Week ahead. Week beginning 08-04-2024

What happened last week.

(A forex, index, and commodity market review)

US indices endured their worst weekly performance since the end of 2023. The reasons were down to investors concern about the prospect of the first rate cut from the Federal Reserve. Oil spiking as high as $92 did not help as investors lowered their expectation for a rate cut in June.

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

FTSE	**-51**	**-0.64%**
DAX	**-323**	**-1.74%**
DOW	**-853**	**-2.14%**
S&P	**-46**	**-0.88%**
NASDQ	**-144**	**-0.79%**
NIKKEI	**-1,067**	**-2.64%**
Hang Seng	**+137**	**+0.83%**

The mood was already soured from the start of last week following the release of the PCE data on Good Friday. Whilst the Fed’s preferred measure of inflation came in as expected, it was the strength in consumer spending that caught the eye, exceeding all expectations. That prompted

Jerome Powell, Chair of the Federal Reserve, to comment that the release was “pretty much in line with our expectations” and reiterated that the FOMC does not need to rush to cut interest rates.

By Close of Wednesday the S&P500 had already lost all the gains from the previous week. However, by Thursday, following the Israeli attack on the Iranian Consulate in Damascus, oil rose sharply in anticipation of Iranian retaliation and a widening in the Israel Hamas conflict. In reaction to the sudden surge in oil prices, US and other international indices fell sharply, with the S&P500 dropping 1.2% and the NASDAQ 1.7%.
European indices also took fright at the sharp increase in oil prices with the Eurostoxx 600 and FTSE100 down 0.8%
The implication of the rise in crude oil prices above $90 brings into focus the $100 level which now seems more probable in the wake of the middle East tensions which, if not deescalated soon, could affect oil supply. This is against a backdrop of recent forecasts of higher global demand outpacing supply. Of course, a price increase to $100 per barrel could dampen down demand but oil traders remain nervous.
This has all fed into forward rate expectations as higher oil prices could underpin the stickier inflation the US has experienced lately which in turn will result in the FOMC sitting on their hands for longer than the market expects. By close Friday, the probability of a rate cut by the June meeting had fallen to just less that 50%. Contrast this with just one month when there was a 74% probability of a rate cut. The shift since the start of the year is even more remarkable with expectations of seven rate cuts now pared back to 2 or 3 cuts by year end.
The Non-Farm Employment data released last Friday, which has a direct impact on Federal Reserve policy, came in stronger than all forecasts with 303k new jobs versus 212k expected, implying that the US economy is growing faster than the Federal Reserve was anticipating. In response interest rates firmed up, with the yield on 2-year US treasuries rising 0.12% close to the highs of the year, reflecting the greater risk to more persistent inflationary pressures.

EURUSD	**0.46**	**+0.43%**
GBPUSD	**+0.20**	**+0.16%**
USDJPY	**+0.29**	**+0.19%**

In the wake of a strong employment report the US Dollar looked to be ending last week on a steadier note following losses earlier on last week. However, by close the US Dollar only posted marginal gains. The looming ECB rate decision this Thursday may have held back traders from pushing the US Dollar much higher ahead of this key policy meeting.
The Japanese Yen is in a narrow range ahead of further clarification from the BoJ on rate policy whilst the British Pound continues to trade in a more volatile range following the below consensus inflation reading, leading to a softening in forward rate expectations.

Gold	**+93**	**+4.16%**
UK OIL	**+3.64**	**+4.19%**
US OIL	**+3.29**	**+3.97%**

Oil hit its highest level since October last year as traders reacted to the destruction of the Iranian Consulate in Damascus following an attack by Israel, which killed some high-ranking Iranian Revolutionary Guards. Iran has vowed revenge which might well see the was in Gaza escalate which is something that the US has worked to prevent. Following the accidental attack on an aid-worker convoy last week, the relationship between the US and Israel continues to deteriorate.

Gold jumped sharply last Thursday into further record highs following the jump in crude prices as the precious attracts more buying. Gold is often used as a hedge against inflation which will undoubtedly be affected by the increase in oil prices. Gold is now $300 higher since the start of March, a rise of 15% and one the biggest gains since April 2020.

Oil is up 18% this year as traders price in the greater risk that the Israel Hamas war in Gaza could escalate into a wider Middle East war between Israel and Iran and its backing of Hamas and Hezbollah in Southern Lebanon.

The price of crude will remain elevated due to the twin effects of the was in Gaza and the strength of the global economy. Elevated prices could also result in greater non-Open productions, from the US largely, which could drag prices lower later this year.

Data and events in the coming week

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

An important week for European markets with the ECB policy meeting. We also have two central bank meetings, US and China inflation readings and minutes from the last FOMC meeting held on the 20th of March.

Monday

No key data or events

Tuesday

UK	BRC Retail Sales monitor. Report on retail sales, which continue to struggle, with no sign of settled weather to encourage shoppers back into the shops.

Wednesday

New Zealand	RBNZ policy meeting and rate decision. No change expected. NZD sensitive.
US	CPI inflation. The headline and core CPI rates are expected to rise by 0.3% after 0.4% increases in February. The annualised rate is expected to increase from 3.2% to 3.4% - back to levels at the end of last year. USD and US and global assets sensitive to this release.
Canada	RBC rate decision. No change expected. CAD sensitive.
US	FOMC minutes form the meeting held on 20th March when rates were kept unchanged. Insight into Fed thinking that will affect the timing of future rate cuts. USD and US assets sensitive

Thursday

China	CPI and PPI data. Inflation picked up in China in March although PPI data suggests there is little pressure to push inflation much higher. Expected at +0.4% (last +0.7%).
Eurozone	ECB policy meeting and interest rate decision. No change expected this time. Market expects a cut in June. Any news that implies a

	change in this expectation could push the Euro higher. The swaps markets have cuts totalling 0.9% priced in this year. Press conference follows announcement. Euro and Eurozone assets sensitive.
US	Producer Price Index (PPI) . The costs of good s and services going into production. A fore runner of future inflation. Headline and core readings expected to remain in check.

Friday

UK	GDP monthly data for February. A fall in growth in February expected as the UK looks to escape a technical recession in Q1
US	Prelim university of Michigan Consumer Sentiment. Remaining positive but not surprising given state of the employment market and US markets so far this year.