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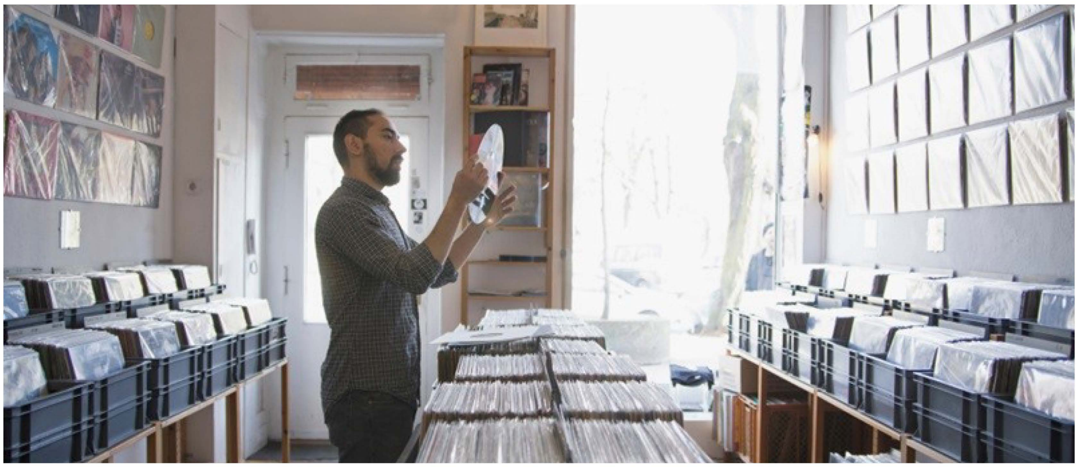
Home Market round-up



Article MARKET COMMENTARY

Market round-up: 11-15 March

Tom Watts recaps the week and looks ahead to next week.

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This week just ended

With debates surrounding inflation having characterised financial markets for nearly two years now, it was refreshing this week to receive news of how inflation is actually calculated. The such as bakeware and hand sanitiser, replaced by trendier, must-haves, such as air fryers and gluten-free bread.

However, there is one item added in particular that will be music to many investors' ears, with vinyl having made it back into the basket after a 32-year absence. As the revival of the physical music market continues in the UK, sales of vinyl rose by 11.7% to 5.9 million units last year – the 16th such increase in a row, according to the British Phonographic Industry (BPI).

It was only right that during a week in which vinyl made its big comeback, investors observed a few records of their own. Getting in the groove of things was the pan-European STOXX 600 and German index hitting all-time highs on Tuesday, Wednesday and Thursday, spurred on by upbeat earnings forecasts and growing rate cut expectations. Top of the charts was Zara-owner Inditex, whose shares also hit a record high, ending up 7.7% on Wednesday after it reported positive early spring sales, boosted by upmarket fashions.

In terms of economic data, it was US inflation numbers getting markets in a spin, with Consumer Price Index (CPI) readings released during the week. Coming in at 3.2% versus expectations of 3.1%, CPI was pushed higher due to increased costs for gasoline and shelter. However, despite the second straight month of firmer inflation readings in the US, the composition of the report remained consistent with the longer-term disinflationary trend as inflation-weary Americans did receive some respite from their supermarket and medical bills.

Often considered the B-side to CPI data, the Producer Price Index (PPI) – gauging price changes that producers receive for their goods – was released later in the week, showing a marked uptick in inflation for goods sold by factories and workshops. Increasing more than expected in February amid a surge in the cost of food which account for two thirds of the jump, PPI rose by 0.6% - double the 0.3% predicted. After recent rallies seen over the last week, markets soon changed thier tune after the release, with markets now pricing in a 63.5% chance the US Federal Reserve will cut rates during it July meeting, down from 6 7% before the data's release.

UK Gross Domestic Product (GDP) also gave investors reason for cheer during the week, bolstering hopes that the recession the UK slipped into last year won't be a long player. Rising 0.2%, data showed that Britain's economy returned to growth in January, spurred on by a rebound in retailing and house building. Released in conjunction with wages statistics that showed remuneration grew at its slowest pace since October 2022, with the unemployment rate edging up unexpectedly. With all this talk of vinyl, it will be interesting to see what those on Threadneedle Street have up their *sleeve* in response when they convene next week…

This coming week

With a raft of economic data released last week to mull over, there won't be too much time to digest what financial markets made of it all, as we push onto next week.

However, we will be able to see what they've been making in China as the National Bureau of Statistics releases its annualised Industrial Production figures on Monday. The numbers should take on an added significance as January's data, which would usually be made public during February, was not released to eliminate the distortions caused by the seven-day Lunar New Year festival last month. This means we will receive a bumper amount of data, covering changes in production from December to February, charting the change in the total inflation-adjusted value of output produced by manufacturers, mines and utilities from the "workshop of the world".

Staying in Asia, Japan will draw investor focus on Tuesday, beginning a week characterised by central bank press conferences, as the Bank of Japan (BOJ) announces its latest base rate, as well as giving its views on the factors that affected its most recent interest rate decision, the overall economic outlook, inflation and any clues regarding future monetary policy. Larger than expected pay rises from major Japanese firms have significantly heightened the chance the BOJ will conclude its eight years of negative interest rate policy next week, marking a landmark shift away from its huge stimulus programme. Annual labour talks with major firms concluded with pay rises of 5.28%, the highest in 33 years and far exceeding forecasts of 4.5%, putting pressure on the central bank to react this month, with many expecting a shift to a range of 0-0.1%.

Whilst the foundation has been laid by Asian markets, much of the beginning of the week has been building, certainly for domestic investors, towards UK inflation data, released during the middle of the week. With inflation currently sitting at 4% – twice the Bank of England's 2% target – we shouldn't expect those on Threadneedle Street to look to cut rates just yet. But this month's reading could well settle bets as to whether we should expect any movement on borrowing costs during their June meeting.

Those wondering what the Bank of England (BoE) will make of Wednesday's data shouldn't have too long to wait as the bank will host a press conference the day after, setting rates whilst giving their views on the domestic economy.

Not to be outdone, the BoE's US equivalent, the Federal Reserve, will hold a press conference towards the end of the week, announcing where they see the future of interest rates going, as well as giving various other economic projections, as they attempt to set financial markets' expectations for the coming months. Back in December, a March rate cut in the US looked an almost certainty, however, after various stronger-than-expected data points, those expectations have been pushed back towards the summer, with June looking the most likely outcome.

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