Oil falls from $100 a barrel

Key takeaways

Global stock markets made modest gains last week despite the escalating hostilities in the Middle East that caused government bonds to retreat and interest-rate expectations to rise.

Oil passes $100 a barrel as Iran conflict escalates

The price of Brent crude oil briefly hit $102 a barrel last Thursday following attacks by the Iranian-backed Houthi militants in the Red Sea. Although the threat of a second front in the current conflict ratcheted inflation fears higher, by Friday oil prices began to ease. The White House announced late in the day that Omani-led talks, aimed at a provisional agreement to open the Straits of Hormuz, were underway. This brought an end to 13 consecutive nights of missile attacks on Iran.

In response, the yields on UK government bonds rose, meaning their prices fell. In the US, 10-year government bond yields hit an 18-month high while the yields on French and German government bonds hit 15-year highs. Meanwhile, markets re-priced the odds of an interest-rate hike at Wednesday's Federal Reserve (Fed) meeting, although a hold in rates is still most widely expected.

White House patches holes in the US tariff wall

Last Friday also brought a fresh salvo of US trade tariffs. In February, the US Supreme Court ruled the emergency powers used to implement last year's 'Liberation Day' tariffs were illegal and they were terminated. They were replaced by new temporary tariffs which address balance-of-payments issues. These expired on Friday, and were replaced with tariffs under Section 301 of the 1974 Trade Act, dealing with failures to prohibit forced labour in supply chains.

Trading partners such as Canada, the EU, Mexico, Taiwan and the UK, face a 10% duty, while the likes of Australia, Brazil, China, India, Japan and Switzerland are capped at 12.5%. Despite the changing tools employed, the overall effective tariff rate has remained unchanged prompting little reaction from stock markets. Although the EU struck a conciliatory tone, it has a package of retaliatory tariffs, worth €93bn on US exports, if implemented.

Calm before the storm for UK inflation?

Last week's UK (CPI) inflation reading dropped to its lowest level in a year, thanks to cheaper petrol and food, surprising expectations. Headline annual inflation came in at 2.6% in June, against a forecast 2.7%, despite both core CPI and services inflation coming in slightly ahead of expectations. This marked the third consecutive month that UK inflation dipped lower than European inflation.

The news helped buttress Andy Burnham's first week as prime minister, and his costly pledges to reduce the cost-of-living. Along with weaker UK employment numbers and slowing wage growth, the news also gives the Bank of England a little breathing room at Thursday's interest-rate decision. Even so, UK inflation is expected to rise from here, due to mounting energy and oil costs. Markets expect UK rates to remain on hold this week, but are now forecasting three rate hikes by June 2027.

For more in-depth commentary from our investment team, please see our latest Investment Views article and Quarterly Outlook video.

Market moves

Global stock markets made modest progress, despite the ongoing Iran conflict, led by Japan.

With gains of 1.4%, UK shares outperformed those in the US and Europe.

UK and US government bonds declined in the face of a 15% rise in oil prices. Despite a late sell-off, gold gained 2.7%.

What to look out for this week

A busy week for central banks brings the Fed's latest US interest-rate announcement on Wednesday. The Bank of England's latest rate decision is due on Thursday. The Bank of Japan follows on Friday.

US GDP, PCE (personal consumption expenditure) inflation, jobless and consumer spending numbers are due on Thursday.

Thursday also promises the latest European GDP and consumer confidence numbers. The EU's combined inflation data are due Friday.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

marketing.hwam@handelsbanken.co.uk

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