

The Week Ahead, 4th January 2021

Non-farm payrolls, OPEC, Morrisons, Next, M&S

ANALYSTS BACKGROUND

Fiona has a deep understanding of market fundamentals gained through 14 years' experience in the financial markets. She provides up to the minute analysis and insight into the financial markets, as well as the broader economy and monetary policy in the UK, Europe, US and Asia. She is regularly quoted in the global financial press, with her name often seen on Bloomberg, Reuters, Financial Times and the Telegraph. Fiona is a familiar face after years of regular TV appearances across the globe on the likes of BBC, Sky News and Reuters.



Our pick of the top macro data points and companies reporting this week. Those in bold are discussed below.

ECONOMIC DATA

Monday 4th January

China Manufacturing PMI

OPEC

EZ, UK & US Manufacturing PMI

Tuesday 5th January	<p>German Unemployment</p> <p>US ISM Manufacturing</p>
Wednesday 6th January	<p>EZ, UK & US Services PMIs</p> <p>EIA Crude Inventories</p> <p>FOMC minutes</p>
Thursday 7th January	<p>China Trade Balance</p> <p>UK Construction PMI</p> <p>EZ CPI</p> <p>US Jobless Claims</p> <p>US ISM Non-Mfg</p>
Friday 8th January	<p>US Non-farm Payroll</p> <p>Canada Employment</p>
COMPANY ANNOUNCEMENTS	
Monday 4th January	n/a
Tuesday 5th January	

	Morrisons Next
Wednesday 6th January	Greggs
Thursday 7th January	Constellation Brands (US) Bed, Bath & Beyond (US) Walgreens Boots (US) Micron Technology (US)
Friday 8th January	Marks & Spencer

KEY THEME

Key themes: Covid, Vaccines, Retailers & US Senate Run-off

With Brexit and the US stimulus question now settled (mostly) the markets ended 2020 in a relatively calm fashion. Headlines surrounding these factors will remain but they are unlikely to drive the markets.

Covid cases, tightening lockdown restrictions and the covid vaccine rollout are expected to dominate this week, as the new strain of covid spreads like wildfire.

After the worst year on record for the retail sector 2021 will kick off with the traditional Christmas trading update season and will almost certainly be more closely watched than usual.

In the US, the Senate run off in Georgia will be in focus on Tuesday, which could potentially flip to US Senate to Democratic control.

THE WEEK AHEAD

Monday

OPEC+

The OPEC + group will hold a virtual meeting. The group held back from boosting oil output by 2 million barrels a day in the December meeting, after implementing a 7.7 million barrel per day production cut earlier in the year to shore up prices after they went into negative territory. Instead the group agreed to increase production by 500,000. Russia has indicated that it is prepared to hike output by an additional 500,000 bpd from February, despite OPEC seeing plenty of downside risks for oil markets in the first half of 2021. Watch oil prices & energy stocks.

UK Manufacturing (Monday) & services (Wednesday) PMIs

The flash December reading for both the manufacturing and the service sector was more encouraging than expected. Activity in the manufacturing sector expanded to 57.3 with the level 50 separating expansion from contraction. Brexit stock piling will almost certainly have helped boost this figure. The service sector contracted at a much slower rate of 49.9 immediately after the November lockdown. Whilst the numbers could have improved further across most of December the move into Tier 4 lockdown restrictions for parts of the UK could well mean that any recovery will be short lived heading into the new year. Watch GBP.

Tuesday

Morrisons

2021 kicks off with the traditional trading update season, which will no doubt be watched more closely than usual. The most recent grocery market share figures from Kantar showed that UK grocery sales totaled £10.9 billion in November, rising 11.3% over the 12 week period to 29 November. Morrisons recorded the largest jump in sales both in store and online, helping sales grow 13.7% whilst gaining 0.2% market share. This trend is likely to have continued over the Christmas period, although restrictions on household mixing could have limited spending over the festive period.

Next

Next is the first non-food retailer to update the market with its Christmas trading and the update covers a period when large parts of the UK went into Tier 3 covid restrictions whilst London and the South East entered into Tier 4. Whilst Next suffered teething problems with keeping its online business running smoothly in March & April, those problems were ironed out and sales picked up nicely across the year. So much so that Next even upgraded its annual profit guidance in October after sales increased by more than forecast in Q3. Expectations were raised for full year pre-tax profits of £365 million, up from £300 million in September. Next did however highlight at the time that risks remained and another 2 week lock down could mean a 20% reduction in sales. Whilst digital sales could well make up for instore sales drop, the risks are very much skewed to the downside.

Senate vote Georgia

The US Senate is currently controlled by the Republicans. However, this could all change, should the two seats from the state of Georgia flip to Democrats in the vote on Tuesday. Neither candidate won a majority in the November election so it is not the expected outcome, but the possibility remains. In the case that the Democrats manage to win both seats, the Senate would be tied 50 – 50 and vice president elect Kamala Harris would hold the tie breaker vote. Should the Senate flip the US would have a Democratic Presidency, House of Representatives and Senate. This would have major implications for Joe Biden’s planned legislative agenda. Watch USD & US indices.

Wednesday

Global service sector PMI

The service sector has been the sector hardest hit by the pandemic. Whilst China has recovered quickly and the US service sector remains resilient elsewhere the sector has struggled. In the Eurozone, despite a solid rebound over the summer in the sector, a resurgence of covid cases and tough lockdown restrictions in the likes of Germany and France from mid-December could limit any rebound and instead be reflected in deteriorating numbers. Restaurants and bars are expected to stay closed in France until mid-January, whilst Germany remains under a hard lockdown meaning that any recovery could still be a few months out.

Fed minutes

Minutes from the latest Federal Reserve monetary policy meeting will be closely eyes for further clues regarding the next policy move. The December Fed meeting was a bit of a non-event and policy makers kept policy unchanged. The meeting took place to the backdrop of bickering over the covid stimulus package on Capitol Hill. The Fed were clear that they would keep policy accommodative until at least beyond 2023. However, the Fed was slightly more optimistic about the outlook for the US economy, upgrading GDP forecast for the world’s largest economy. A move which seemed slightly out of sync with rising jobless claims. Watch USD, US indices.

EX- Dividends

FTSE100: AVEVA, Experian, British Land

FTSE250: AJ Bell, Bodycote, Brewin Dolphin, Electrocomponents, QinetiQ, UDG Healthcare

Thursday

N/A

Friday

Marks & Spencer

Marks & Spencer have had a tough year after the general merchandise business was hard hit in the first lockdown. However, the retailer is taking steps towards changing its fortunes. The decision to acquire a 50% stake in Ocado's online food unit is already reaping rewards with sales surging by 35% in the last quarter, although that wasn't sufficient to prevent Marks and Spencer from falling into H1 loss. Investors will be keen to see whether that has changed and whether the deal has now helped M&S turn a profit in Q3.

Non-farm payroll

The latest jobs data for the month of December will shed some light on how the recovery in the US labour market is doing or whether it has stalled. The slowdown in job creation has been clear over the past few months as covid cases have risen again and lockdown restrictions tightened business and jobs have been hit. There have also been growing concerns over the past few months that the lack of a new stimulus deal would also act as a drag on the US economy. Whilst earlier numbers didn't reflect that fear as the US consumer remained resilient, the latest data from November was significantly weaker. In September 672,000 jobs were added. 610,000 jobs were added in October whilst just 245,000 were added in November despite 480,000 new jobs forecast. Despite the recently agreed US Covid stimulus package, the concern is that this trend could have continued into December, particularly as additional US fiscal stimulus wasn't agreed until the end of December.

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