

# Weekly Macro & Markets View

## Highlights and View

- **US business activity weakens further, but the labour market is showing resilience**

A fall in both the ISM Manufacturing and Non-Manufacturing indices indicate weaker growth momentum but the labour market remains strong, supporting consumer spending.

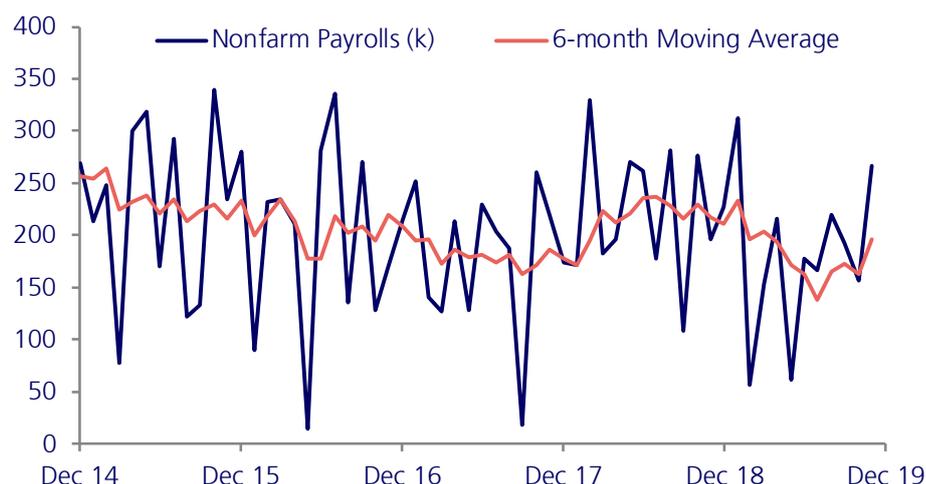
- **Markets celebrate the pickup in China's PMIs**

Digging deeper into the numbers we urge caution as special factors may have played a role, though the service sector remains brisk.

- **The final Eurozone Composite PMI for November is revised up to 50.6 from 50.3 on the flash estimate**

The overall Composite PMI is consistent with only very weak growth in Q4, but at least there are signs of stabilisation in manufacturing sentiment.

## Strong payroll numbers lift the S&P 500



Source: Bloomberg

After a weak start, the S&P 500 managed to end the week in positive territory (+0.16%) thanks to the strongest daily performance in five weeks on Friday. Investor sentiment was lifted by solid payroll numbers (266,000). The figure was supported by over 40,000 GM employees returning to work after a strike, but still easily exceeded most expectations. The unemployment rate ticked back down to 3.5%, matching the five-decade low reached in September, although this was mainly due to a slight fall in the labour force participation rate. The positive tone was further bolstered by the University of Michigan's consumer sentiment survey beating expectations both for current conditions as well as expectations. The strong readings from the consumer sector are reassuring while the latest signals from the business sector show that growth momentum is still weakening. The ISM Manufacturing Index ticked down to 48.1 in November, with both new orders and employment softening, implying that the manufacturing sector remains under pressure. Contagion to the service sector is still limited but visible with the ISM Non-Manufacturing Index falling to 53.9 from 54.7. On the other hand, non-manufacturing new orders and employment both improved, pointing to the service sector's resilience.

## Asia: APAC PMIs are slowly bottoming out

APAC's GDP weighted PMIs ticked up slightly but remain below the boom/bust line of 50, suggesting slow growth. China and Vietnam were the shining stars. In China, the NBS Manufacturing PMI moved back above 50, with all sub-components contributing positively. Meanwhile, the Caixin Manufacturing PMI was up marginally, but better than expected, though the output and new order components softened. Global equities and bond yields moved higher on the news, but we caution against getting carried away. First, November often tends to show a

rebound from weak October levels, due to holiday related distortions. Second, rush deliveries before the expected US tariff hike and record high Single's Day sales may have contributed positively. However, we are encouraged by the strong reading for the service sector in both PMI versions. Meanwhile, Hong Kong's PMI tumbled to 38.5. Both South Korea's and the ASEAN Manufacturing PMI recovered but remain below 50. Overall, we believe a bottoming out is in process, but it is too early to cheer.

