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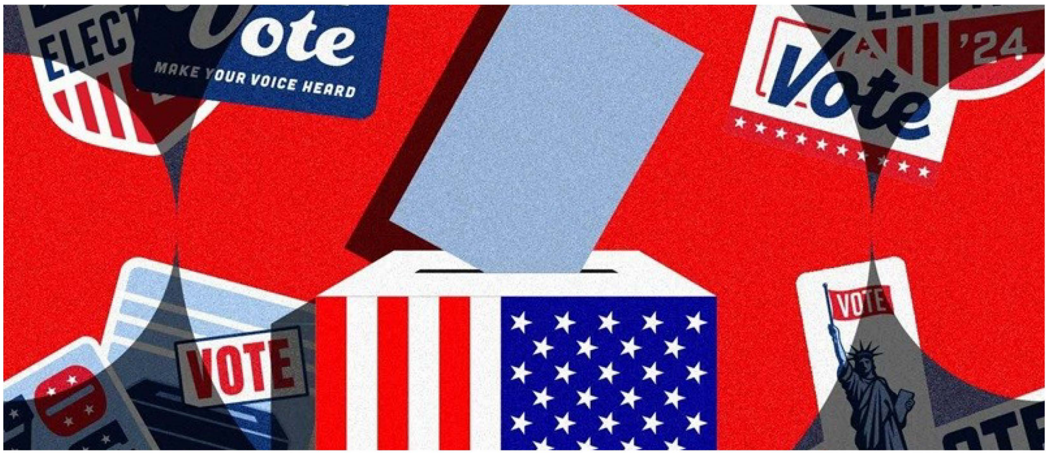

Article   MARKET COMMENTARY

Market roundup: 21 - 25 October

Tom Watts recaps the week and takes a look ahead to next week.

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This week just ended

The US Presidential elections? The upcoming Labour budget announcement? Another rate cut here in the UK? After another busy week for economists, many will be looking forward to that most hallowed of weekends, a 49-hour special, due to the switch from Daylight Savings Time back to Standard Time.

Interestingly, one of the largest proponents of moving the clocks backwards and forwards by one hour was American Polymath, Benjamin Franklin, coining the moniker "early to bed and early to rise makes a man healthy, wealthy, and wise" when living in France during the 1780s. Suggesting that Parisians economise on candles by rising earlier to use morning sunlight, Franklin proposed a series of other extremes to wake the French from their beds, including taxing window shutters and even the surprise ringing of church bells and firing of cannons at sunrise.

Thankfully in this day and age, our mobile phones or digital alarm clocks keep up with the change automatically, without the need for a cannon (in most cases) to wake us up. For economists however, that early morning wakeup call came in the form of Rightmove's Housing Price Index numbers, released at the crack of dawn on Monday.

The data was certainly worth getting out of bed for, showing that the number of homes being sold increasing by almost a third over for the year. Although admittedly the traditional autumn home price bump has so far failed to emerge, largely due to buyers being spoilt for choice, the number of properties for sale now stands at a 10-year high, according to the report.

The numbers also showed that the rate of sales agreed is up 29%, with the number of house hunters contacting estate agents up 17%, despite some market uncertainty caused by the looming budget at the end of this month. Rightmove commented further that while the outlook for the market in 2025 remains positive, there is still concern about buyer affordability, with some buyers holding off until mortgage rates drop.

At the end of the day, (no matter how long it lasts) for economists, it is the state of the consumer that has the biggest impact on the wider economy. Therefore, European Consumer Confidence survey results, released on Wednesday, were a big draw for those following the markets. Admittedly, confidence on the continent still remains low but is heading in the right direction, rising 0.4 points from September's reading, to -12.5 this month. Unsurprisingly it was a perceived slowdown in the Chinese economy and upcoming events such as the US election that remained on consumer's minds, despite a continual fall of inflation helping to ease constraints on spending.

