



IMPROVING OUTLOOK FOR THE UK BUT FEARS OF A DIFFICULT BUDGET WEIGH ON SENTIMENT

This week brought better news for the UK in the form of an improved outlook from the International Monetary Fund. Economic growth in the UK has lagged other G7 countries in the last few years, quite considerably in the case of the US, but this has steadily improved over the last 12 months and poorer outlooks for Japan and the Eurozone means only the US and Canada are expected to grow faster than the UK next year.

The update from the IMF is rare good news for the Treasury as it gets ready for next week's Budget. The government appears to have overdone its efforts to pave the way for spending cuts and tax rises. It may be hoping that the memory of an austere budget will have faded by the time of the next general election. But falling business and consumer confidence, investor nervousness and a temporary cooling of the housing market show voters have taken the government's gloomy messaging to heart. The Chancellor has cleared the way for more borrowing but with UK bond yields falling again Reeves could be forgiven for wanting to get this Budget out of the way so she can try to reverse some of the negative sentiment.

THE MARKETS THIS WEEK

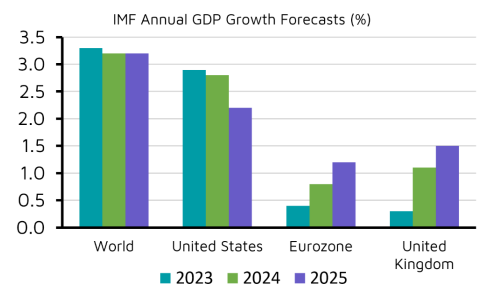
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-1.25%	-0.62%	-2.43%	-1.20%	-1.03%	+0.10%	+0.11%	-0.36%	+1.00%	-0.91%	-0.17%



UK: LOWER INFLATION CONTRIBUTES TO BETTER GROWTH OUTLOOK

British economic growth is set to accelerate according to IMF projections. Despite quarterly growth slowing recently, falling inflation and interest rates are expected to strengthen domestic demand as the IMF now forecasts growth of 1.1% this year and 1.5% in 2025. Services and manufacturing activity in the UK continue to expand, although the rate of increase in the UK's Purchasing Manager's Index has slowed. Meanwhile, Bank of England Governor Andrew Bailey said inflation has cooled faster than expected but positive signs of economic activity put pressure on UK and US government bonds.

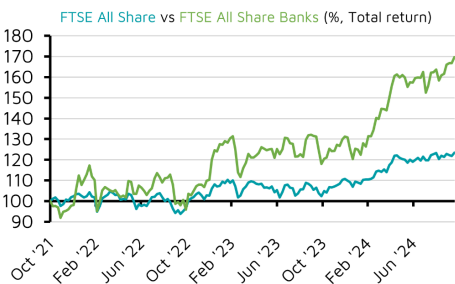
Stronger growth and lower inflation may give Chancellor Rachel Reeves headroom as she prepares for next week's Budget. UK borrowing was £16.6bn in September, £2.1bn more than in the same month last year. Speculation that the Treasury intends to hike Capital Gains Taxes drove receipts from the tax to its highest in a quarter century. Third quarter receipts soared 16.3% to £572mn as investors locked in gains before any potential increase.



BANKS: PROFITS SURGE AS FALLING INTEREST RATES SPUR DEALS

European banks have followed the lead from the US as Barclays, Lloyds and Deutsche all posted rising third quarter earnings. Barclays' profits soared 23% to £1.6bn driven by fees from corporate bond issuance. Lloyds also posted better than expected pre-tax profits as lending on mortgages and credit cards grew. Deutsche Bank's turnaround is well underway as its pre-tax profit surged 31% to €2.3bn, the highest in its 154-year history, as investment banking fees more than offset lending losses.

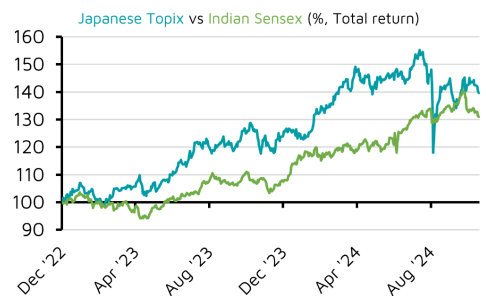
HSBC announced a restructure which will split management into eastern and western regions and merge its commercial lending and investment banking as it tries to streamline its operation and save money. HSBC makes three fifth of its profits in Asia and has been under pressure from investors to improve its profitability compared to its Asian rivals. The reorganisation is also intended to help the bank deal with different regional regulation and political pressures.



EQUITIES: CONTRASTING IPOs HIGHLIGHT DIFFERENT INVESTOR SENTIMENT

Shares in Tokyo Metro surged following the biggest IPO in Japan for six years. The company raised more than \$2bn, however, the sale was massively oversubscribed and this helped push the share price up 45% on its first day of trading. The flotation of the Tokyo underground railway is the first major IPO since the Japanese government expended a tax-protected savings scheme to boost domestic retail investors. It also stands in contrast to the low number of companies choosing to list on Japanese exchanges in recent years. The first six months of 2024 saw only 38 companies list in Japan.

The situation in India has been very different. So far this year 256 companies have listed in India, raising more than \$9bn, as retail and institutional investor show a lot of enthusiasm for new companies. However, the biggest listing this year had a disappointing debut. Hyundai Motor India raised \$3.3bn in the second largest IPO globally this year but shares fell more than 6% on the first day as shares were priced at the very top end of expectations.



Data sourced from International Monetary Fund and Investing.com

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