



WEEKLY BULLETIN

Further rate hike expected in the UK as labour market continues to tighten

Key takeaways

A rebound in UK economic growth and stronger-than-expected labour market data strengthen expectations that the Bank of England (BoE) will raise interest rates at their policy meeting on Thursday this week.

- The UK economy grew by 0.2% in April, after contracting by 0.3% in March, as strong growth in the retail and creative industries sectors offset a slowdown in construction and manufacturing. Monthly GDP is now estimated to be 0.3% above its pre-COVID-19 levels (February 2020). Meanwhile, UK jobs data evidenced a strong labour market with annual average wage growth for the three months to end April rising 7.2% alongside a decline in the unemployment rate to 3.8%. BoE Governor Andrew Bailey stated: "We've got a very tight labour market in this country". Following the release of the wages data, UK government bond yields rose, especially in shorter-dated bonds as expectations for further interest rate rises by the Bank were priced in by the market. (Bond prices, which move in the opposite direction to yields, fell.)
- Across the Atlantic, the much-awaited inflation data for May showed that US consumer price inflation (CPI) eased to 4% from 4.9% in April. Core inflation (excluding food and energy) edged lower to 5.3% from 5.5%. Better-than-expected inflation data allowed the US Federal Reserve (Fed) to leave interest rates unchanged at their policy meeting. However, the committee stated that they expect borrowing costs to go higher than previously expected, owing to surprising persistent inflation and labour market strength. Chair Powell said the Fed faced the challenging task of explaining two possibly contradictory policies: deciding to leave rates unchanged following ten straight hikes while also indicating that at least two more increases might be necessary this year, possibly as soon as July. Pausing rate hikes while at the same time signalling further potential increases gives the Fed maximum flexibility over its monetary policy.
- Elsewhere, in Europe, the European Central Bank increased interest rates by a quarter point to 3.5% - the highest level in 22 years - while describing a further hike in July as 'very likely'. President Christine Lagarde stated that inflation in the eurozone is set to stay "too high for too long". Industrial production in the eurozone rebounded more than expected by 1.0% in April due to a strong increase in capital goods output, while an economic sentiment index in Germany indicated investors were slightly less pessimistic about the economic outlook than previously.

Market moves

A good week for stock markets in sterling terms with European markets (ex UK) leading the pack.

It was a tougher week for bonds in particular for UK government bonds where yields moved higher (prices fell) following the strong labour market data.

In commodities, gold was slightly weaker, but the oil price finished the week on an upbeat note following reports that China was considering a raft of stimulus proposals to boost consumption, together with support for various sectors including property.

What to look out for this week

The latest consumer price index data for the UK is released on Wednesday and will be followed by the Bank of England's decision on interest rates on Thursday.

There will also be signals on global growth prospects from estimates of the purchasing managers' indices from a number of countries. These provide an indication of manufacturing conditions.

Market performance (as at 16 June 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,184.7	0.9%	2.7%	4.1%
MSCI United Kingdom Mid Cap	1,242.8	0.2%	1.5%	12.2%
MSCI United Kingdom Small Cap	369.1	-0.1%	2.2%	3.8%
MSCI World (GBP)	2,307.9	0.9%	2.4%	8.2%
S&P 500 (GBP)	4,409.6	0.8%	2.2%	8.7%
MSCI Japan (GBP)	1,415.6	0.2%	3.5%	9.3%
MSCI Europe ex-UK (GBP)	1,651.1	1.4%	2.4%	9.7%
MSCI Pacific ex-Japan (GBP)	1,611.5	1.3%	4.5%	-2.4%
MSCI Emerging Markets (GBP)	61,631.7	1.1%	4.2%	2.3%
Bonds				
BoA Merrill Lynch Conventional Gilts	966.7	-1.0%	-1.0%	-4.4%
BoA Merrill Lynch Index-Linked Gilts	410.9	0.1%	1.9%	-4.1%
BoA Merrill Lynch £ Corporate	374.2	-0.9%	-0.9%	-0.7%
Commodities				
Oil (West Texas Intermediate, GBP)	\$71.8	0.5%	2.0%	-15.9%
Gold (GBP)	\$1959.8	-1.8%	-3.5%	1.5%
S&P / GSCI (GBP)	3,325.8	2.1%	3.9%	-10.7%

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