

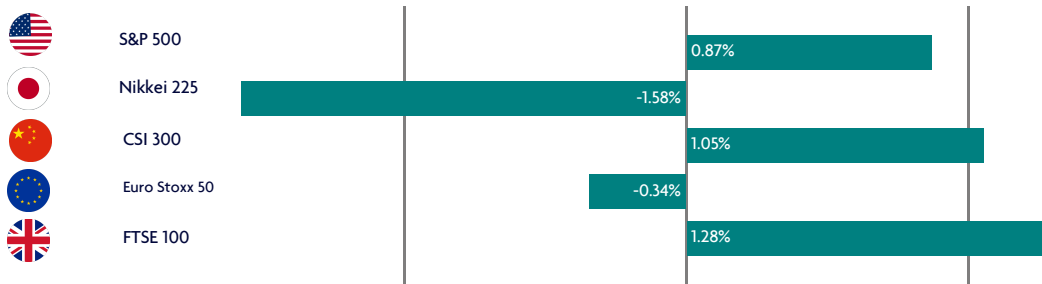
Weekly Market Update

21 October 2024

UK inflation cools opening the door to further interest rate cuts



Market Monitor (%): How did major stock markets perform last week?



Market Update:



UK

UK stock ended the week higher as slower-than-expected inflation, and a further decline wage growth appeared to open the door for the Bank of England to cut interest rates again. The CPI, the consumer price index, rose 1.7% in September year-on-year, marking the lowest rate since April 2021 and below expectations of 1.9%. Also, services inflation, which has proved to be rather sticky and is closely watched by the Bank, decelerated to a more than 2-year low of 4.9%. Meanwhile, as mentioned earlier, wage data indicated that upward pay pressure may be easing. In the three months through August, regular pay, excluding bonuses, increased 4.9%, down from 5.1% in the previous period and the slowest rate in over 2 years.



US

The US stock market climbed over the week led by utilities and real estate sectors. Energy stocks retreated in line with oil prices, as fears of possible Israeli attacks on Iran oil and gas infrastructure lessened. On the economic data front, consumer spending strengthened in September with retail sales up 0.4%, accelerating from a 0.1% increase in August. This reading came in slightly above market expectations and was broad-based with 10 of the 13 retailer categories reporting higher sales for the month. Meanwhile, industrial production dropped 0.3% in September after increasing the same amount in the previous month. The Federal Reserve, the US central bank, attributed this weakness largely due to Hurricane Francene and Helene.



Europe

European stocks ended the week marginally lower as a largely expected second consecutive interest rate cut by the European Central Bank (ECB) raised expectations for further interest rate cuts. The ECB lowered its interest rate by a quarter of a percentage point to 3.25%, marking the first back-to-back reduction in 13 years. Christine Lagarde, the President of the ECB, declared that the disinflationary process seemed to be "well on-track", referring to recent downside surprises in economic data. Such surprises included annual inflation coming in at 1.7% in September – well below the ECB's target of 2%. The ECB forecasts that inflation will rise again before falling back toward the 2% target next year. Financial markets are expecting the ECB to cut rates again in December.



Japan

Japan's main stock market fell over the week as easing domestic inflation in September, as expected, increased speculation that the Bank of Japan (BoJ) may be less likely to raise interest rates again in 2024. The core consumer price index, which excludes food and energy costs, rose 2.4% year-on-year, compared with 2.8% in August. The latest comments from BoJ officials stated that interest rate hikes should be implemented at a gradual pace given uncertainties about the global economic outlook and domestic wage growth. On the currency front, the Japanese yen weakened further versus the US Dollar, approaching levels where authorities intervened earlier in the year.



China

Chinese stocks rose as the People's Bank of China unveiled more support measures after data showed that deflationary pressures became more embedded in the economy. Annual inflation came in at 0.4% in September, marking the lowest level in three months and a drop from the 0.6% rate recorded in August. Also, core inflation increased 0.1%, the lowest since February 2021, according to Bloomberg. Meanwhile, China's economy in the third quarter expanded 4.6% in comparison to this time last year, beating market expectations but still falling short of the government's target of "around 5%". Other economic data showed signs of positivity with industrial production in September rising 5.4%, up from 4.5% the prior month. Retail sales also came in above forecast.

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