MARKETS APPEAR MOSTLY UNMOVED BY THE INCREASE IN FIGHTING IN THE MIDDLE EAST

This week markets have been relatively calm despite the serious escalation of fighting in the Middle East. Times of significant stress usually see a sharp rise in the dollar and US treasury yields fall as nervous investors seek a safe haven. Gold often rises as well. None of those things have happened this week. The only significant move was in oil, and that came late in the week after the US appeared to clear the way for Israel to respond to Iran's rocket strike with an attack on Iran's oil infrastructure. Time will tell if markets are over-confident that either escalation of the conflict will be limited or that a wider war will not have a significant impact on the global economy.

Markets seem equally confident that the European Central Bank will cut rates this month as headline Eurozone inflation fell below 2% and economic growth stalled. But, with core inflation remaining stubbornly high in many countries and almost no change in the unemployment, there is a growing chorus of voices warning that central banks may not cut rates as fast as many investors expect.

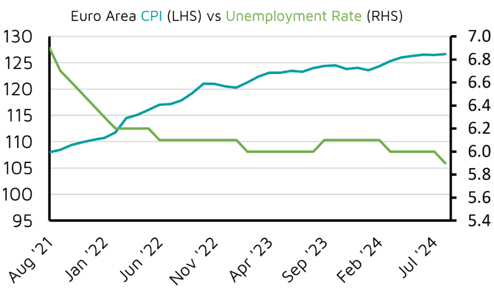
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.73%	-0.77%	-3.21%	-1.90%	+10.20%	+0.06%	+0.07%	+9.98%	+1.60%	+17.04%	-1.49%

EUROPE: FALLING INFLATION ADDS TO ECB CASE FOR INTEREST RATE CUTS

Eurozone inflation fell below 2% last month and weak economic data, especially from Germany and France, means the European Central Bank has a strong case to cut rates further at its next meeting. Eurozone CPI inflation cooled to 1.8% in September as overall business activity in the Eurozone declined for the first time since February. Services activity slowed and the contraction in manufacturing intensified, resulting in a marginally quicker rate of job cuts. Business confidence also saw a slight dip, falling further below its long-term average.

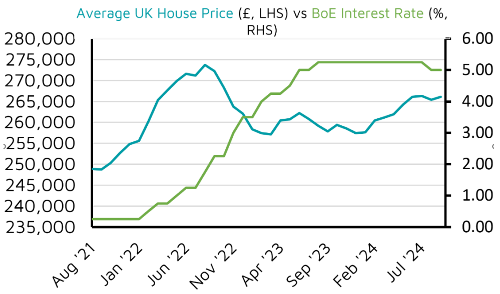
The ECB strongly indicated rates will be cut this month as president Christine Lagarde said it is more confident that inflation is under control and other bank members warned that headwinds to economic growth cannot be ignored. Separately, Federal Reserve chair Jerome Powell indicated it is likely to cut rates at its next meeting, although there are warnings that markets are in danger of expecting too many rate cuts in the coming months.



UK: HOUSING MARKET HEATS UP AS MORTGAGE RATES COOL

Activity in the housing market has picked up as residential sales were 25% higher in September compared to last year according to Zoopla. Nationwide data showed average prices climbed 3.2% in the last year. Both sales and price increases hit their fastest annual growth for two years. Rate cuts from the Bank of England have led to cheaper mortgages, with two-year fixed mortgage rates falling faster than longer-term ones. Mortgage approvals jumped in August to £2.86bn, also a two-year record. Mortgage rates may have more reductions to come as the Bank of England governor sounded more open to further interest rate cuts this year.

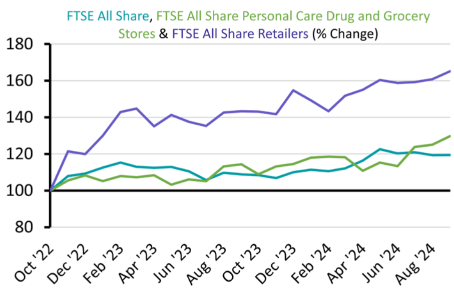
Meanwhile, Rightmove, the UK's biggest property listing website, rejected a fourth takeover bid by REA causing the Australian property platform to abandon its chase. Rightmove's shares fell 10%, while REA's shares gained 5% as a result. The stocks had moved in the opposite direction when REA's bid was announced early September.



EQUITIES: SHOP PRICES FALL AS RETAILERS CHILLED BY DAMP SUMMER

Average shop prices fell in September as many UK retailers offered discounts to attract shoppers following disappointing sales over the summer. The British Retail Consortium said average prices fell 0.6% in September, with the price of non-food items falling more than 2%. However, food price inflation crept up as it increased to 2.3% from 2% in August as the BRC says food prices have returned to their long-term trend.

A number of high street chains reported that cool and damp weather affected recent sales. JD Sports said revenues continue to grow strongly, but recent weakness in UK sales hit profits. Bakery chain Greggs also reported a slight drop in profits which it attributed to poor weather and the outbreak of rioting in some UK cities in August. Both companies say expansion plans are unaffected by the slight drop in sales. Meanwhile, Tesco reported very strong first half results as it upgraded its full year profits forecast and said consumers are in good shape in the run up to the key Christmas trading period.



Data sourced from St Louis Fed, European Commission, Bank of England, Nationwide, and Investing.com