UK INFLATION FALLS BELOW TARGET BUT SLUGGISH ECONOMIC GROWTH IS A WIDER CONCERN

This week brought better news on inflation as the headline rate in the UK slowed to 1.7%. The decline was bigger than expected and has been positive for UK government bonds which have gained following slower wage inflation and low GDP growth. European government bonds have also risen. The European Central Bank rate cut was in line with expectations, however, Christine Lagarde's comments appeared much more confident about the end of inflation in the Eurozone and clear the way for the bank to concentrate on the low economic growth in the region.

Economic growth remains a problem in many countries. This week's updates from China show GDP increased 4.6% in the third quarter compared with a year earlier. This is the second quarterly decline as the economy falls behind the official target of 5% annual growth. Domestic consumption remains weak and Chinese exports have slowed. As the drop in the oil price and tumbling shares of Europe's luxury goods show, you don't have to look far to see the wider effect of weakness in China.

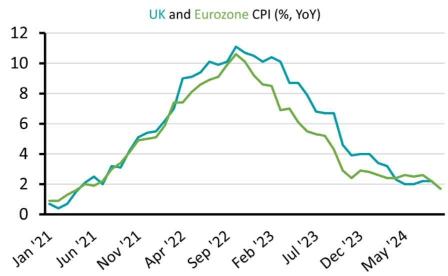
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+1.79%	+1.46%	-0.84%	+1.94%	-2.11%	+0.02%	-0.11%	-4.78%	+2.80%	-0.42%	-0.76%

UK: POSITIVE INFLATION UPDATE INCREASES CHANCES OF A RATE CUT

UK inflation slowed more than expected last month as CPI fell to 1.7% due to lower energy costs and slower services inflation. The core inflation rate (excluding more changeable food and energy costs) also slowed but it remains high at 3.2%. UK wage inflation is also slowing. Excluding bonuses, average annual wages increased by 4.9% in the year to August. GDP growth last month was 0.2% and the combination of slow growth and lower inflation has increased the chances of the Bank of England cutting interest rates again next month. This helped reverse some of the recent decline in gilts and rising bond prices pushed down gilt yields.

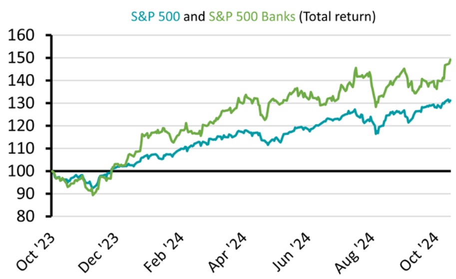
Meanwhile the European Central Bank cut rates as expected. The headline interest rate for the Eurozone fell to 3.25% as inflation is now below the 2% target and economic growth remains weak. European government bonds gained slightly as the euro and the pound fell against the dollar.



US: BANKS RISE AS WALL ST GIANTS DEFY EXPECTATIONS

US investment banks had a strong third quarter as rising profits sent their shares to the highest in two years. Total revenues of $36bn flowed from deals and trading into the largest Wall Street banks due to more volatile markets and corporate debt issuance. This is 11% higher than the same quarter in 2023. Equities trading surged at all five major US investment banks, driven by strong market performance in the US, market volatility in Japan, and China's stimulus efforts at the close of the third quarter. Revenues from advising on debt and acquisitions also jumped compared to a year ago. The earnings results comfortably beat analyst expectations and sent the sector higher.

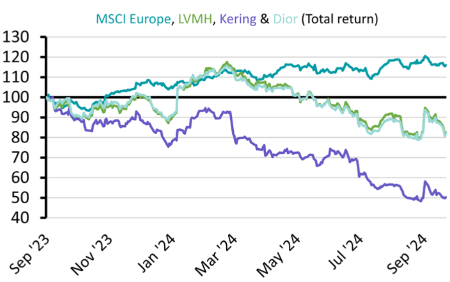
These updates give more credence to the soft-landing narrative for the US economy, where the Federal Reserve recently cut rates as it shifts its focus from inflation fighting to boosting the labour market. Of course, lower interest rates mean less revenues from lending and some smaller retail-focused US banks have seen revenues decline.



EQUITIES: LOW CHINESE DEMAND HITS EUROPEAN LUXURY EXPORTERS

Luxury goods manufacturers are suffering due to low demand from China and weakening consumer sentiment in Europe. LVMH, the world's largest luxury group, reported falling sales and this sent its shares to their lowest in over two years and dragged down the rest of the sector. The luxury juggernaut's revenues unexpectedly fell 3% to €19bn, while sales in its core leather goods business dropped 5%. The largest hit for the group comes from Asia, excluding Japan. Sales slumped 16% due to weak demand from Chinese consumers as difficult economic conditions weighed on activity.

The grim outlook triggered a sell-off in other European luxury stocks. Cartier-owner Richemont, Hermès and Kering have all hit their lowest since March. However, Richemont and Hermès are up just shy of 10% this year while Kering, has lost 40% of its value. British luxury groups aren't faring much better, with Burberry and Mulberry both down significantly this year.



Data sourced from ONS Eurostat and Investing.com