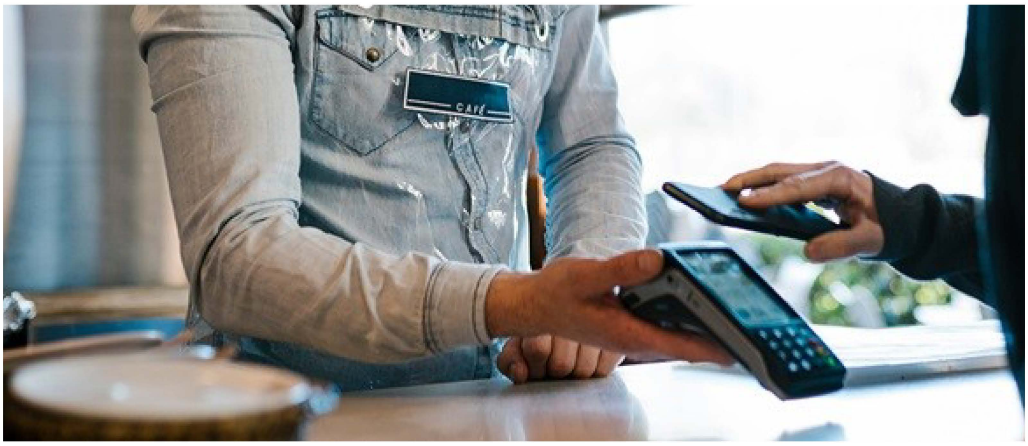
Home Market round-up: 20 - 24 May



Article MARKET COMMENTARY

Market round-up: 20 - 24 May

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

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This week just ended

Standing outside a very wet Downing Street, Wednesday saw Prime Minister, Rishi Sunak, fire the starting gun on a new summer general election, to be held on 4th July. The race for no.10 now begins much earlier than many had anticipated with with Sunak's decision most probably an attempt to capitalise on the good news of falling inflation, issued just hours before his speech.

They say when it rains it pours in Westminster and that seemed to be true both physically and metaphorically as a sodden Sunak declared "now is the moment for Britain to choose its future." However, one small ray of sunshine did come from the Office for National Statistics (ONS) on Wednesday, showing that inflation is now getting much closer to the Bank of England's (BoE) 2% target.

The consumer price index (CPI) rose by 2.3% in the 12 months to April, down sharply from March's 3.2% increase making it the lowest reading since July 2021. However, expectations were for an even larger fall to 2.1%, severely denting hopes from both the government and investors, that the BoE would look to cut rates during next month's meeting. Such hopes were reflected in market pricing, which showed a 50/50 chance the BoE would take action before the data was released, that fell to just 18% afterwards. An only slight fall in services inflation looks to have done the damage, inching down to 5.9% from 6.0% in March, much higher than the anticipated 5.5%. Core inflation, which strips out volatile sectors such as food and tobacco, also reflected persistent price pressures, with the annual rate falling only to 3.9% from 4.2% in March, higher than hopes of 3.6%.

The chances of a rate cut any time soon in the US were also evaporating this week as data showed that U.S. business activity accelerated to the highest level in just over two years in May, with manufacturers reporting a surge in prices for a range of inputs, suggesting that goods inflation could pick up in the months ahead. The numbers also showed that businesses faced higher prices for inputs. The manufacturing input prices index vaulted to the highest level in one-and-a-half years amid reports of higher supplier prices for a wide variety of inputs, including metals, chemicals, plastics and timber-based products as well as energy and labour costs, all suggesting that goods disinflation is close to running its course.

In stock news this week, Nvidia, the world's third largest company by market cap, released another strong set of results, forecasting quarterly revenue above estimates. The burgeoning AI behemoth saw its shares jumped 5.9%, adding a cool $140 billion to its value. The poster child for AI capabilities has seen its stock rise 90% in 2024 alone with Wednesday seeing it reach yet another all-time high, ensuring there was at least one big vote of confidence this week…

This coming week

The final week of May should start in muted fashion as not only do domestic markets close in observance of the Spring Bank Holiday on Monday, the US market also closes due to the country's Memorial Day Celebrations.

With memories in mind, it is worth remembering that there is still a lot of economic news released on Monday as the Bank of Japan's Governor, Kazuo Ueda, is due to deliver the opening remarks at the Institute for Monetary and Economic Studies forum in Tokyo. As head of the central bank, Ueda has important influence over the Japan's interest rates and we can expect investors to scrutinise his words closely, which are often used to drop subtle clues regarding future monetary policy and interest rate shifts.

They say some memories can't be bought but at least we can see what the domestic consumer has been buying, as the British Retail Consortium (BRC) releases its annual Shop Price index numbers. Although the figures lead the government released consumer inflation data by about 10 days, they can be narrower scope as they only include goods purchased from retailers who belong to the BRC. Nonetheless the figures should give us a decent update as to how the UK high street is performing and what we should expect from both upcoming retail sales and inflation numbers.

With such a big day for US data on Thursday, it would be difficult to forget that not only does the world's largest economy makes public its prelim Gross Domestic Product (GDP), but also its pending home sales and unemployment claims figures. Whilst GDP acts as the most board measurement of the health of an economy, assessing the change in the value of all goods and services produced by the economy, it might be the accompany labour data that lives longer in the memory. With the employment landscape in the US having proven surprisingly resilient in the face of record rate hikes from the Federal Reserve, we are finally starting to see some cracks appear, with those claiming unemployment benefits slowly ticking up as the weeks and months wear on. With the amount of claimants predicted to be slightly higher than last week, many market commentators will keen to see if the numbers once again overshoots, a trend that has been evident over the past few readings.

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