FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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NO QUICK FIXES FOR LOW GROWTH IN EUROPE AND SLOWING GROWTH IN CHINA

This week we've had reminders of a number of long-running themes. This time last year we were concerned about economic slowdown and potential recession – particularly in the UK and Europe. This morning's GDP figures brought a surprise drop in UK economic output along with news that consumer sentiment remains depressed. With few policy levers to pull, the government is struggling to get a coasting economy into gear and generate faster economic growth. European growth is also a long-running concern. The European Central Bank cut rates again as it lowered its forecast for economic growth and the Bundesbank cut its forecast for Germany's growth to just 0.1% in 2025.

Meanwhile, China is doubling down on its efforts to turn its economy into one driven by domestic consumption. This is a long-standing objective of China's government and this week saw promises of looser monetary policy and expanding the budget deficit to boost domestic demand "in all directions" as it attempts to tackle cooling economic growth. With no short-term fixes available we are likely to see these themes rumble on.

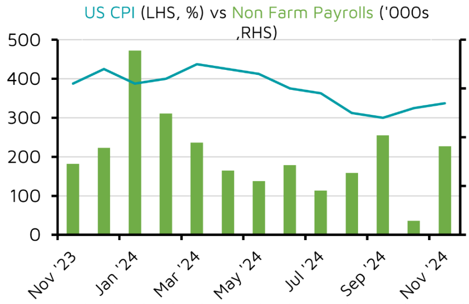
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.40%	-0.37%	+0.57%	-0.46%	+0.37%	+0.15%	+0.09%	+1.90%	+2.91%	-0.75%	-1.00%

US: STABLE ECONOMIC DATA PAVE THE WAY FOR THE NEXT FED RATE CUT

The US economy added 227,000 jobs in November, exceeding forecasts and marking a rebound from October, which was affected by hurricanes and the strikes at Boeing. However, the unemployment rate edged up to 4.2%. Simultaneously, US consumer inflation notched up to 2.7%. The figures are unlikely to change the outcome of the Federal Reserve's monetary policy meeting next week; markets seem certain of a quarter-point policy rate cut. Fed officials, including chair Jay Powell, have signalled that short term rates are way above their target and that cutting will continue into next year.

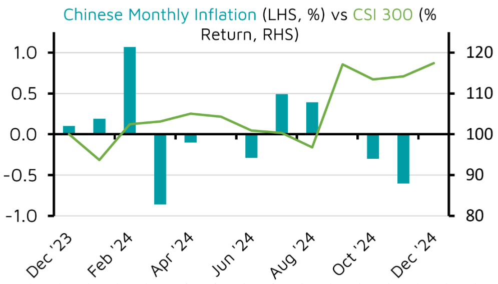
The European Central Bank announced a well telegraphed quarter-point cut to its benchmark rate to 3%, marking its fourth reduction in borrowing costs since June. Eurozone inflation has been far more subdued and the economic situation of its heavyweights is grim, making the ECB's decision more of a no brainer. The Swiss National Bank also cut rates as it halved its main policy rate to 0.5%, as inflation fell to 0.7% in November from 1.1% in August.



CHINA: GOVERNMENT MOVED BY DEFLATION AND PLUMMETING TRADE

The Chinese government is turning to monetary policy to boost domestic consumption and stabilise the economy. China's politburo has shifted its monetary policy to "moderately loose" from "prudent" for the first time in 14 years. This was taken by markets as evidence that policymakers are taking the country's dire economic situation more seriously. The Shanghai Composite index of shares in mainland China increased around 2.75% and the Hang Seng in Hong Kong gained around 4.5%.

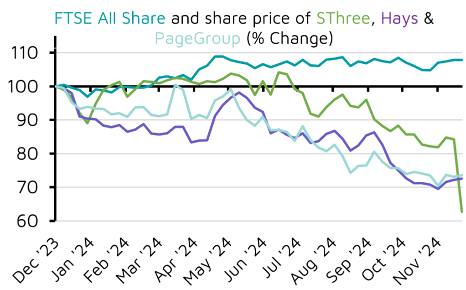
The latest trade and inflation show further signs of economic weakness. The Consumer Price Index fell by 0.6% over the previous month, lowering annual inflation to 0.2% from 0.3%. The drop in imports has hastened to 3.9% in November. Outbound shipments have expanded for the eighth consecutive month to a 26-month high, as manufacturers have been front-loading orders in anticipation of further tariffs. But, export growth slowed to 6.7% in November from 12.7% in the previous month, reflecting rising trade tensions.



UK: EMPLOYERS REMAIN CAUTIOUS ABOUT TAKING ON NEW STAFF

There are further signs of weakness in the UK jobs market. A profits warning from recruitment firm SThree was accompanied by data from recruitment website Indeed showing UK recruitment slowing faster than rival economies. Indeed says job listings in the UK are 23% below a year ago and around 13% below pre-pandemic levels. The hiring slowdown is pronounced in tech and other professional sectors but is also noticeable in lower paying sectors such as tourism and hospitality. Shares in SThree tumbled after it reported revenues fell 9% this year and warned profits in 2025 may halve. This dragged down shares in other listed recruitment firms.

Protests against the government's planned business tax hikes continue. British Chambers of Commerce members warned the Treasury that increased costs would cause employers to reduce investment and recruitment. Meanwhile, the Treasury warned that wage rises above 2.8% are unaffordable and said it plans to cut 10,000 civil service jobs to cut costs.



Data sourced from Y Charts, FX Empire and Investing.com