WEEKLY MARKET RECAP: May 08 –May 12 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

Middle of the week, on Wednesday, United States released the inflation data, which falls below 5% for the first time in two years. Still, the "core" inflation reading for April, which excludes volatile food and energy prices, increased 5.5% on the year. That was in line with economists' expectations.

In a note to clients after the release of Wednesday morning's report, Seema Shah, chief global strategist with Principal Asset Management financial group, said the latest data showed earlier concerns about a "hot" inflation report for April proved "unfounded." She noted that a measure of prices within service categories now shows "clear deceleration."

"In light of the strong April jobs report, the [Federal Reserve] will be comforted by the number and it reinforces its policy slant towards a pause" in interest rate hikes, she wrote. The Fed's stated goal of returning the economy to a 2% inflation rate is still in play. Despite the progress shown in Wednesday's report, there will likely be many more months before the central bank reaches that goal.

Later on Thursday, the Bank of England has raised interest rates for a record-breaking 12th successive time, lifting the cost of borrowing to 4.5% and warning that inflation would be higher this year than it previously anticipated.

The Bank's Monetary Policy Committee said that there would be no recession this year, upgrading its economic growth forecasts by more than in any of its previous reports. While it signalled that interest rates may now be at their peak, the Bank also said that it had been surprised by the rate at which food prices are rising, and that meant that wider inflation - the speed at which prices are rising each year - would be stickier this year and next.

The Bank is now forecasting that inflation will be around 5% at the end of this year, rather than the 4% level it previously forecast.

That means the prime minister may come within a whisker of missing his target of halving inflation this year - though the bank's forecasts imply he will narrowly squeak what previously looked like a somewhat unambitious target…

Thanks for reading! Have a great weekend.