Week ahead. Week beginning 17-07-2023

So, what do we know?

(A forex, index, and commodity market review)

Last week's stock and bond markets were dominated by the release of the US CPI data for June, which provided further encouragement for investors who expect the FED to raise rates by just another 0.25% before year-end. Core inflation was expected to come in at 5% following a reading of 5.3% in May but came in lower at 4.8% which immediately resulted in a softening of interest expectations to the end of the year.

Data from China at the start of the week underlines the problems facing China as GDP expanded 0.8% versus the previous three months , better than the forecast +0.5% but much weaker than the growth rate of 2.2% in Q1. The annual growth rate of 6.3% is distorted due to the data this time last year which was distorted by the rolling lockdowns.

Weekly change (amount change and percentage change on the week)

FTSE	**+177**	**+2.45%**
DAX	**+501**	**+3.20%**
DOW	**+774**	**+2.30%**

S&P	**+106**	**+2.40%**
NASDQ	**+452**	**+3.30%**
NIKKEI	**+3**	**+0.01%**
Hang Seng	**+1,048**	**+5.70%**

US markets recovered all their losses from the previous week, following a better-than-expected set of inflation readings which showed core inflation falling to 4.8%, and headline inflation falling to 3%, its lowest level since March 2021.

The declining inflation rate, whilst welcome by investors and the Federal Reserve, will in all likelihood not stop the FED from raising rates by 0.25% at their meeting on July 26th, which markets still rate at a near certainty at 97%. However, the probability of further rates hikes towards the end of the year have now fallen to 25% from 40% at the start of last week.

A number of big investment houses now seem convinced that inflation, having remained sticky in the first 5 months of the year, will now continue to fall back to the Fed's target rate of 2%. Of course, nothing is certain – analysts were certain that rates would be coming down by at least two notches just 3 months ago and here we are with one more interest rate hike expected next month. If inflation continues to fall, it is very likely that the FED will pause any further rate rises this year, following this month's almost certain rate rise. The task of Central Banks is to gauge the effect of policy shifts and what effect these changes have over time. It is likely that if inflation falls back to 2% by year end that some analysts will accuse the FED of tightening too much. A thankless task that does not often win many plaudits.

The two central bank policy meetings resulted in an unchanged position with the Reserve Bank of New Zealand whilst the Bank of Canada tightened rates as expected by another 0.25% to 5%, the highest rate in 22 years, in response to persistently high inflation. The Bank of Canada gave little guidance about the prospect for future rates rises.

UK markets had one of their best weekly performances from some time as resource stocks rebounded, resulting in the best weekly gain since late March, albeit not enough the wipe out the previous week's losses of 3.65%

EURUSD	**+2.81**	**+2.56%**
GBPUSD	**+2.54**	**+1.97%**
USDJPY	**-3.39**	**+2.38%**

The US Dollar fell sharply on foreign exchange markets following the slower than expected annual core and headline inflation rates published last Wednesday. Following the consensus beating Headline at 3% and Core rate at 4.8% the US Dollar tumbled against all major currencies as the prospect for a rate rise towards the end of the year in the US receded. Lower interest rates make the US Dollar less attractive to own, hence the fall.

The fall last week was the second biggest weekly decline since March 2020 and takes the US Dollar Index to the lowest level since mid-April 2022.

Sterling was also a significant beneficiary as the USDGBP rate hit a high of 1.3140, which is 24.50 cents higher than the low print during the calamitous Truss administration in September last year. Sterling also posted an 11-month high versus the Euro as interest rates looks set to rise further in the

UK, with some analysts expecting rates to peak at 6.25% – 6.5% rate in Q1 next year. The CPI reading this Wednesday will have a significant bearing on these forecasts.

Gold	**+29**	**+1.51%**
UK OIL	**+1.35**	**+1.73%**
US OIL	**+1.5**	**+2.04%**

Gold and to a lesser extent Oil reflected the sharp decline in the US Dollar as Dollar based commodities got a lift. Gold touched the highest point in a month following its failure to hold on to the $2,000 level in May. The outlook for US interest rates last week helped Gold, which pays no dividend and is devalued with rising interest rates which increase the cost of holding the metal so any softening in the interest rate outlook can help.

Oil had a positive week albeit profit taking reduced some of those gains. The inflation data out from China earlier on last week does not bode well for China which is at risk of deflation.

What don't we know….yet?

(What traders need to look out for in the week ahead)

A key week for sterling markets with the release of the most recent inflation reading for June. The UK has experienced by far the most sticky inflation with core inflation nudging 7.1% following gains over the past two months. We also start the week with data from China which may support the view that the Chinese has been slowing down since Q1 following the ending of the Zero-Covid policy.

Monday

G20 meetings	Concluding the closed shop G20 5-day meeting on Tuesday. All about Ukraine and inflation.
China	GDP & Industrial Production. Expecting Chinese economy to have grown by 7.3% year on year which be the fastest rate of growth since Q2 2021. Q2 2022 fell which will flatter the Q2 reading for this year.
US	Empire State Manufacturing Index. Measure of manufacturing in New York state. Last month's number jumped above zero indicating growth but expectations are for a fall back below zero to -3.5. USD sensitive.

Tuesday

US	Core retail Sales. An increase expected of +0.4% as sales pickup in June. US Dollar sensitive.
US	Industrial production. Flat reading following decline of 0.2% last month.

Wednesday

UK	CPI Inflation data. Headline inflation expected at 8.2% from 8.7% last month. Core Inflation expected to remain unchanged at 7.1%. If inflation comes in around these levels expect another 0.5% increase in rates in the BoE September meeting.
Eurozone	Final CPI reading. No change expected. Any change could affect Euro assets.

Thursday

US	Philly Fed manufacturing Index. A second reading on manufacturing this week. An improvement but still struggling below zero. USD sensitive

Friday

UK	Retail Sales. Ticking over but not much improvement. GBP and UK assets sensitive.

What should we be trading?

(Analysis of the popular markets and what we like)

In today's Podcast, Adrian reviews the sweeping moves being experienced on the USD, and how the next moves might play out – looking at EUR/USD. GBP/USD and USD/CHF. We also review the latest moves on the stock indices, including SPX500, NAS100, GER40 and how we are trading them.

What's the problem?

(Examining a problem many traders face and what to do about it)

This weeks problem is "Expecting too much from a trade". Generally newer traders enter the market expecting unrealistic amounts of movement from their trades often looking for moves of 500 to 1000 pips over a few days. Whilst this can happen it doesn't happen all that often, and most importantly, can cause all sorts of problems for traders and the efficiency of their trading. All is explained, including what to do about it, in this week's podcast.