

WEEKLY MARKET RECAP: July 31–August 04, 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.

At their July meeting, the Fed hiked rates by 25bps, as widely expected, to a range of 5.25%-5.50% and delivered somewhat dovish messaging. While statement language kept the door open for further rate hikes, commentary from Chairman Powell emphasized continued data dependency in policy decisions. In reviewing such data, last week's releases painted a rosy picture of an economy showing resiliency in economic growth and labour markets, even as inflation declines further. The first estimate of 2Q23 GDP showed the economy grew at a better-than-expected 2.4% annualized rate, reflecting strength in consumption and the best pace of business fixed investment since 1Q22, rising 7.7%. PCE data also confirmed further progress on disinflation. Chairman Powell's focus measure of inflation, core services excluding PCE, rose a modest 0.24% in June, a notable downshift from the 0.44% average rate in the previous three months. Elsewhere, unemployment claims remain low and strong durable goods orders point to continued consumer and business demand.

Going forward, the Fed is likely to focus on inflation, with the July and August CPI reports playing a decisive role in their September decision. Powell also made specific mention of the Employment Cost Index (ECI), which may offer a clearer picture of wage gains relative to the BLS report, as it tracks the same jobs over time. The ECI rose 1.0% in the second quarter, marking the slowest quarterly pace in two years. Mounting evidence of a sustained disinflation trend could potentially give the Fed confidence to pause rate hikes in September. Meanwhile, investors are increasingly looking beyond incremental Fed tightening, with markets appearing relatively unfazed by the Fed meeting last week.

Thanks for reading! Have a great weekend.

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