

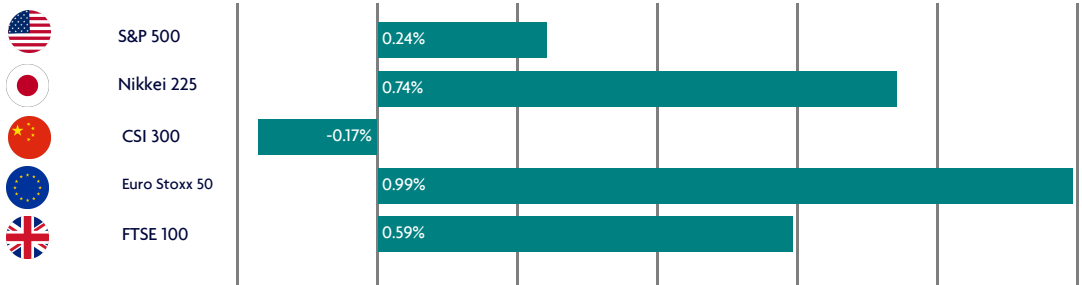
Weekly Market Update

2 September 2024

Global markets were broadly up last week as reassuring inflation data in the US, UK and Europe boosted investor sentiment.



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



Market Update:

UK stocks ended the week higher as positive economic and housing data boosted investor sentiment. Firstly, UK shop prices entered deflation for the first time in almost three years on the back of poor sales and bad weather. The British Retail Consortium said that shop prices fell by an annual rate of 0.3% in August, down from a 0.2% rise in July, marking the first fall in prices since October 2021. In other news, the pound sterling hit its highest level against the US Dollar since March 2022 as investors prepare for the US Federal Reserve to lower interest rates more quickly than the Bank of England. The Governor of the Bank of England, Andrew Bailey, warned that it was "too early to declare victory over inflation" in Britain. On the housing front, the UK recorded the fastest annual house price growth in August since late 2022 and the highest level of mortgage approvals since former Prime Minister Liz Truss's "mini budget". Cheaper mortgages continued to power a gradual recovery in the property market.

The US stock market marginally rose over the holiday shortened week. Economic data released over the week seemed to confirm that inflation was remaining subdued and near the Federal Reserve's target of 2%. The core Personal Consumption Expenditures price index or core PCE, which is the US central bank's preferred gauge of inflation, rose 0.2% in July, largely as expected, although the year-over-year increase came in a tick lower than expected, at 2.6%. Meanwhile, the week also marked signs of consumer resilience with the economic growth estimates for the second quarter revised up from 2.8% to 3%. An increase largely driven by an upward revision in consumer spending over the quarter. On the other hand, the housing sector appeared to be the weak leg of the expansion. Data showed that pending home sales had tumbled 5.5% in July, bringing them to their lowest levels in records dating to 2001. Economists attributed the drop to affordability challenges and some degree of wait and see related to the upcoming US presidential election.

European stocks ended the week higher as sharply slower inflation supported the case for the European Central Bank, the ECB, to cut interest rates in September. Headline annual inflation in the eurozone decelerated to 2.2% in August from 2.6% in July marking the lowest level in three years and a shade above the ECB's target. Higher energy costs a year ago were partly responsible for the decline. On the other hand, services inflation – a data point that is closely watched by policymakers – quickened to 4.2% from 4.0%. This prompted some ECB policymakers to suggest that the region is not fully out of the woods when it comes to taming inflation.



Japan

Japan's main stock market rose over the week as the Japanese currency, the yen, strengthened for the second consecutive month in August. The yen is very sensitive to shifts in US interest rate policy due to the interconnectedness of the two economies. A divergence of the two countries interest rate policy – the Bank of Japan increasing interest rates while the US Federal Reserve looks to cut interest rates – has caused the Japanese yen to appreciate relative to the US Dollar. This has impacted the earnings prospects of Japan's export-oriented firms. Elsewhere, the latest inflation data for the Tokyo-area showed that core inflation, excluding food and energy prices, rose 2.4% in August, higher than expectations, and the highest since March. The Bank of Japan remain concentrated on achieving a 2% level of inflation in a stable manner, thus suggesting further interest rate increases round the corner.



China

Chinese stocks marginally fell as several China economists reduced their 2024 growth forecasts as the country grapples with a prolonged property sector slump and weak domestic demand. Retail sales, a key indicator of consumer expenditure, are estimated to grow 4% this year, down from estimates of 4.5% in July. The weaker outlook for China raised the prospect that the country may miss its official growth target of 5% this year. It also raised expectations that the People's Bank of China may introduce further interest rate cuts in the near term.



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