Article MARKET COMMENTARY

Market round-up: 27 - 31 May

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

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This week just ended

With a general election having just been called the previous week, financial markets hitting all-time highs and central bank rate cut probabilities on a knife edge, it's understandable that one of the most important days of the British calendar has gone mostly overlooked this time around. National Biscuit Day, the annual event that pays tribute to one of the nation's most beloved treats, holds a special place in both the hearts and stomachs of Britons, was celebrated on Wednesday this week amongst a backdrop of economic data releases, quite literally giving economists food for thought.

Data shows that Brits eat 52 biscuits collectively per second on average and so during what has been a truncated week due to the Spring Bank Holiday, you can be fairly confident how a lot of that time off was spent. In fact, confidence was very much the watch word for financial markets during the beginning of the week as the US Conference Board released its American Consumer Confidence figures. Unexpectedly rising for the first time in four months, the reading was well above all consensus estimates with the sub index of economics expectations jumping the most since last July.

Despite the reported increase, when it comes to the crunch, confidence has trended lower in recent months as inflation remains stubborn in the US, household debt also hit a record and the job market has softened.

After finding out how the consumer is feeling in the US, economists were given the chance to hear how confident various US Federal Reserve officials are concerning quashing inflation, including from Minneapolis Federal Reserve Bank President Neel Kashkari. Hobnobbing with the press on Wednesday evening, Kashkari commented that the U.S. central bank should wait for significant progress on inflation before cutting interest rates, saying that it will take "Many more months of positive inflation data, I think, to give me confidence that it’s appropriate to dial back." Back in April, Kashkari also said that he had pencilled in two interest rate cuts this year but if inflation continues to stall, none may be required by year end.

With the path to subdued inflation being more like a Rocky Road, Friday provided investors with possibly the most important gauge of price rises, US Core PCE Index data, reportedly the Fed’s preferred gauge when examining inflation. The data showed that prices for consumer goods and services rose only 0.2% monthly, lower than the 0.3% expected, depressed by slowing food price rises. On an annual basis prices increased by 2.7%, in line with expectations and consistent with last month’s reading.

The numbers were in direct contrast to higher-than-expected Eurozone inflation, released just a few hours prior. Although the increase in inflation was unlikely to stop the ECB from raising rates, it certainly does strengthen the argument the central bank needs to be cautious going forward.

It would have been nice to have both the US and Eurozone inflationary readings to come in below expectations, but one out of two isn't a disaster for investors, sometimes it's just the way the cookie crumbles…

This coming week

The coming week ushers in not only a raft of economic data but also the commencement of June, a month named after the Roman goddess Juno, whose name is thought to be connected to love or Jove in ancient Roman.

With this in mind, there is plenty to love on the continent next week, as we start off the economic calendar with a plethora of Manufacturing index numbers released throughout Europe, covering the bloc's largest economies. The batch of data will also include figures from both the UK and US, giving investors a much more comprehensive view on what is happening at a company level across the globe.

Staying in Europe, Thursday sees the European Central Bank (ECB) announce its latest borrowing costs, accompanied by a press conference that gives the reasons for such a move, outlining the bank's current thinking. With a recent poll of economists held by Reuters showing all 82 participants predicting a 0.25% rate cut next week, a move seems almost guaranteed. However, investors will now be looking for hints that that further cuts may be coming down the track, with financial markets currently pricing two ECB rate cuts in total in 2024, a sharp pullback from six expected at the start of the year, but still factoring in a further move after June.

Interestingly out of those 82 economists Reuters polled, an over two-thirds majority of those polled, 55 expected the ECB to cut twice more this year, most probably during September and December.

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 gauge future demand expectations more accurately as the more consumers earn, the more they tend to spend. It all combines to be 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. The data could even take on added significance with the Fed's peer in Europe cutting rates the day beforehand.

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