FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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CHINESE MARKETS RIDE THE WAVE OF GOVERNMENT STIMULUS

This week the Chinese government finally unveiled a stimulus package to try and address the country's many economic problems. China currently struggles with high youth unemployment, weak domestic consumer demand and a property market gummed up by developers who are unable to sell completed properties or finish existing developments amid falling prices and low confidence from potential buyers. The stimulus package is designed to cover all bases by supporting financial markets, encouraging bank lending, stimulating consumer demand and kick-starting activity in the housing market.

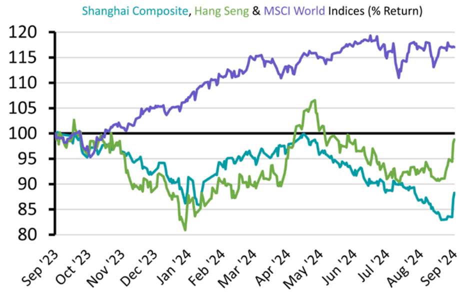
The size of the support is enormous, and fiscal stimulus is also promised. It has clearly worked in the short-term as Chinese equities had their best week since 2008, and US and European companies with sizeable operations in China also gained. But the scale of China's problems mean even this plan may be insufficient and, unless underlying problems are solved, this stimulus may turn out to be a short-lived bump for equity markets.

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
+0.28%	-0.31%	+4.23%	+1.58%	+12.99%	+0.07%	+0.11%	-3.73%	+1.26%	+0.55%	+0.75%

CHINA: BUMPER STIMULUS DRIVES EQUITY AND CURRENCY RALLY

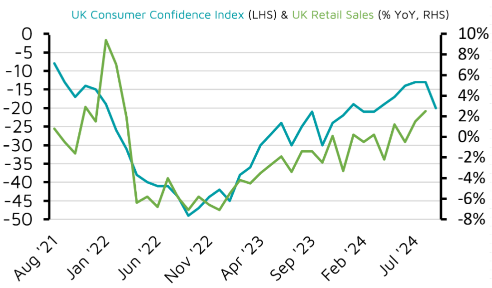
The People's Bank of China unveiled a big stimulus plan to support equities, real estate and bank lending as President Xi Jinping promised fiscal stimulus. The concerted moves are a bid to resuscitate growth, revive inflation and boost consumer spending. The PBoC is going to supply funding to institutional investors to buy more stocks and aid companies to buy back shares. The central bank is lowering lending rates and the bank capital reserve rules and also aims to revive the struggling property market by reducing mortgage rates and minimum deposit rules.



The combination of rate cuts and direct stock market injections was taken well by markets. Hong Kong's Hang Seng index and China's CSI 300 index both gained more than 12% in the aftermath. The rally spilled over to Europe and saw markets rising there as sluggish Chinese demand has been a drag on the Eurozone. The announcements also helped drive up the value of many Asian currencies against the dollar.

UK: GILTS YIELDS RISE AS BANK OF ENGLAND HINTS AT GRADUAL RATE CUTS

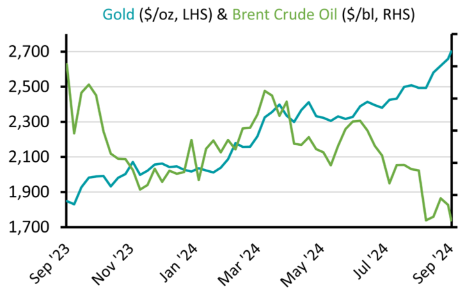
The Bank of England hinted that interest rate cuts may be slower than expected following weaker consumer sentiment last month. Governor Andrew Bailey said investors should not be surprised if rates do not return to ultra-low levels and Monetary Policy Committee member Megan Greene warned that the BoE should take a cautious approach as services inflation remains high. The yield on UK government bonds increased slightly, as bond prices fell, as markets curbed expectations for rate cuts this year.



There were other signs that sentiment is deteriorating. Recruiters report businesses are opting for temporary staff over permanent hires, and the British Retail Consortium said consumers are less positive about their finances and the health of the economy. This is partly blamed on government warnings that next month's budget will be tough. The OECD urged countries to use less restrictive fiscal rules that don't hamper investment as the Prime Minister hinted that infrastructure spending is going to be significantly increased.

COMMODITIES: GOLD RISES DUE TO RATE CUTS AND FEAR OF RECESSION

Gold hit a new all time high of £1,998 per oz this week. Record demand worth $10bn from Indian consumers, expectations of further rate cuts by major central banks have combined with fears of China's slowdown spreading to drive the rally. With central banks, wealthy investors, Chinese savers and Indian consumers hoarding the precious metal there is little sign of abatement. Recent gains have added to a strong year for gold investors as the price has increase more than 40% in the last 12 months and Goldman Sachs said it expects the rally to extend into 2025.



Meanwhile the price of oil has fallen as higher production by Guyana, Brazil and elsewhere has offset disruption in Norway and Libya. Saudi Arabia indicated it will abandon its unofficial $100 per barrel target to capture market share. A slowdown in global manufacturing and increasing production have offset fears of supply disruptions, despite escalation of Israel's military operations in Lebanon, which might draw in a reluctant US and Iran.

Data sourced from FE Analytics, Yahoo Finance and Trading Economics