Stock Markets Endure Another Volatile Week

Markets endured another volatile week, with US markets had a better time of it than their European counterparts. There were some clear psychological levels in play last week, as markets fell to fresh multi year lows, before recovering in the second half of the week. The Dow hit 11,000 for the first time since July 2006, and the S&P 500 hit 1,200 for the first time since October 2005. The CAC came close to hitting 4,000 for the first time since May 2005, the Dax hit 6000 for the first time since October 2006, and the FTSE reached its lowest point for over three years.   Markets started the week in promising fashion. News of a bailout for embattled US Government sponsored banks Freddie Mac and Fannie Mae, hit the wires on Sunday, buoying the financial sector throughout Europe and the US. Alliance & Leicester also added cheer when Santander confirmed a takeover proposal, sending the shares up around 50% on the day. However, the sellers soon gained traction. A run on regional bank IndyMac Bancorp spurred its collapse over the previous weekend, and a takeover by the Federal Deposit Insurance Corporation. Both clients and speculators are pulling their money out of other regional banks, as panic spreads over the prospect of runs on other regional banks.   The FTSE 100 was still one of the worst performers of the main global indices last week. The problem for the UK benchmark index is that it has one of the heaviest weightings of financial and energy stocks of all the major stock markets. Oil stocks have come under pressure over the last couple of days and financial stocks endured a tortuous week. Financial stocks such as Barlcays and RBS were trampled on as investors fled out of banking stocks and equities in general. The RBS share price at one point fell below the level it was at around the time of the much trumpeted takeover of Natwest. At one stage RBS fell 50 pence below its rights issue and Barclays 40 pence below its share offering. Investors punished UK banks with the highest exposure to the US.   Towards the end of the week, financial stocks recovered strongly. Traders bought into the banks, believing they were pushed down too hard too fast. In the short term at least it looks as though investors are confident that banks have been beaten down well below fair value, and were stepping in to pick up some bargains. Better than expected earnings from JP Morgan, Coca Cola, and United Technologies helped fuel the Wednesday/ Thursday rally further. Friday’s better than expected results from Citi Group helped counter balance some disappointing results from Merrill Lynch, Google, and Microsoft. The search giant Google saw Pay Per Click growth slow slightly, but stated that they were well positioned for a down turn, as consumers go online in search of bargains.   After the volatility of the last seven days, thankfully the coming week is much quieter in comparison. The first top tier announcement of note is BOE governor Mervyn King speaking in the morning on Tuesday, followed by FOMC member Plosser speaking around Midday. These speeches come ahead of the release of the minutes from the last FOMC meeting on Wednesday morning. UK rates policy is stuck between fighting inflation and helping the economy in difficult times. The minutes will be analysed extremely closely. Thursday brings UK retail sales, and US existing home sales. Friday is perhaps the busiest day of the week, with UK GDP figures, followed by US Core durable goods orders and new home sales in the afternoon.   Despite the late rally off technical lows of many indices, conditions are still fragile for the global economy. The US Housing Market Index fell to new lows for July, as the US housing collapse continues to show no signs of recovery. US CPI figures rose 9.2% year on year. Consumer prices surged the most since 1982, a time when interest rates were at 15.5%. Such inflation readings strongly counter the argument for a further rate cut from the US Government. The stagflation scenario seems to be taking one step closer to reality, as inflation rockets, and US retail sales growth slows to just 0.1%. The UK is certainly not immune from this, with public sector workers striking over below inflation wage increases. Jim Rogers of the hedge fund Rogers Holdings is famous for accurately predicting that Gold would reach $1,000 and oil $100. He was less than sanguine about the state of the UK economy. He recently said “The UK economy has the highest rate of inflation since 1986” He implied that the UK government had the tendency to massage the figures, so if they are admitting it’s bad “You know it’s real bad”. Traders at BetOnMarkets believes that Last week’s late recovery could be a useful point to enter trades predicting the sell off will continue. A No Touch trade predicting that the FTSE 100 won’t touch 6200 at any time during the next 6 months could return 21%.

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