BANK OF ENGLAND MAKES AN EFFORT TO SIGNAL AN END TO INTEREST RATE HIKES

This week the Bank of England tried to convince people it might be done with interest rate hikes. Both Governor and chief economist tried to make the case that further tightening was unnecessary, although the markets were only partially convinced. Falls in both sterling and government bonds suggests currency traders believed them but bond traders didn't. The next set of inflation statistics, due just before the next rate meeting in a couple of weeks, will likely determine whether the bank can indeed pause for breath or if more pain is needed to get inflation back to target.

Elsewhere, many factors are working against the Bank of England as key components of inflation have started trending upwards. Strikes at a key Australian gas refinery have spiked fuel prices just as we head into the heating-heavy winter months. Coupled with rising oil prices, driven by OPEC+ production cuts, and energy looks set to be more expensive in the short term. This could be an unhelpful shot in the arm for inflation globally.

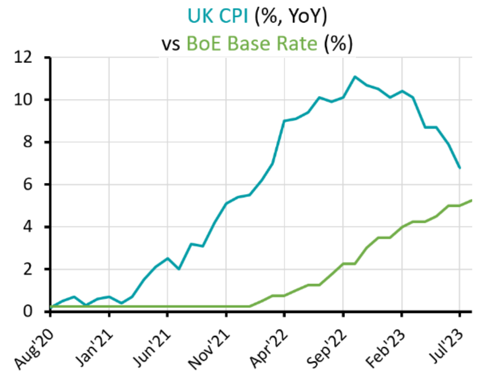
THE MARKETS THIS WEEK

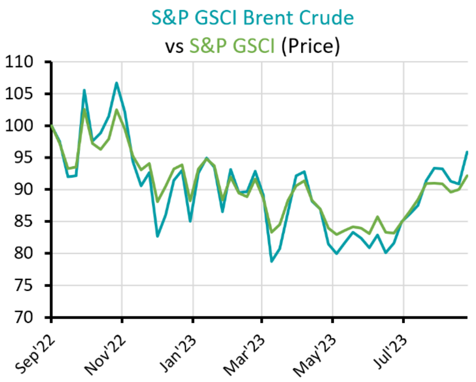
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-0.79%	-1.74%	+0.85%	-1.33%	-0.97%	+0.18%	+0.11%	+2.63%	+0.44%	-0.67%	-1.49%

UK: BANK OF ENGLAND KEEN TO SIGNAL END OF RATE HIKES IS NEAR

Bank of England Governor Andrew Bailey gave a strong indication that the UK is approaching the end of interest rate hikes. Appearing in parliament, Bailey said the UK has moved past the situation where rates clearly needed to rise and the question was just by how much and over what time period. His comments echoed those of chief economist Huw Pill who has already indicated he will vote against further hikes and would rather rates are maintained at their current level for an extended period. Sterling fell sharply against the dollar following Bailey's comment, but the very short rally in gilts ran out quickly and was not sufficient to offset their general decline this week.

In contrast, several members of the European Central Bank have indicated that rates are likely to increase in the short term to ensure inflation is brought under control. Meanwhile the yield on US Treasury bonds increased as markets further adjust expectations that rates will remain high for longer following strong employment data at the end of last week.





OIL: BRENT HITS $90 A BARREL AS SAUDI EXTENDS PRODUCTION CAP

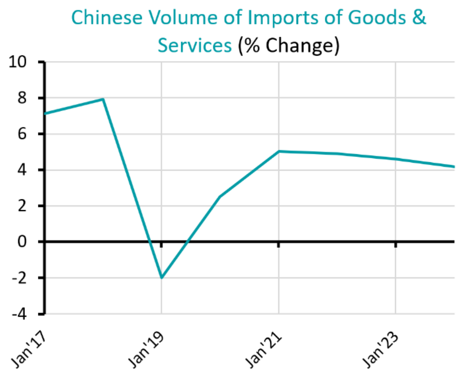
Brent Crude topped $90 a barrel for the first time in 2023 as the price of oil continued its recent rally. Earlier this year Saudi Arabia capped its oil production to try and drive the price up from recent lows. This week it announced this temporary production cap would be extended to the end of the year, meaning it will be producing 1 million barrels less each day. Russia also announced that its production cap would be extended to the end of the year.

The increase in the oil price has helped UK energy stocks outperform the broad index in recent weeks. However, higher oil prices will be less welcome by the Bank of England as it aims to get inflation under control. Declining energy prices have played a significant part in reducing headline inflation. But with petrol and diesel prices already rising the recent disinflationary effect from energy costs could be put into reverse.

CHINA: NEW EFFORTS TO RESTORE CONSUMER AND INVESTOR CONFIDENCE

China's trade declined sharply in August. Compared with the same month in 2022, Chinese exports declined 8.8% and imports were down 7.3%. The data was not as bad as predicted but is further evidence of a slowing Chinese economy. Activity in China's services industries also fell as the Caixin Services Purchasing Managers' Index dropped from 54.1 to 51.8. This still indicates growth, but it is the lowest reading this year.

The Chinese government announced support for the country's ailing property sector by reducing mortgage borrowing rates for first-time buyers and lowering the minimum deposit needed to buy. It also announced measures to support the renminbi following its decline against the dollar, and introduced reforms to boost confidence among retail investors, including the removal of stamp duty on buying and selling shares. Chinese property led a wider rally in Chinese equities at the start of the week. However, the scale of the problems mean many investors appear to think further stimulus will be needed.



Data sourced from FE Analytics, Office for National Statistics, Bank of England and Federal Reserve Bank of St Louis