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Wealth & Asset Management

WEEKLY BULLETIN

Positive economic data overshadows geopolitics

Key takeaways

Investors seized on strong US jobs data to strengthen hopes that a 'soft landing' in the economy has been achieved – lower inflation without damaging the employment picture.

Latest US jobs numbers exceeds expectations

A confusing picture of the US employment market continued, as Friday's release showed that 254,000 jobs had been created in September. This was more than 100,000 more than expected, and a much improved picture compared with July and August. In addition, the national unemployment rate eased over the month to 4.1%. Investor belief has strengthened that the US central bank, the Federal Reserve (Fed), has managed to deliver a 'soft landing', i.e. successfully using higher interest rates to slow inflation without damaging the job market. The result contributed to a further rally for shares, but also a rise in bond yields (and a corresponding fall in bond prices) as expectations of another 0.5% cut in interest rates by the Fed in November have diminished.

European inflation falls as the bloc struggles with economic growth

Regional inflation has fallen below the European Central Bank's (ECB) 2% annual target as the euro area struggles to generate meaningful economic growth. The bank has recently lowered its annual economic growth forecast for 2024 to only 0.8%. A key reason for this is the disappointing performance of Germany, an economy with a strong manufacturing base. Slower growth in China, historically a key market for Germany exports, could be compounded by a tariff war regarding automotives, a vital component of the German economy. Trade with Russia has also fallen significantly since the invasion of Ukraine. Despite cutting interest rates by 0.25% in September, there is an increased likelihood that the ECB will need to cut rates again, sooner rather than later.

Overcapacity limiting the oil price reaction to latest Middle East tensions

The price of Brent crude oil climbed just under 10% over the week in dollar terms. Investors feared Iran's missile attack on Israel could be followed by a retaliatory strike on Iran's oil refineries, disrupting oil exports from that country. Despite this rise in geopolitical tensions, the slowdown in the Chinese economy means that global oil output is outpacing demand. The Organization of the Petroleum Exporting Countries 5 million-plus barrels per day (bpd) excess capacity will increase now that production in Libya has restarted after a month long shutdown, and this will add a further 700,000 bpd onto global markets. By comparison, Iran exports around 1.5 million bpd.

Market moves

In local currency, the US S&P 500 Index closed at a record high for the third consecutive week.

The dollar's value against a basket of other key currencies rose to a near six-week high.

Hong Kong's Hang Seng Index rose by 10% in response to the Chinese government's recent stimulus.

What to look out for this week

On Wednesday, the US Federal Open Market Committee minutes will be released, explaining the recent decision to cut interest rates by 0.5%.

On Thursday, US consumer inflation data for September will be published.

On Friday, this will be followed by the US Producer Price index, reflecting how prices of goods leaving factories have moved.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

Important Information