STRONGER EMPLOYMENT NUMBERS POINT TO UK RATE RISE BUT THE INFLATION STORY REMAINS UNCHANGED

This week there hasn't been much for markets to get excited about. Headline inflation figures were up a bit, but the underlying data still suggests pandemic disruption is the main culprit. Consumer confidence was also up a bit while business confidence was down a bit, so not much change overall. The one interesting point this week was the fall in unemployment, especially following the end of the furlough scheme. While there is some evidence that a section of previously employed people have dropped out of the workforce altogether, the sudden cliff edge of people finding out they have no jobs to go back to looks to have been avoided.

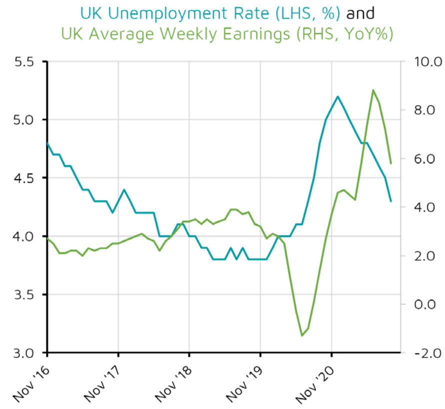
Elsewhere attention now shifts to how central banks may react to this news. Bank of England governor Andrew Bailey has been talking up the chances of a hike, emphasising that this time he really means it. The European Central Bank has made it clear they won't be touching interest rates for a while and this has been good for the pound as people move money from euros to take advantage of expected higher interest rates.

THE MARKETS THIS WEEK

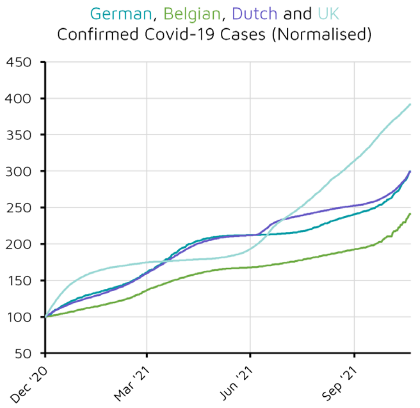
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.83%	+1.19%	+0.46%	+0.66%	-1.10%	0.00%	-0.03%	-0.32%	-0.71%	+1.41%	+0.15%

UK: LABOUR MARKET STRENGTHENS AS INFLATION RISES AGAIN

UK employment data was stronger than expected following the end of the government's furlough scheme. The number of vacancies continued to rise to a new record of 1,172,000 while unemployment fell 0.5% to 4.3%. Earlier this week the Bank of England governor Andrew Bailey said the decision to hold interest rates was a 'close call' and that the October employment figures would be the most important factor in his decision at the next policy meeting.



Meanwhile, UK inflation reached its highest level since 2011, rising to 4.2% in October from 3.1%. The higher-than-expected inflation data together with high employment figures added pressure on the Bank of England to soon raise interest rates in order to control rising inflation. Bailey's remarks increased speculations among investors about a December rate rise as yields on short-dated bonds rose slightly early in the week, and sterling pushed to its highest level against the euro since February 2020.



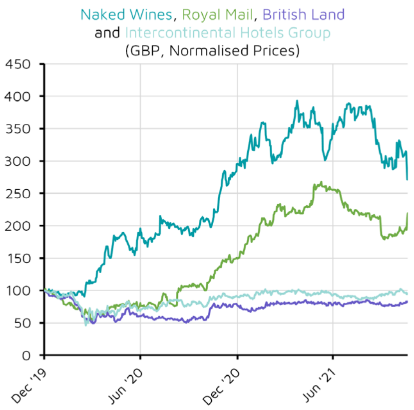
EUROPE: RESTRICTIONS REINTRODUCED AS COVID CASES RISE SHARPLY

Soaring numbers of coronavirus infections in Europe have forced governments to take a variety of measures to try and slow the latest wave of infections. Austria is about to introduce full lockdown after earlier restrictions have proved ineffective and the Netherlands has restricted opening hours for bars and restaurants and reintroduced mandatory mask wearing to try and curb the rapid rise of Covid-19 cases. Meanwhile, Germany is one of several countries planning to restrict the movement of anyone that is still unvaccinated.

Infection rates have accelerated rapidly in recent weeks. Daily Covid infections in Germany are at their highest ever level, and the number of cases per capita in Austria, Belgium and Czechia are all more than double the rate seen in the UK. So far there has been little impact on financial markets or predictions for economic growth, but further lockdowns, particularly in some of the major European economies, could act as a drag on recovery.

EQUITIES: COVID EFFECT BEGINS TO UNWIND FOR SOME STOCKS

This week provided further signs that some of the pandemic effect on company share prices are unwinding as markets begin to see a further return to normal. Royal Mail has continued to benefit from the growth in online shopping and it is returning £400m to investors following a strong first half to the year. B&Q owner Kingfisher is another stock which benefitted as people turned to DIY during lockdown. This week it said profits will be at the top end of estimates as sales remain above pre-pandemic levels. But despite strong trading these beneficiaries of lockdown have given back a portion of their lockdown gains.



Meanwhile, British Land said property is recovering from the pandemic as it reported the value of its portfolio of offices and shops is rising and demand for office space returns. The company's share price is almost back to its February 2020 level as it recovers from the 46% drop it experienced in the first weeks of the pandemic.

Data Sourced from FE Analytics, and Bloomberg Finance LP