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Article MARKET COMMENTARY

Market round-up: 30 September – 4 October

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

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Duration: 5 Mins Date: 04 Oct 2024

This week just ended

With the People's Bank of China (PBOC) having made many of the headlines over the past few weeks, all eyes were on Beijing this week as excitement over the stimulus package the central bank released at the end of September continued to drive Asian markets higher.

The flurry of stimulus measures introduced last week, the largest since the pandemic, have mainly targeted China's ailing property sector, 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 others. Having seen a meteoric rise of more than 30% over just three weeks, Asian bourses now sit at a 2 ½ year high, however, history tells us to be cautious when evaluating just how successful such packages can actually be.

For all the Turophiles as well as economists out there, China also made it into the news this week as the world's oldest piece of cheese was found in the country, believed to be over 3,600 years old. A three and half millennia-old coffin, first opened in the Xiaohe Cemetery in Xinjiang, during an excavation in 2003, found that a rather mysterious item was draped across the neck of a mummified young woman was not as it seemed. Previously assumed to be a piece of jewellery, scientists have now declared that they have instead actually identified what is the oldest piece of cheese in the world (Kefir to be precise).

From kefir to fear (or a lack of it to *brie* precise) the first week of October saw a host of central banking heavyweights give their views on their respective economies, largely painting a positive picture of their battles against inflation. Perhaps the most hotly anticipated press conference was held on Monday, as US Federal Reserve Chair, Jay Powell, gave his outlook on base rates. 'This is not a committee that feels like it is in a hurry to cut rates quickly,' Powell commented, inferring that the central bank would be raising rates in 0.25% increments going forward. Cementing his views Powell said the baseline was currently for two 0.25% reductions by the end of this year, as indicated in policymakers' updated economic projections released earlier this month.

More *gouda* news was to come for those expecting rate cuts, this time on the continent, as the European Central Bank (ECB) also showed signs that they were becoming increasingly confident that inflation would fall to its 2% target next month, news that will be reflected in its next policy move, causing investors to ramp up predictions of a 0.25% cut when the bank meets in a few weeks.

‘The latest developments strengthen our confidence that inflation will return to target in a timely manner,’ Lagarde told a European Union parliamentary hearing in Brussels. ‘We will take that into account in our next monetary policy meeting in October.’

With tensions escalating in the Middle East this week, our very own Andrew Bailey, Governor of the Bank of England (BoE), gave his view on what the potential fallout could mean for domestic markets. Bailey said there was a chance that the BoE could become ‘a bit more activist’ and ‘a bit more aggressive’ in its approach to lowering rates, if inflation news continued to be good for the central bank.

‘Geopolitical concerns are very serious… there is a strong commitment to keep the (oil) market stable’ but ‘there’s a point beyond which that control could break down if things got really bad. You have to continuously watch this thing, because it could go wrong,’ referencing how rising tensions could affect inflation on these shores.

Much like his central bank peers, markets took his words to be a means of paving the way for a 0.25% rate cut for later on in the year, pricing in a 90% chance of movement for the bank’s November meeting.

Much like Swiss cheese, there are now a few holes appearing in the US labour market in the face of higher rates. Friday afternoon’s data showed that 254,000 workers were added to the US work force last month, well above the 140,000 economists had expected, while August's number was upwardly revised to 159,000, from an original 142,000. The grate data didn’t stop there as the news also showed that the unemployment rate also dropped from to 4.2% last month to 4.1% currently.

Such strong data caused the US dollar to produce its biggest one-day gain against a basket of major currencies in four months, rising 0.6% on the day, with government bond yields also rising and bets of another 0.5% rate cut dwindling. Despite the strong labour data, the US economy is completely out of the woods with the Fed still having to tread *Caerphilly* when deciding its next move…

This coming week

With bank holidays in Australia and China on Monday, the coming week may seem a little sparse in terms of economic data releases during its beginning. However, domestic housing numbers on Monday should set the foundations in more than one way for what could be a busy week here in the UK.

Monday will see one of the country's largest lender, Halifax, release it Housing Price Index (HPI) numbers. The data usually acts as a leading indicator of the housing industry's health because rising house prices usually attract investors and spur industry activity. When a house is bought or sold, it creates a ripple effect across many different sectors, from solicitors and surveyors to DIY shops all cashing in, making the data both important and far-reaching.

The following day sees the British Retail Consortium 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.

The domestic property theme carries on later into the week as Wednesday sees the Royal Institution of Chartered Surveyors (RICS) release their House Price balance data. The numbers are vitally important, especially for the housing and wider market as the data they release represents the percentage of surveyors reporting a price increase in their designated area, acting as a prime measurement of housing inflation. To add context, above 0.0% indicates more surveyors reported a rise in prices, below indicates more reported a fall. With the previous reading sitting at 1% but jumping from -19% the month previous many will be hoping that the trend continues as hope as rates look set to gradually fall.

The stream of UK data does not stop there, however, as the Office for National Statistics releases UK Gross Domestic Product (GDP) on Thursday, the broadest gauge of economic health.

Perhaps the most significant piece of economic data being made public this week, however, comes from the US. With financial markets grappling over when and by how deeply the US Federal Reserve will cut rates by, next week's inflation data could be crucial. Forecast to fall to 2.3% from last month's reading of 2.5%, anything wildly different from expectations could lead to rapid changes in rate expectations going forward.

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 4 October 2024.

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