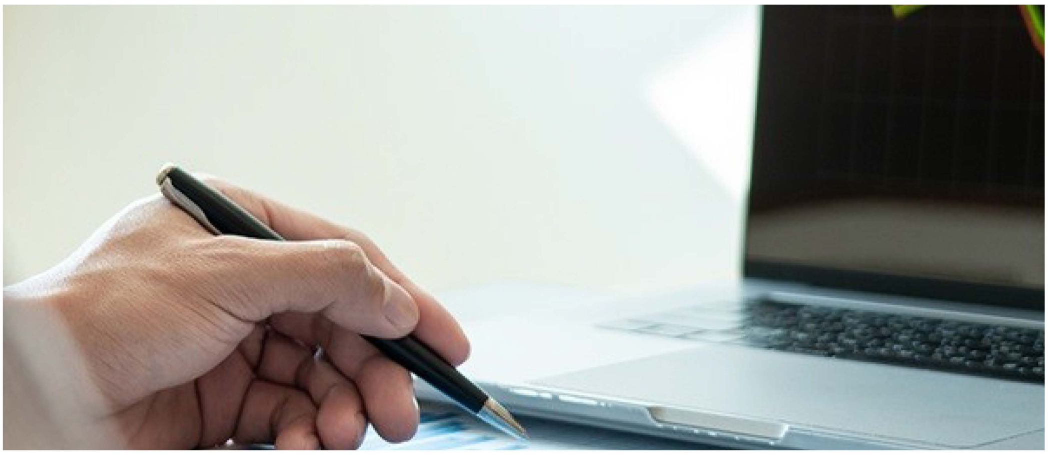
Home Market round-up



Article MARKET COMMENTARY

# Market round-up: 05 - 09 August

Tom Watts recaps the week and looks ahead to next week.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## This week just ended

For anyone who has been squashed into a busy carriage during rush hour on the London Underground, Transport for London's announcement this week that the Victoria Line is the hottest route on the network, with an average temperature of 28.2C, should come as no surprise.

Rising all the way from 5th place back in 2013, taking the Central Line's unwanted crown, it has not just been the stations on the Victoria Line but the whole London Underground that have had much in common with the week's market events as both commuters and investors were urged to "Mind The Gap".

Our journey this week starts about halfway across the aforementioned Victoria Line, at Euston, a major interchange on the tube. Indeed, it was "Euston we have a problem" on Monday as the previous week's weaker than expected US labour data triggered fears of an incoming recession.

Stock markets around the globe suffered heavy losses, offering few places to hide for investors as Japan bore the brunt of early selling. The Nikkei closed down 12.40% in its largest one-day fall since October 1987, as the yen surged against the backdrop of Japan's decision last week to raise interest rates to levels unseen in 15 years. It was also *all change* for US technology, an area of the market that has supplied good profits this year also sold off heavily, with the tech heavy Nasdaq seeing a fall of 3.43%. Even gold, a widely considered safe haven lost its shine during the beginning of the week, falling by 1.52%.

In what was more of a rollercoaster than a tube ride, markets rebounded strongly the next day, with Japan bouncing back roughly 10%. Helping to sooth market worries, US Federal Reserve officials argued against the notion that their economy is about to slip into recession, with San Francisco Fed President Mary Daly commenting that there is "a little more room for confidence that we're slowing but not falling off a cliff."

With all trains halted at the flashing red signal of a weakening US labour market, Thursday brought with it some solace, as the US Department for Labor released its weekly Unemployment Claims data. Showing that the number of Americans filing for new applications for unemployment benefits fell more than expected last week, Initial claims for state unemployment payments fell 17,000 to a seasonally adjusted 233,000, its biggest fall in 11 months. Claims fell sharply in Michigan and Missouri, states with a heavy presence of motor vehicle assembly plants which saw claims rise the prior week. Vehicle manufacturers typically close assembly lines in July to retool for new models.

Acting as a *Monument* for how important the data was, market expectations that the Fed would need to cut rates by 0.5% fell to 58% from 70% after the figures were released. US markets continued their recovery on the back of the news with US treasury Yields heading back up past 4% and the USD appreciating against a basket of currencies.

In company news, all is not seemingly well in the Magic Kingdom, as Disney reported a mixed set of results, predicting a 'moderation in demand' at its theme park business in coming quarters. For reference, Disney's experiences segment that includes parks and consumer products comprises *Morden* half of the company's profit. However, the runaway success of the recently released Inside Out 2, the highest grossing animated film of all time did help to boost margins, keeping the studio, much like many of those stuck in the heat of the London Underground, on the right track at least.

## This coming week

With the mercury rising in the thermometer this coming week predicted to rise to its highest all year, many of Threadneedle Street will hoping the same is not true of the nation's inflation readings, set to be released on Wednesday.

The Consumer Price Index (CPI) acts as the broadest measurement of inflation passed onto the consumer for goods and services and acts as a vital tool for the Bank of England (BoE) to gauge the state of price rises here in the UK. Currently sitting at 2% on an annual basis, the BoE felt comfortable enough to cut base rates by 0.25% last week, but sounded a note of caution that inflation could start to creep up again by the end of the year. Nonetheless, markets are pricing in another one or two reductions of 0.25% from the bank, making next week's reading crucial in quantifying what we should expect from the central bank in the months to come.

Our dealings with inflation aren't done quite yet, as the US releases its equivalent data only a few hours afterwards Wednesday. With the US Federal Reserve having abstained from cutting rates last week, partly causing the large selloff we saw this week, markets are now pricing in over 1% of cuts for the US for the remainder of the year. With only 3 meetings left, this implies that the Fed will either have to cut at least once by 0.5% or introduce an emergency cut out of the sync with their meetings. With this in mind, next week's reading will also be vitally important in gauging just what the task ahead for the Fed will be.

The second half of the week should be dominated by domestic data releases, starting with monthly GDP figures, the broadest gauge of economic health. With the UK economy having bounced back from quicker and stronger than many expected, both those in the City of London and Westminster will hope the good news continues.

With the weather warming up, those on the High Street will be hoping a bit of sun tempts consumers into going out and spending. With this in mind, UK Retail Sales data on Friday will be key in determining just how retailers are faring in the current economy. With many brands reporting a slowing in sales during the Spring and early Summer due to the wet weather, perhaps the recent heatwave and fall in inflation we've been experiencing could have encouraged consumers to loosen their purse strings ever so slightly.

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