

MARKET UPDATE: SHARES FLUCTUATE AS CENTRAL BANKS MEET

21st September 2020

LAST WEEK – KEY TAKEAWAYS

Central banks: Interest rates stay on hold

- Global shares fluctuated as investors waited for some of the world’s major central banks to meet and then scrutinised the outcomes;
- As expected, the Bank of England (BoE), Federal Reserve (US central bank) and Bank of Japan (BoJ) left interest rates unchanged and committed to maintaining their programmes of bond-buying, known as quantitative easing;
- Sterling weakened against the US dollar after the BoE hinted it was ready to move rates into negative territory if necessary to support the economy as it copes with the coronavirus pandemic and Brexit;
- The Fed said it did not expect to raise rates until the end of 2023 at the earliest and until the economy reaches ‘full employment’ and inflation (the rate at which prices rise) remains above 2% ‘for some time’;
- The BoJ sounded cautiously optimistic about the country’s economic outlook.
- **Omnis view: Along with government spending, central bank policies have played a key role in the global economic recovery from the pandemic. No new measures were announced at last week’s meetings, but the markets should welcome the ongoing supportive tone.**

UK: Unemployment ticks up

- Figures published by the Office for National Statistics showed the unemployment rate rose to [4.1%](#) (from 3.9%) in the three months to July;
- However, there was better news for the UK economy as consumer spending beat expectations to increase by [0.8%](#) in August compared to July, its fourth consecutive month of growth.
- **Omnis view: With the furlough scheme set to end in October, Rishi Sunak, the Chancellor, is under pressure to support the jobs market. Mr Sunak has argued there are already measures in place, like the bonuses for companies that brought workers back, but he pledged to find ‘creative’ ways to keep the jobless rate down.**

US: Retail sales slow in August

- Growth in consumer spending slowed unexpectedly in August to [0.6%](#) compared to a month earlier as the first package of measures introduced by the government to offset the impact of lockdown started to fade;
- Meanwhile, US President Donald Trump encouraged Republican politicians to increase the size of their proposal for the next round of measures.
- **Omnis view: Some of the figures released recently, such as the number of jobs created in August, have been encouraging for the US economy. However, last month’s drop in retail sales means negotiations between the Republicans and the Democrats about the scope of the new measures should resume soon.**

China: Retail sales increase for first time this year

- Having recovered strongly since the lifting of strict lockdown measures, consumer spending in China is now above the levels seen a year ago;
- Retail sales beat forecasts to rise by [0.5%](#) in August compared to a year previously.
- **Omnis view: This is another positive sign for the Chinese economy as it suggests shoppers are feeling more comfortable about venturing out again. It also bodes well for the rest of the world as China is relatively advanced in its recovery as the country went into lockdown earlier.**

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Oil: Supply threat supports prices

- Oil prices received a boost amid concerns about disruption to production as Hurricane Sally hit the Gulf of Mexico, a major hub for the US oil industry, and a drop in stockpiles in the US.
- **Omnis view: Oil prices dropped the previous week over concerns about falling demand caused by the impact of the pandemic on the global economy, but they rebounded last week due to threats to supply. That is good news for indices with a high proportion of energy companies like the UK's FTSE 100.**

LOOKING AHEAD - TALKING POINTS

Economic data

- Wednesday- Early estimates of business activity in September from the EU, UK and US.

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