Consumer Price Index (CPI) readings. Much like here in the UK, the chances of another rate rise remains in the balance for Americans, with a stronger or weaker figure contributing vastly to how the Federal Reserve will wish to proceed with future rate hikes. The inflation report will come in two parts, Headline CPI and Core CPI. Headline includes more volatile sectors such as energy and food, whilst core strips these areas out, giving us a truer reflection of where price rises are headed in the world's largest economy.

In what could become an inflation themed week for investors, the UK will release its own equivalent data on Wednesday. With the BoE Governor and Chief Economist giving mixed signals as to when they may look to cut rates next year, next week's data could prove crucial in allowing markets to make their own minds up.

With investors perhaps not buying the narrative of what various UK And US central bankers are saying when it comes to whether they will hold or hike rates further by the end of the year, it is time to see what they are buying, as retail sales figures are announced later in the week, for both sides of the pond. Detailing the change in the total value of sales at the retail level, the data is useful in that it acts as the primary gauge of consumer spending, which accounts for most overall economic activity.

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