MARKETS CONTINUE TO BE DRIVEN BY CHAOTIC US APPROACH TO TARIFFS

This week the wild ride for markets continued as stocks, bonds and currencies were driven by the rapidly changing news about US tariffs. After resuming their slide at the start of the week, global equity markets jumped on news that the highest tariffs would be delayed by 90 days. Did Donald Trump blink in the face of market turmoil, or does he think the threat of higher tariffs has done its job by forcing countries to the negotiating table? The relief did not last as stocks resumed their slide as the dollar index fell below 100 for the first time in three years. One area of concern is the extreme volatility in US government bond markets and the surge in US treasury yields, despite the threat of recession.

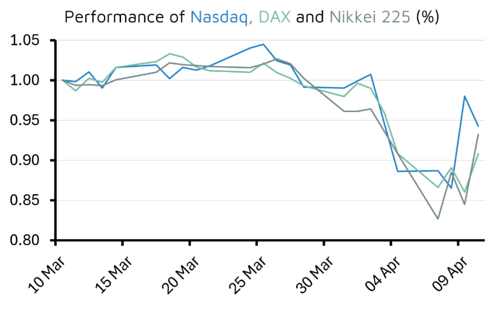
The turmoil in markets has obscured some of this week's positive news as the decline in US inflation continued as CPI slowed to 2.4% in March. Meanwhile, Eurozone retail sales picked up last month and UK economic growth was surprisingly strong in February. In a normal week these would be the focus of attention and grounds for optimism about rate cuts, but for now everything is being driven by the changes in US policy.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
-5.67	-2.08%	-2.35%	-6.36%	-8.47%	+0.46%	+0.27%	-6.34%	+3.49%	-6.41%	+1.00%

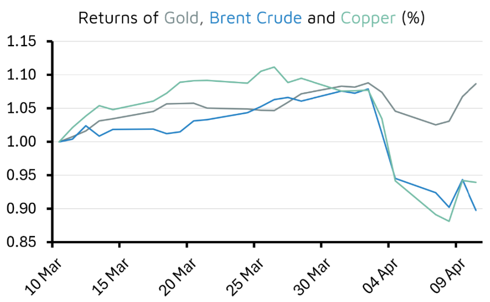
MARKETS: MARKETS WHIPSAW ON TARIFF ANOUNCEMENT AND REPRIEVE

Markets continued to swing wildly because of President Trump's tariffs on US imports. After last week's big sell-off following the "Liberation Day" tariff announcement, equities resumed their decline at the start of this week. Stocks spiked 8% in Japan, as it got pole position to negotiate trade with Trump but this faded as the US and China exchanged tariff increases. China and the US are respectively levying 125% and 145% on one another's goods, as of the time of writing. Stocks were volatile but, unusually, US Treasuries were not acting as safe assets as a sell-off pushed yields on the 10-year bond up from 3.86% at Monday's open, to 4.51%. The dollar also fell.



On Wednesday, Trump said "This is a great time to buy!" on his social media platform, hours before announcing a 90-day pause on some tariffs. US stocks jumped, with the S&P 500 closing up 9.5%. The Nasdaq high-tech index had its best day since 2001. The relief rally spread across the globe on Thursday, but was shortlived and global selling resumed.

COMMODITIES: THE "ORANGE CRASH" IN COMMODITIES

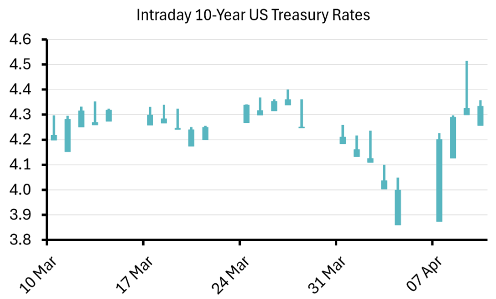


Gold slid from its peak at the end of last week as investors sold it to raise cash to cover the damage from the sell-off brought about by US tariffs. The gold price moved sideways at the start of the week as traders tried to catch their bearings, finally jumping back to last week's peak, above $3,100 per ounce after president Trump paused his most punitive tariffs for the next 90-days.

The pause left 25% tariff on cars, a 10% global baseline, and 145% on China. The sea change in international trade policy and the erratic nature of the policy's execution has revived the spectre of recession. Crude oil and copper prices have plunged, and the 90-day reprieve only caused a modest rebound. Brent crude fell from $75 per barrel, to trough at $58.6 before rising to $64, still a four-year low. Copper is ending the Orange Crash down 14%, having dipped almost 20% as lower prices signal that economic activity is expected to slow.

RATES: MORE CUTS EXPECTED AS BANKS WORRY ABOUT GROWTH

Central banks are having to factor in the effects of US tariffs as they consider the path of interest rates. The European Central Bank will set rates next week and several members of the governing council have indicated that a rate cut will be necessary. Joachim Nagel, Bundesbank president, hinted that a cut is on the way and said the ECB would do its bit to strengthen Eurozone resilience. The head of Lithuania's central bank called for a rate cut as well and said it should be considered for the meeting in June.



Markets are fully expecting a quarter percentage point cut from the ECB next week and are also turning more positive about cuts from the Bank of England. BoE deputy governor Clare Lombardelli warned that US tariffs are likely to cut growth in the UK. Markets have fully priced in a rate cut at the next meeting of the Monetary Policy Committee in May and see a further three cuts this year. The Federal Reserve has not hinted at rate cuts but markets also see a greater chance of rate cuts in the US.

Data sourced from Investing.com