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Handelsbanken

Wealth & Asset Management

WEEKLY BULLETIN

Merry Christmas, Chancellor!

Key takeaways

Falling UK inflation delivered an early Christmas present for the Chancellor last week, as well as boosting the odds of one more UK interest rate cut this year. Across the Atlantic, hopes for another rate cut were also rising...

UK inflation softened in October

The latest UK inflation reading showed that pricing pressures had eased off in October, measured by consumer price inflation (CPI). The reading fell from 3.8% in September to 3.6% in October – as a reminder, this highlights that prices for goods and services are still rising, but the pace of those increases has slowed a little. This slowdown in overall inflation was influenced by lower energy prices and lower than expected inflation in the services sector.

Welcome news for the Chancellor and for UK interest rates

This lower inflation reading was welcome news for UK Chancellor Reeves, just days ahead of her Budget announcement later this week. As well as delivering a politically helpful message (falling inflation), it also lowers the cost of servicing government debt. The interest payments on around 25% of UK government debt are linked to inflation (via inflation-linked government bonds), and lower inflation therefore lowers the cost of these payments for the government. The lower inflation reading also boosts the case for a Christmas rate cut from the Bank of England, whose governor has repeatedly flagged the need for sustained lower inflation in order for rate cuts to continue.

Could the US enjoy a festive rate cut too?

US economists are still grappling with patchy data following the recent, lengthy US government shutdown. However, despite mixed messages from available information sources, last week financial markets chose to focus on the higher US unemployment rate, which remains well below its historic average. Coupled with a conciliatory tone from some recent US central bank speakers, investors now think there is about a 60% chance that interest rates will be cut again in December.

Market moves

Stock markets had a less confident week, despite strong profit news from tech giant Nvidia. While this would ordinarily have calmed investor nerves, market sentiment appeared slightly fragile.

In keeping with this low-risk market mood, the dominant cryptocurrency, Bitcoin, fell further last week. Ironically, prices peaked the day after the UK financial services regulator finally loosened regulations around cryptocurrency investments.

What to look out for this week

Economic data due for release this week includes US retail sales for September and an update on the German business climate.

But for the UK, there's only one big event on the calendar: the latest Budget announcement from No.11 Downing Street. We will be watching closely on Wednesday, and considering the implications of any announced changes.

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

marketing.hwam@handelsbanken.co.uk

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