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## Japan: Fiscal stimulus less than the huge headline number suggests

Japan's Q3 GDP was revised up from a prior 0.1% to 0.4% QoQ (1.8% annualised) following stronger business investment growth, driving capex to the highest level since 1992. Consumption growth was also revised higher, while the drag from inventories was less than shown in the first estimate. However, the post VAT hike slump in October was bigger than expected. The Eco Watchers Survey showed that the assessment of current conditions in November bounced back from the steep drop in October, while the outlook recovered to the June level. It seems like the

steep drop around the consumption tax hike is no longer having an impact. Meanwhile, the Reuters Tankan also improved in November. The JPY 26tn fiscal stimulus package is huge and unprecedented in an economy that is not in recession and has a strong labour market. While we note that the real net impact on growth for this and next year will be much smaller than the headline suggests, Japan is, nonetheless, setting standards for other countries to adopt fiscal stimulus.

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## Eurozone: German industrial output declines at fastest pace in 10 years

Current economic conditions remain weak in the Eurozone, especially in Germany, but there are some signs of a bottoming out in the data that are worth watching. The final Eurozone Composite PMI was revised up from the flash estimate leaving it unchanged in November compared to October at 50.6. This is consistent with the very weak, below-trend growth of 0.1% to 0.2% QoQ in Q4. However, there were some encouraging data points in the detail of the survey. For example, the new orders component picked up for a second month in the manufacturing sector,

suggesting we could see an improvement in activity and business sentiment in manufacturing over the next few months, absent any further trade related shocks. However, the fact that current conditions remain poor was underscored by the release of German industrial production data for October. Output declined for a second consecutive month, by 1.7% MoM, bringing the YoY rate of decline to 5.3%, its steepest rate in 10 years (i.e. since the Global Financial Crisis).

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## European ABS: A niche but promising market

European ABS returned a good overall performance in 2019. Despite dispersion across sectors and within the capital structure, senior tranche spreads of Dutch RMBS and German auto ABS have now touched the tightest post-crisis levels and are close to all-time lows. In contrast to the rising risk of volatility in corporate credit markets, we believe that ABS spreads should remain more resilient over the coming months. Activity and supply have picked up and 2019 is the first year since the crisis to record a positive net supply. We expect a further steady growth in

supply, especially for UK RMBS as banks will start to refinance their maturing loans taken under the BoE's Term Funding Scheme. ECB net monthly purchases under the ABSPP were more than €1bn in October and November and these amounts were the highest since November 2016. We think this will remain a tailwind for ABS in 2020 as the ECB will likely buy more private sector bonds than in previous years given the constraints on some public bonds.

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## Credit: The year end lull sets in

Credit markets saw a winding down of activity, which we expect to continue into year end. After a robust November, last week saw muted primary activity in markets, with corporate debt issuance totalling only around \$15bn in the US and less than €10bn in Europe. Flows generally remained robust and consequently, issuers were able to issue debt with low concessions. Twitter was one of the highest profile issuers, selling debt at record low yields for the rating and maturity, with a strong order book allowing it to upsize the deal. Spreads in the secondary market were

generally firm, with cash outperforming CDS. US high yield energy sector spreads tightened but perhaps less than expected given the strength in oil prices after pledged supply cuts. Central bank meetings, notably the Fed and the ECB, will be in investor focus this week, although investors don't expect the significant volatility which marked December 2018. All in all, while credit markets look set to end 2019 on a strong note, most of the performance was front loaded and next year is likely to be more challenging.

## What to Watch

- The Fed, the ECB and the SNB will have policy meetings. Christine Lagarde gives her first monetary policy press conference as ECB President and is expected to formally announce a strategic review of the ECB's monetary policy objectives and available tools.
- The ECB's TLTRO III (cheap loans) to banks will be announced, and following the new incentives, take-up is expected to be robust.
- In the UK, a solid and sustained lead in the polls indicates that the Tories are likely to win a majority in Thursday's elections.
- December 15 marks the date by which President Trump threatened to impose more tariffs on imports from China. Failure to suspend or delay the deadline will weigh on investor sentiment.
- In Asia, Japan's Q4 Tankan Survey will be released. We expect the Philippines's BSP to stand pat and RBA Governor Lowe's speech to indicate whether another rate cut can be expected. Australia's business and consumer confidence data may have ticked down. In China, inflation and lending data will be the focus. Taiwan's November export data and Japan's October machinery orders will also be released.

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