GDP GROWTH SLOWS AS CONSUMER SPENDING DRIES UP

This week we saw some of the gloss come off the post-lockdown recovery. Ever since shops and restaurants opened up again, a flood of pent-up demand had been driving a recovery in lost revenue and earnings. This demand appears to be spent, as retail sales slowed significantly last month leading to some very disappointing UK growth numbers. On top of that, the extra juice being supplied by central banks and government spending is also drying up. This week the chancellor announced a significant tax hike that will largely come out of the pockets of people who would otherwise have spent that money locally, while US and European central banks reaffirmed their policy of turning the taps off.

Elsewhere the damage being wrought on global supply chains continues. Covid has left ships and containers scattered far from where they're needed and Hurricane Ida will hit not just oil production but also global chemical supplies. It is difficult to blame shortages on any single effect but freak weather, Covid and Brexit are all pouring sand into the gears of global trade. It looks like it will be a long time before we'll see normal again.

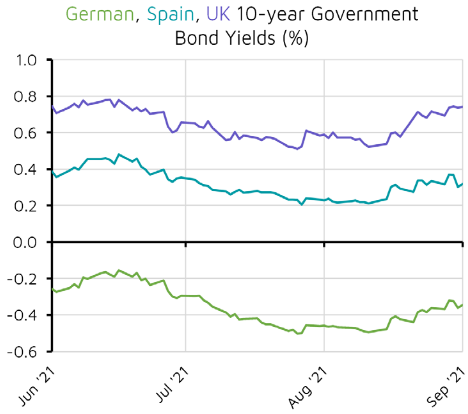
THE MARKETS THIS WEEK

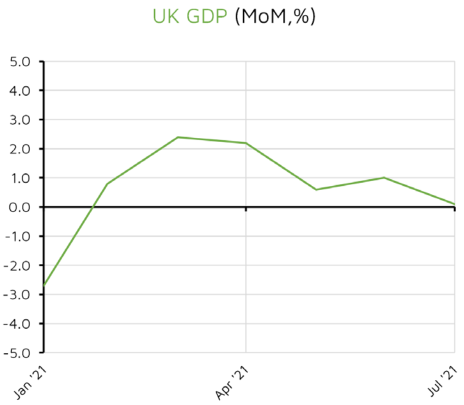
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.30%	-0.68%	+4.30%	-0.10%	+1.17%	0.00%	+0.03%	+0.32%	-0.59%	-2.88%	-0.01%

EUROPE: BONDS RISE AS ECB STARTS TAPERING BOND PURCHASES

This week the European Central Bank (ECB) decided to hold interest rates at their record low while moderately slowing its pandemic emergency bond buying programme from its current pace of €80bn-a-month. This follows a strong rebound in Eurozone growth as GDP reached 2.2 per cent year-on-year and inflation was estimated at 3 per cent. The growth was largely driven by the increase in Covid vaccinations which helped end lockdowns and boosted business as well as household activity.

"The lady isn't tapering" was ECB president Christine Lagarde's comment on the decision, reassuring bond investors that purchasing fewer bonds is not the first step towards endingbond purchases. Despite this, European government bonds rallied with the 10-year German bond yield, the regional benchmark, falling 0.04 per cent to -0.36 per cent and the Spanish equivalent falling almost 0.1 per cent to 0.3 per cent. European equities also dropped as the Stoxx 600 fell 1.1 per cent to its lowest level in three weeks.





UK: WEAK GDP GROWTH IN JULY AS CONSUMER SPENDING DROPS

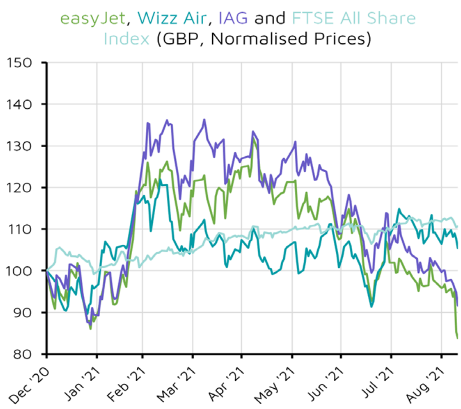
UK GDP growth slowed dramatically as consumer spending dried up. GDP growth averaged just over 1 per cent since February, but this dropped to 0.1 per cent in July. Spending on travel and hospitality increased sharply as lockdown restrictions were lifted, however, this was more than offset by a contraction in consumer retail spending on food and fuel. Overall, output from the services sector was unchanged from June. Manufacturing output was unchanged from June and the contraction in the construction sector almost completely cancelled the growth in production of natural resources. Overall GDP remains around 2 per cent below its pre-pandemic levels.

Data out this week also showed a small decline in UK trade, with both exports and imports dropping slightly. This appears to be due to supply bottlenecks and pent up demand being exhausted as trade in some areas fell back after higher than usual volumes seen earlier this year following the release of lockdown restrictions.

EQUITIES: EASYJET LOOKS TO RECOVERY AFTER REJECTING TAKEOVER

EasyJet is to raise £1.2bn by issuing new shares and said it has turned down an unsolicited take-over approach. EasyJet said the offer from lowcost rival Wizz Air was too low but predicted consolidation in the airline industry due to Covid's disruption. Despite the lifting of some travel restrictions EasyJet expects to carry less than two-thirds of its typical passengers for the rest of this year and its struggles have been reflected in its share price. Shares fell around 10 per cent as it announced the rights issue and takeover approach to leave them around 50 per cent down since the start of the pandemic.

WizzAir is well placed to pursue its plans for expansion. It is one of the few airlines to have increased its share price since the start of the pandemic and its schedule it almost back to pre-pandemic levels. The additional cash EasyJet plans to raise adds to the £2bn already on its books and will boost its own recovery and expansion plans.



Data Sourced from FE Analytics, and Bloomberg Finance LP