Article MARKET COMMENTARY

Market round-up: 07 October – 11 October

Sam Buckingham recaps the week and looks ahead to next week.

Author

Sam Buckingham

Investment Manager

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This week just ended

This week in the economic arena, we witnessed a series of significant developments from rising core inflation rates in the US to an unexpected spike in unemployment claims, alongside important updates on UK economic growth and China's stimulus plans.

The US economy presented a mixed bag of outcomes, reflecting ongoing challenges and adjustments. The core consumer price index (CPI), an essential gauge for underlying inflation as it strips out the volatile food and energy sectors, rose unexpectedly by 0.3% for the second consecutive month, according to the Bureau of Labor Statistics. This uptick disrupted a trend of moderating price pressures, igniting concerns over persistent inflation. Indeed, the three-month annualised rate of core CPI advanced to 3.1%, having been at just 2.1% in August. This increase was significantly driven by housing and food costs, which together contributed to over 75% of the inflation advance, marking a notable shift from the prior trend of falling goods prices.

Less than a week after the booming jobs report in the form of Nonfarm Payrolls, there have been some more worrying signs of strain. Applications for US unemployment benefits surged to a more than one-year high, primarily influenced by external factors like Hurricane Helene. Initial Jobless Claims increased by 33,000 to 258,000 in the week ended 5th October, surpassing all estimates in a Bloomberg survey of economists.

Hurricane impacts will likely continue to impact data, including jobless claims. This will complicate things for the Fed, as they struggle to get an accurate picture of underlying trends and developments in the labour market.

Speaking of the Fed, the latest Federal Open Market Committee (FOMC) minutes revealed that although a "substantial majority" supported a 50 basis points rate cut, a "few" could have supported a decision to cut by 25 basic points instead. Whilst debate sounded robust on the decision, it seems members sounded relaxed around inflation, with almost all participants judging recent readings as consistent with a sustainable return to 2%.

Across the Atlantic, the UK economy showed signs of resilience, with GDP growing by 0.2% in August. This development signals a modest recovery trajectory under Prime Minister Keir Starmer's leadership, driven by gains across services, production, and construction sectors. However, the lingering effects of deteriorating business and consumer confidence in September underscore the challenges ahead, highlighting the need for vigilant policy measures to sustain growth momentum.

In China, the economic narrative unfolded with a mix of anticipation and cautious optimism. A press conference by the National Development and Reform Commission (NDRC) left markets yearning for more concrete stimulus plans, despite reiterating the country's growth objectives and expressing confidence in achieving this year's targets. The financial community remains hopeful, especially with the upcoming China Finance Ministry Briefing. The expectation, according to Bloomberg, is they will unveil 2 trillion yuan ($280 billion) in new stimulus, which would make it the largest since the global financial crisis.

This coming week

It is a quiet start to the week, with it being Columbus Day in the US. This federal holiday occurs on the second Monday of October and will see bond markets closed, though stock markets will remain open.

The rest of the week is reasonably quiet on the data side of things for the US as well, unusually. Two things to look out for are Retail Sales and Initial Jobless Claims. Consumer spending makes up around two-thirds of US GDP, meaning attention on Retail Sales is always high. Indeed, the consumer has been the dominant reason for the US economy's resilience over the past 12-18 months. With real wage growth positive and interest rates starting to be cut, the hope is they will continue to support economic growth by further spending.

Initial Jobless Claims will also get plenty of attention after the sharp, unexpected rise in claims numbers in the latest reading. Having said that, the devastation caused by Hurricane Helene in Florida will likely distort the numbers to some degree.

There is a flurry of important data out for the UK to give us insight into the health of the economy going into the highly anticipated Budget on the 30th of October. First off, on Tuesday we will receive the latest August labour market report including the Unemployment Rate and wage growth. The former is expected to hold steady at 4.1%, whereas the latter is expected to show a slight softening to 3.8%. Despite the softening, the all-important real wage growth will still be positive as CPI for August was confirmed at just 2.2%.

On the topic of UK CPI, that brings us to the next bit of UK data to keep an eye on, as the UK's September inflation report is released first thing on Wednesday. As mentioned, headline CPI in August was 2.2% and this is expected to fall to 1.9% in September. Core CPI is expected to fall a similar magnitude to 3.4%.

The final piece from the UK is September's Retail Sales, being released at the end of the week on Friday. There is expected to be a reversal from August's bumper month, falling -0.4% for the month. This expectation reflects the negative sentiment built up as we move closer to the Budget.

Rounding off, the European Central Bank (ECB) is meeting on Thursday to make their latest decision on interest rates. The market is fully expecting the central bank to announce a 25 basis point cut to interest rates, which would bring the Deposit Facility Rate down to 3.25%.

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Risk warning

The value of your investments can go down as well as up and you may get back less than you paid in. Tax rules can always change in the future. Your own circumstances and where you live in the UK could have an impact on tax treatment.