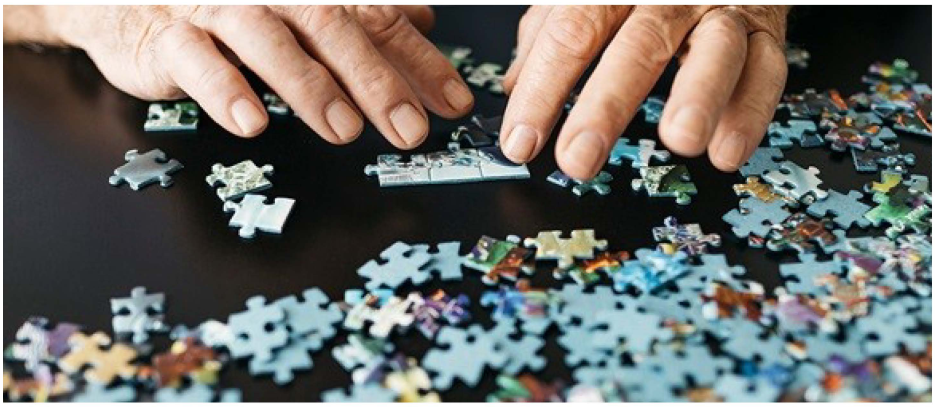
Home Market round-up



Article MARKET COMMENTARY

Market round-up: 23 - 27 September

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

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This week just ended

Orbiting at an average distance of 384,400 km (238,900 mi) from the Earth but only with a mass of 1.2% compared to that of our planet, it can be a lonely job being the Moon (or Luna if we're being scientific), so thank goodness that this week saw the announcement that a small asteroid is set to be captured by Earth's gravitational pull and temporarily become a second 'mini-moon'.

Sadly this new second moon is going to be too small and dim to be seen, unless you have a professional telescope and will only be orbiting for a few months before escaping from Earth's gravitational pull again.

With all this talk of moons and asteroids, it was stock markets that enjoyed a meteoric rise this week thanks largely to China's central bank unveiling their largest stimulus package since the pandemic, far eclipsing investor expectations. Aiming to pull the economy out of its deflationary orbit and back towards the government's growth target, the People Bank of China (PBOC) predominantly targeted China's faltering property market, including a 0.5% reduction on average interest rates for existing mortgages, and a cut in the minimum downpayment requirement to 15% on all types of homes, among many other measures.

Chinese and broader Asian stock markets hit two and a half year highs as a result of the announcement, with lower borrowing costs and more liquidity cratering an opportunity, with the yuan jumping to a 16-month high against the dollar. It wasn't just Asian markets that were over the moon with the news, a stimulus package for the world's second largest economy will have a far-reaching impact and helped bourses in Europe and the US to climb higher, with the US hitting a record high in the process.

Also helping to spur American markets on was a release of revised data that showed that the U.S. economy grew faster than initially thought in 2023 amid upgrades to business investment and consumer spending. Another example of the US economy's resilience in the face of higher interest rates was also provided on Thursday as data showed the number of Americans filing new applications for unemployment benefits dropped to a four-month low last week. Initial claims for state unemployment benefits dropped 4,000 last week to a seasonally adjusted 218,000 for the week, the lowest level since mid-May and slightly below expectations of 225,000.

Adding to the interstellar feel of the week, sterling also made the news – interestingly a word that is derived from the Old English steorra for 'star' with the added suffix -ling, to form 'little star', an apt name for the coins in your pocket. Sterling had certainly been a shooting star this week, hitting $1.34 on Wednesday, its highest level since February 2022. Stickier than anticipated inflation, a central bank less willing to cut interest rates than its peers and a more stable picture in Westminster have all led the pound to rise over recent months.

With the UK economy in something of a sweet spot economically at the moment, as illustrated by Monday's data showing both an expanding Services and Manufacturing sector, it seems unlike what our friend the Moon goes through, the strength of the domestic economy could be anything but a phase…

This coming week

As September transitions into October its difficult to know what to make of it all with time flying at pace. Luckily for us, the upcoming weeks' worth of economic data, tells us just what people are making, more specifically in the factories and assembly lines of the world.

Starting in the workshop of the world, China, Monday gives us the nation's latest Purchasing Manager Index (PMI) reading for the Manufacturing sector. PMI data is an important tool in the economist's kit bag as it acts as a leading indicator of economic health, businesses react quickly to market conditions, and their purchasing managers hold perhaps the most current and relevant insight into the company's view of the economy. After the huge amounts of economic stimulus announced for the Chinese economy last week, the data should take on an even more important role now when assessing the strength of China's output.

In the same vein, later on in the week we get Construction PMI figures for the UK construction sector. With one of the key parts of Labour's manifesto being to loosen building regulations and to construct more houses, it will be interesting to see where the sector currently sits. The data itself will come from a survey of about 150 purchasing managers which asks respondents to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries, and inventories.

The second half of the week takes on a distinctly US labour themed feel, with Job openings data followed by Non-Farm Payroll (NFP) figures. Both are important in their own way and together, help us build a comprehensive picture of how the employment landscape in the US is shaping up. NFPs are highly regarded by the US Federal Reserve, we should expect heightened market volatility come the end of the week during its release. The data itself will be accompanied by Average Hourly Earnings, allowing us to gauge future inflation expectations as as the more consumers earn, the more they tend to spend. It all combines to be a vital piece of data for the Federal Reserve and should take on added significance with the labour market having shown further signs of deterioration during the previous months, flashing potential recession warnings.

The information in this blog or any response to comments should not be regarded as financial advice. If you are unsure of any of the terminology used, you should seek financial advice. Remember that the value of investments can go down as well as up, and could be worth less than what was paid in. The information is based on our understanding as at 27 September 2024.

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Risk warning

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