Further news from Europe emerged later on in the week as Christine Lagarde, President of the European Central Bank (ECB), gave her views on outlook for the bloc's economy. Coming off the back of two 0.25% interest rate cuts, it seems the ECB will need to be cautious when deciding on further rate reductions and take its cue from incoming data, according to it's the bank's chief.

After a spate of policymakers warned about the risk of undershooting the central bank's 2% inflation target, bets have ramped up that the bank will cut faster and deeper than previously expected of late, however Lagarde, did appear to pour cold water on such a notion, mentioning:

"We need to be cautious because data will come up and will indicate to us what is the state of the economy, what is the state of inflation, of underlying inflation…And there will be a judgmental aspect to our decisions, but we will indeed have to be cautious in doing so."

The last word of the week (quite literally in some cases) came from our own Andrew Bailey, the Governor of the Bank of England (BoE) who spoke in Washington throughout the second half of the week. Offering a rosy picture for the inflationary outlook, commenting that overall price rises have fallen "faster than we expected", the man in Threadneedle Street still warned that more progress would be needed on services inflation, a continued thorn in the bank's side. Speaking at a meeting at the Institute of International Finance in Washington, Bailey said central banks around the world were seeing a "good story" on on inflation, however, when looking at the UK in particular, "We've got a very unbalanced mix of inflation components and services inflation remains higher than is consistent with the target," he said.

Financial markets are still fully pricing in a 0.25% cut when the BoE meets in a few weeks, buoyed from a particularly soft annual inflationary reading of 1.7% the previous week. Despite this, it seems getting inflation down below their target hasn't quite been all in a day's work for the central bank, even with the extra hour… with September's reading being the first under 2% in over three years.

This coming week

With that extra hour in bed having made all the difference, economists should be raring to go as a confluence of domestic data releases at the beginning of the week gives us a comprehensive feel as to how UK retail sector is faring.

Firstly, Monday brings us realised sales data from the Confederation of British Industry (CBI), detailing the results of a survey asking about 125 retail and wholesale companies to rate the relative level of current and future sales volumes. The data is interesting as it acts as a leading indicator of spending on the high street, with retail and wholesale sales directly influenced by how lose the consumer's purse strings are.

Following hot on its heels, Tuesday sees the British Retail Consortium release its shop price index data. The figures complement the numbers from the BRI well, this time measuring the change in the price of goods purchased at member retail shops, also giving us a better handle on what the inflationary landscape may also look like.

The domestic theme carries on right through until Wednesday as Rachel Reeves makes an appearance with the Chancellor's famous red dispatch box, delivering Labour's first Budget in over 14 years. With little fact and lots of speculation about what the box could contain, expect some heightened volatility throughout Reeve's speech, especially in domestic equity and currency markets.

The Bank of Japan should also make headlines during the middle of the week, with the central bank widely expected to pause its rate hiking cycle for now, all eyes will be Tokyo on Wednesday night. Having raised its short-term borrowing costs to 0.25% from a zero-to-0.1% range back in July, the central bank has taken on a more patient stance ever since. In its September meeting, it kept rates on hold while signalling for no immediate rate hikes and whilst next week could see something similar, economists will now be looking for some future guidance of a further move by the end of the year.

The week will be rounded off nicely with two of the most hotly anticipated data releases of the month, released on Thursday and Friday. First US Core PCE Price Index readings, predicted to make quite the impact on the markets after its release, the data differs from normal inflation readings in that it only measures goods and services targeted towards and consumed by individuals. CPI readings also only covers out-of-pocket expenditures on goods and services purchased. It excludes other expenditures that are not paid for directly, for example, medical care which is usually paid for by insurance in the US. These are, however, included in the PCE.

The first Friday of the month sees US Non-Farm Payroll data release, a key metric for assessing the strength of the American labour force. NFPs are highly regarded by the US Federal Reserve and 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 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.

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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.

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