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Article MARKET COMMENTARY

Market round-up: 9 – 13 December

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

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This week just ended

With Storm Darragh having battered most parts of the British Isles over the weekend, by Monday morning you could have forgiven many economists for wondering if there was a world left out there to have economic data from. Luckily the beginning of the week often signals a raft of data from China, with some rather dour inflation numbers seemingly spurring the country's authorities into action, as they say, every cloud has a silver lining...

Monday showed that China's economy is indeed a bit under the weather, with inflation falling to a five-month low in November, missing investor expectations in the process, climbing 0.2% on an annual basis, far lower than the 0.5% anticipated. Core inflation, which excludes volatile food and fuel prices that can skew the figures, rose 0.3% in November, primarily driven higher by the rise in prices of pork and fresh vegetables, jumping 13.7% and 10% respectively.

However, China's producer price index, a measurement of prices paid by companies, declined for the 26th month, falling by 2.5% annually, less than the estimated 2.8% decline anticipated.

With such poor data putting anything but *low pressure* on the Chinese government to act, with a high-level meeting of the Politburo, the ruling Communist Party's top decision-making body, led by President Xi Jinping. The Politburo vowed to implement 'more proactive' fiscal tools and 'moderately loose' monetary policies in 2025, while ramping up 'unconventional counter-cyclical adjustments' to boost domestic consumption
'on all fronts.'

Although not exactly blown away by a lack of detail, the news was enough was enough for far eastern markets to rally, maintaining their gains throughout the week.

Inflation was very much the watch word of the week as the US also released their own equivalent reading on Thursday. Rising gently towards 2.7% year on year, the figures would have made even a weatherman proud, coming in exactly as forecast, only bolstering expectations that the Federal Reserve (the Fed) will feel comfortable in lowering rates by a further 0.25% during their meeting next week. After the data, markets are now pricing a 99% chance of an imminent move from the central bank, with only a 23% chance of a subsequent cut in January being priced in.

Enduring weaker growth than its US counterpart and its fair share of political turmoil, the economy on the continent has been anything but a breeze to handle for the European Central Bank (ECB). It came as no surprise to investors then, that on Thursday, Eurozone interest rates were cut by a further 0.25% to 3%, its fourth such move this year. The bank has moved at something of a *lightening* pace over the second part of 2024, considering borrowing costs were at 4% as long as go as June.

In the ECB's forward guidance, the bank also removed the term 'sufficiently restrictive' hinting at more moves to come into next year.

'Financing conditions are easing, as the Governing Council's recent interest rate cuts gradually make new borrowing less expensive for firms and households,' the ECB said. 'But they continue to be tight because monetary policy remains restrictive and past interest rate hikes are still transmitting to the outstanding stock of credit.'

The week was rounded off with a hail of encouraging domestic data, firstly with much expected Gross Domestic Product figures, showing a firm bounce back for the UK economy towards the end of the year, but also from RICS. The chartered surveyor released their research on the residential property market on Thursday, showing a gentle strengthening trend across the market, with metrics on new buyer demand, new instructions and house prices all continuing to register readings in expansionary territory.

However, despite the positivity, it seems respondent's expectations have been scaled back somewhat compared to the summer months, directly after the general election…but don't let that rain on the improving data's parade too much…

This coming week

The final full week of the year comes as stuffed as a turkey with economic data, with all the trimmings provided by a host of central banks making their final appearances of the year before the media.

The economic data comes thick and fast during the beginning of the week as a mass Final of Purchasing Manager's Index (PMI) readings arrives on Monday. Covering both the Services and Manufacturing sectors for Germany, France and an overall European composite, the data will also cover the UK and US too. The readings will give us an invaluable sense of the global economy at a company level as businesses will be asked to rate the relative level of business conditions including employment, production, new orders, prices, supplier deliveries and inventories.

The start of the week will also be characterised with domestic inflation figures, giving the Bank of England (BoE) one last piece of data to examine before, in all likelihood, they maintain base rate where they are for the time being this week. With inflation having crept back over the BoE's 2% target and predicted to prove a little more stubborn next year, the final reading of 2024 could really set the tone for the central bank's rhetoric going forward.

One central bank that is expected to cut rates next week is the US Federal Reserve. With investors now pricing in an almost guaranteed rate cut of 0.25%, the real insight will come from the Fed's accompanying press conference. Often used to give forward guidance and projections of how Fed officials see the economic outlook developing, we should see futures markets move quickly to price in when the next cut could be in the new year.

The week should be tied up in a bow with yet more US insight, this time in the form of 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.

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