FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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CANADA-US SPAT GENERATES HEAT BUT SLOW BURN IN THE MIDDLE EAST IS MORE CONCERNING

This week attention has been focused on the latest trade spat between the US and Canada as negotiations to avoid new US tariffs collapsed. Bad-tempered accusations have been exchanged and reciprocal tariffs of up to 50% have now been imposed on a range of goods. Yet the economic effect is limited as the new tariffs cover only a fraction of the volume of trade across the US-Canadian border.

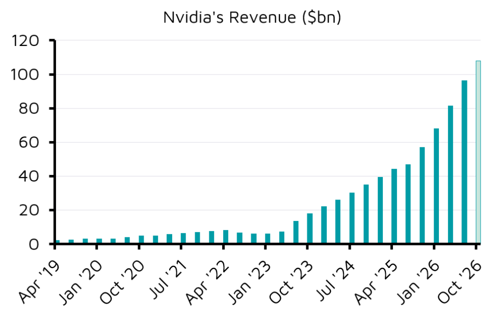
Events in the Middle East present a far more significant threat to global trade. With the price of oil falling again this week, markets still appear to view the problem as a short-term one with a compromise solution remaining possible. This looks like a rosy view of events, and not everyone shares it. More voices are warning that the US and Iran hostilities are heading the same way as Russia's invasion of Ukraine – a messy, long stalemate with huge costs for all involved. The current premium of refined diesel over crude oil shows the inflationary effects are already real. Shipping costs have also settled far higher than seven months ago, and this will be a key feature of central bank discussions as the year progresses.

THE MARKETS THIS WEEK

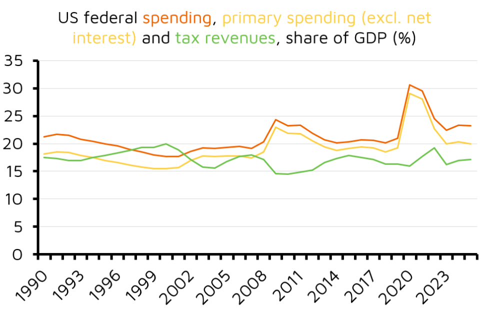
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.40%	+0.77%	+0.50%	+0.47%	-1.70%	-0.01%	0.00%	-5.39%	+1.13%	+0.25%	-0.54%

TECH: NVIDIA SELLS MORE CHIPS AND LENDS THE MONEY TO BUY THEM

Nvidia posted another strong quarter. Revenue rose to $96bn, and guidance for the current quarter is around $108bn, beating forecasts. Management now expects sales to grow 70% next year, well above the 45% analysts expected, and shares jumped on the news. This renewed concern over Nvidia financing the same customers who buy its chips. One credit analysis put Nvidia's exposure from these deals at close to $200bn by 2028, though it called the balance sheet sound. Margins are under pressure from a memory chip shortage.



Anthropic is preparing for an autumn listing valued near $2tn. It has added a $45bn computing deal with Nscale, extending its list of chip agreements. Demand for its flagship model has been weaker than expected, with cheaper alternatives taking more spending. Meanwhile, US spending on AI infrastructure is rising roughly three times faster than in the euro area.



US: THE FED AND THE TREASURY PULLING AGAINST EACH OTHER

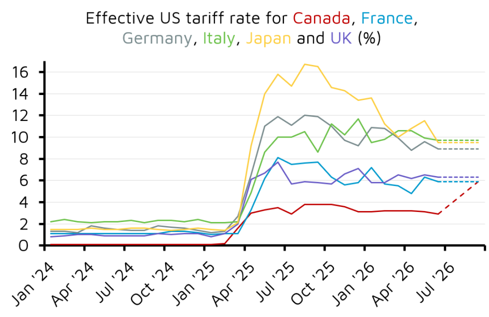
Two institutions overseeing US Government debt are pulling in opposite directions. Last week the US Treasury intervened in bond markets to reduce the yields on long-dated bonds, a move several commentators linked to lowering mortgage rates before the mid-term elections. In contrast, the Federal Reserve is retreating from markets, with governor Kevin Warsh scaling back the central bank's guidance and leaving yields to markets rather than steering them. The stakes are high. US government debt has swelled past $40tn, tax revenue has fallen short of spending every year since 2007, and yields have climbed to two-decade highs.

Stubborn inflation adds to the strain. The PCE Price Index reached 3.7% in July, above target, raising the odds of a further rate rise. The Treasury is funding its bond purchases by borrowing short-term, a trade that only pays off if long-term yields fall. They have not. A Fed rate rise would raise the cost of that borrowing directly, undercutting the trade.

CANADA: CARNEY GOES TO WAR WITH AMERICA OVER TARIFFS

The US and Canada imposed tit-for-tat tariff increases after talks to secure better trade relations ended acrimoniously. Expectations of an agreement were dashed as talks designed to avert new 50% tariffs being imposed on Canadian exports failed. Canada accused the US of imposing last-minute demands, including a veto on any new trade deals Canada negotiates with other countries.

The collapse of the talks brought an immediate tariff of 50% on $20bn of Canadian goods, including hockey sticks, alcohol and dairy products. The US has also threatened to raise existing tariffs on Canadian cars and car parts from 1 January. In response, Canadian prime minister Mark Carney said the country was 'at war' with the US over trade and unveiled a range of tariffs of up to 50% on $20bn of US imports. These cover US-made steel, dairy products and farm equipment and will take effect from 8 September. The new tariffs led to a slight weakening of the Canadian dollar after two months of gains against the US dollar.



Data sourced from CBO, Morgan Stanley, LSEG, RBC, US Census Bureau