

News in Review

6 April 2022

"This is a moment of consequence and peril for the world"



Last Thursday, major news broke as Joe Biden ordered an unprecedented release of crude oil from America's Strategic Petroleum Reserves to tame rising energy costs. In an attempt to combat what the US President branded "Putin's price hike," he issued the release of one million barrels of oil per day from May, totalling 180 million barrels over six months, the largest amount in 48 years, since the Reserve was established.

Addressing the nation, the US President spoke of the intended action, "Putin's war is imposing a cost on America and our allies and democracies around the world... This is a moment of consequence and peril for the world... The action I'm calling for will make a real difference over time, but the truth is it takes months, not days, for companies to increase production. This is a wartime bridge to increase oil supply until production ramps up later this year."

President Biden also appealed to large oil companies to assist the situation by producing more oil by restarting idle wells, or producing on sites they already lease, instead of financially exploiting the situation and benefiting from higher profits because of the price hikes.

On the same day, the Organization of the Petroleum Exporting Countries and allies (OPEC+) agreed to another modest monthly oil output boost, despite calls from the US, UK and others to ramp up output. In a statement, the group outlined, 'Continuing oil market fundamentals and the consensus on the outlook pointed to a well-balanced market. Current volatility is not caused by fundamentals, but by ongoing geopolitical developments.'

UK house price growth

The latest House Price Index from Nationwide has revealed some interesting data, especially considering the current squeeze on finances and gradual rise in borrowing costs; buyer momentum is continuing. Prices are being pushed higher by robust demand and limited supply. Annual house price growth increased to 14.3% in March, up from 12.6% the previous month – this is the eighth consecutive monthly increase and represents the strongest pace of growth since November 2004. The report highlights that strong labour market conditions have also contributed to the buoyancy of the market. The average cost of a home in the UK has reached a new record high of £265,312. Prices are now 21% higher than prior to the pandemic in early 2020. Regionally, Wales was the strongest performer in Q1, with prices up 15.3% year-on-year and London was the weakest. Detached properties have increased in value by nearly £68,000 since the onset of the pandemic, with average prices for flats up by £24,000.

Looking ahead, Robert Gardner, Nationwide's Chief Economist, commented on the outlook, "We still think that the housing market is likely to slow in the quarters ahead. The squeeze on household incomes is set to intensify, with inflation expected to rise further, perhaps reaching double digits in the quarters ahead if global energy prices remain high. Moreover, assuming that labour market conditions remain strong, the Bank of England is likely to raise interest rates further, which will also exert a drag on the market if this feeds through to mortgage rates."

Chinese manufacturing and services contract

With the latest virus resurgence and subsequent lockdowns taking their toll, activity in Chinese manufacturing and services simultaneously contracted in March, fuelling the requirement for policy intervention to stabilise the economy. Escalating control measures added downward pressure on the world's second-largest economy. The uncertainty of the conflict in Ukraine is also weighing on the economy. The finance ministry has pledged a raft of policies to support small firms, the country's main source of jobs. The manufacturing Purchasing Managers' Index (PMI) fell to 49.5 from 50.2 in February, and the non-manufacturing PMI reduced to 48.4 from 51.6 in February. A reading below 50 indicates contraction.

Markets

Despite ongoing woes over the cost-of-living crisis, on what was dubbed 'Bleak Friday' for households on 1 April, as a raft of price hikes took effect, retailers and consumer staple firms lifted the FTSE 100, marking the index's fourth consecutive weekly gain. The index continued its positive trajectory this week, buoyed by some positive US employment statistics on Monday and solid performances from UK utilities on Tuesday, ahead of the government's new energy security strategy later this week.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.