Market News 18-10-2021

News overnight that China's economy grew at an annualised rate of 4.9%, below analysts' expectations, and has dented optimism generated from last week. The main cause of the slowdown is the Beijing induced property slowdown and problems with energy supplies.

Last week stock markets **defied the gravitational effects of inflation** as US and other international benchmark indices **posted strong gains** – this despite the headline **US CPI number coming in at +0.4% or 5.4% yr. on yr**. However, the **core rate**, which excludes volatile components, **was +0.2%** in line with the consensus call.

So, **energy prices** were the **main culprit** for the headline number, but **energy** and **food** are **removed** from the core reading because of their erratic movements and volatility.

However, it is **highly likely** that transportation costs which are oil related, will **play a big part** in pressuring **rates higher**.

For now, the market had **accepted and discounted** this level of **core inflation** and seems comfortable with it….for now.

<u>Review</u>

FTSE +138 +1.95% DOW +548 +1.58% S&P +80 +1.82% NASDQ +317 +2.2% DAX +381 +2.51% NIKKEI +1,019 +3.64% Hang Seng +493 +1.99%

For the record, **US equities** had their **best week in nearly three months** having endured one of the worst weeks, and month for that matter, just three weeks ago.

What propelled the US markets higher were some very good banking sector results which outstripped the consensus on all releases. As does happen in the run-up to the earnings reports, **analysts reduced their outlook** and **eps** so the **positive results** from the likes of **Goldman Sachs was welcome news**.

Bank investors may well **benefit more** as rates will inevitably rise as the tightening cycle looks to start in early November. **Higher rates** equals **higher margins for banks**.

UK blanks could well be the first recipient of the higher rates with analysts now putting odds of a rate hike before Christmas at 50%.

And here in the UK, the **FTSE** even managed to tack on nearly **2% last week**, on top of the 1**% gains the previous week**, the **FTSE100** has now just about **matched the year's high set on August 11th**.

EURUSD +0.24 +0.2% GBPUSD +1.34% +1.0% USDJPY +2.00 +1.77%

Sterling was a big mover last week as analysts increased their bets on a rate hike before Christmas. Unwelcome news for businesses and a generation of new homeowners who have largely only know record low interest rates.

Th **Governor of the Bank of England**, **Andrew Bailey**, yesterday said that the MPC would have to **act to tackle rising prices**, with inflation heading towards

4**% and possibly 5% before moderating** in late spring next year. So **not transient** and **not as moderate** as many central bankers had forecast in June.

The **CPI data** to be released later week could add to these pressures.

The **US dollar pairs had a mixed week** with the **USDJPY falling** to **lowest level** against the US Dollar **since October 2018**. Probably some welcome relief to exporters but the huge jump in energy costs will hit the Japanese economy, more so than others.

News that the BoJ would **not be reducing its monetary stimulus** also **undermined the Yen** , just at a time when the **risk-on move** last week weighed on **safe haven assets such as the Yen**.

Gold +11 +0.63% UK OIL +2.35 +2.85%   US OIL +2.96 +3.72%
Gold suffered a week of two halves. USD weakness earlier last week pushed GOLD higher only to be thwarted by a lack of follow through in the US Dollar move. Gold's overall was modest though in the context of the decline over the past 6 weeks.

The **Crude Oil** situation remains tight with supply still a problem. The risk on move in equities last week was matched with **another jump in crude prices** as UK Oil continues to **record multi years highs**.

Data / Events this week

Monday

China	GDP data. Slipping?
US	Industrial production. Slipping gradually from April's peak. Its all about energy costs.

Tuesday

Australia	RBA minutes from last meting.

UK Bailey speaking. Heightened interest in anything Bailey has to say ahead of a possible rate hike.

Wednesday

UK CPI / Inflation data. Inflation has been climbing rapidly. A rate of 3.2% would represent no change from last month's number but with energy costs surging the risk is for a higher number. GBP pairs very sensitive.

US Weekly Crude oil inventories.

Thursday

US Philly Fed manufacturing index. Actual number was far better than forecast last month but we could see activity slip back.

Friday

EU, UK & US	Flash Manufacturing and services data. Data expected to show a broad slowdown across the EU and UK although analysts have pencilled in an unchanged reading for manufacturing and an uptick in Services in the US. Equities and FX markets sensitive.