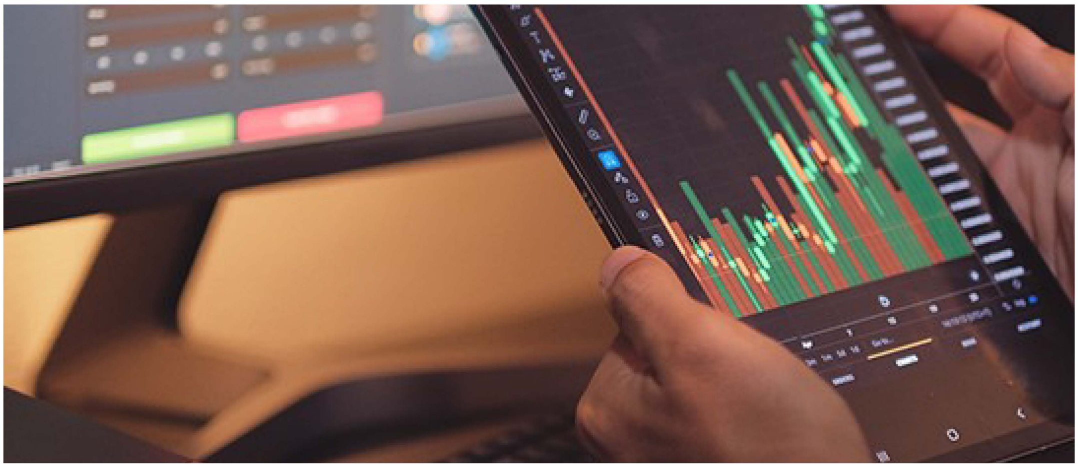
Home Market round-up



Article MARKET COMMENTARY

Market round-up: 08 - 12 July

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

Author

Thomas Watts

Investment Analyst

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This week just ended

With a new man in No.10 and a hung parliament across the Channel in France, averting worries of a far right or left majority, the week could have started with a bang for financial markets...or should that be a pop?

News emerged early on Monday morning that Danish Brewer, Carlsberg, had agreed to buy British soft drinks maker, Britvic, yet another example of the attractive valuations found in UK markets. The name behind such brands as Robinsons squash, Lipton Ice Tea, Tango and White's Lemonade will be will be sold for £3.3 billion to create a UK beverage "powerhouse," as Carlsberg put it. The takeover was actually sweetened (unlike their lemonade) with a bid of £13.15 per share, comprising cash and a special dividend of 25p a share, after Britvic rejected an offer of just £12.50 pence per share last month.

With this in mind, it was perhaps apt that the Bank of England (BoE) spent most of their week taking the fizz out of market expectations that there would be an imminent rate cut on the horizon, with a host of officials pouring cold water on lingering hopes. After Monday morning saw markets pricing in over a 60% chance that the BoE would cut rates during its August meeting, it was up to Monetary Policy Committee (MPC) member, Jonathan Haskel, to calm the situation telling the media that he did not want to cut interest rates from their current 16-year high.

Next up was Chief Economist Huw Pill, speaking at an engagement in London on Wednesday afternoon. Focussing on the strong price pressures in the domestic economy, he commented that the timing of a rate cut was an "open question", and that wage growth showed "uncomfortable strength."

The last to speak from Threadneedle Street this week was BoE official, Catherine Mann, who also struck a conservative tone. Asked how inflation falling to the BoE's 2% target affected her thinking on policy, Mann said the drop was merely "touch and go" and that inflation likely rising throughout the second half of next year, "matters for my decision making".

Also not helping the argument for a rate cut was stronger than anticipated monthly Gross Domestic Product data for the UK on

Thursday. Showing that the recent recovery in the economy has far from run out of juice, May saw a broad-based increase in economic output, with the services, manufacturing and construction industries all growing, with the latter up by 1.9% on the month, driven by house-building.

Showing that the UK economy was doing just fine in the face of higher borrowing costs, expectations of a rate cut next month sank to below 50% by the end of the week. However, it was soda, so good for sterling on the news, hitting an almost one-year high, pushing beyond $1.29 USD.

Forget lemonade bubbles, champagne bubbles were more the order of the day on Thursday as US inflation data came in lower than expected, increasing the chances of a rate cut across the pond by the Autumn. The data showed consumer prices fell for the first time in four years in June amid cheaper gasoline and moderating rents, with prices showing the smallest monthly rise since August 2021.

Coming in at 3% on an annual basis, lower than the 3.1% expected, the reading was weighed down by a 3.8% decline in petrol prices, following on from a 3.6% decrease in May. Shelter costs, which include rental payments, increased by only a moderate 0.2% after advancing 0.4% in May. Food prices rose 0.2% after edging up 0.1% in May. Grocery prices ticked up 0.1%, with increases in dairy products, meat, fish and eggs offset by declines in the costs of fruits and vegetables.

It seems both Carlsberg and investors followed that old adage this week, if life gives you lemons… make lemonade! This was certainly the mantra of for buying US mid-caps, with the Russell 2000 rising 3.1%, to a three month high. Earlier in the week, broader US markets had hit 6 consecutive days of record highs, however by Friday, they were dragged down somewhat by stumbling technology heavyweights. Fizzy come, fizzy go as they say…

This coming week

The coming week brings an early start for economists, with a raft of data released late Sunday night from Asia.

Whilst Japanese markets close in observation of their Marine Day Bank Holiday, investors will be focussing on a different market that has aptly spent most the year underwater. Monday will bring us not only quarterly Gross Domestic Product and Industrial Production figures, but we will also receive New Home Prices data from the world's second largest economy, China.

With a slowdown in the property market having plagued the Chinese economy for years now, Monday's property news will give investors a more comprehensive view of any recovery manifesting. The data itself will detail the change in the selling price of newly built residential buildings in 70 medium and large Chinese cities, offering a us a gauge of the most areas of the country.

The main talking points of the week however, should be found in Europe on Thursday as the European Central Bank (ECB) makes its latest decision on rate policy. Although the ECB will not want its June rate cut to look like a policy mistake, it seems as if the move last month will not be repeated next week in the face of resilient labour markets and tepid growth, with many economists believing that we should expect the bank to stand firm. Although the announcement will not be considered a complete non-event, as many will be scrutinising the accompanying press conference for any new future rate guidance.

The talk of central bank reticence to cut rates just yet could also bleed into domestic debates this week as the Office for National Statistics releases its latest inflation reading for the UK. With a string of Bank of England officials announcing a wait and see approach last week, the upcoming reading does take on added significance and could have a major influence if the bank does decide to move on borrowing costs in the next few months. The data itself will measure the change in the price of goods and services purchased by consumers and is often regarded as a vital piece of information by both investors and those on Threadneedle Street.

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