Weekly Macro & Markets View

Highlights and View

- **US consumer confidence rebounds by the most in 17 years**

  Though still far below pre-crisis levels the improvement is reassuring as households begin to look through the current economic challenges.

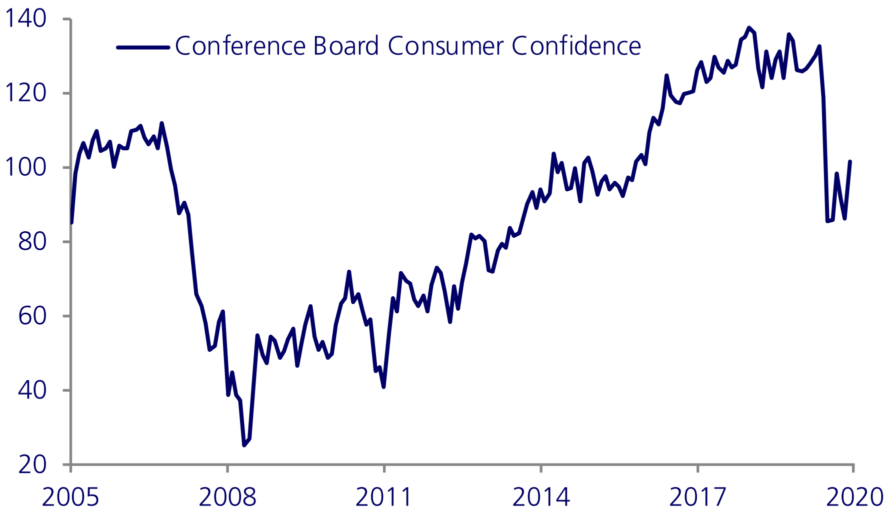
- **Eurozone inflation falls to a fresh record low**

  Low inflation adds pressure on the ECB to do more. We expect an extension and increase in the PEPP to be announced in December.

- **The Global Manufacturing PMI rose further in September, boosted by strong export orders and improving employment plans**

  The recovery is broadening out across regions and sectors and further gains are expected over the coming months, albeit at a slower pace.

US consumers see light at the end of the tunnel



Source: Bloomberg

Over the course of last week, the S&P 500 recovered part of the losses suffered the previous four weeks, although not without a few hiccups. Friday's news that President Trump and his wife had tested positive for the corona virus pushed S&P 500 futures down by more than 2% before the index eventually rebounded. On the economic front, the latest batch of data was mostly reassuring and reflects a continued recovery of the economy. The ISM Manufacturing survey ticked down to 55.4 in September from 56.0 in August with new orders signalling further solid momentum. The Conference Board's consumer confidence survey rebounded by the most in 17 years, helped by a steep rise in expectations. Households increased their spending in August despite a fall in personal income caused by a decline in government transfers. Accordingly, the savings rate receded further from its all-time high reached in April. An improving employment situation is likely to have supported consumer sentiment. The unemployment rate fell to 7.9% in September from 8.4% with an even steeper fall in the broader underemployment rate to 12.8% from 14.2%. The rate of decline is likely to slow in the months ahead, however, particularly if fiscal support is phased out and politicians are unable to agree on a new round of stimulus. The number of new payrolls fell to 661k from 1.5m while initial jobless claims continue to hover above 800k per week.

Eurozone: Further fall in inflation adds pressure on the ECB to do more

Core inflation in the Eurozone fell to a record low of 0.2% YoY in September from its previous record low of 0.4% in August, while headline inflation was negative for a second month. Inflation was weak across most components and the low outturn adds pressure on the ECB to do more. We expect it will announce an increase in the size and duration of its EUR 1.35 trillion Pandemic Emergency Purchase Programme, probably at its December 10 meeting. Indeed, last week ECB President Christine Lagarde gave a speech where she said that asset purchases had enabled the bank to loosen monetary policy without pushing interest rates a lot further into negative territory, which would have been counterproductive anyway. Last week's data was still consistent with the economy recovering. The European Commission's Economic Sentiment Indicator increased for a fifth consecutive month to 91.1 in September from 87.5 in August, though the indicator for Spain increased by less. The Euro Stoxx 50 was up around 1.7% last week, as further evidence of economic recovery offset virus concerns.

Switzerland: The strong but partial recovery continues

The Swiss economy has once again proven to be resilient, with a shallower recession and a sharper rebound than in many other regions. The latest data confirm that the recovery continued into September, though the pace of improvements started to slow. The two key leading indicators, the all-industry KOF and the Manufacturing PMI, rose further, with the KOF back to a similar level as during the post Global Financial Crisis recovery, with broad based improvements across the economy. While encouraging, the recovery is still only partial and the PMI data show that employment remains in contraction, as uncertainty and business disruptions weigh on job creation and businesses report that their staffing levels are now too high. Retail sales data have also softened, suggesting that strong pent-up demand following the lockdown is moderating. We expect the recovery to continue into year end, but it will be important that support is not removed prematurely, as pockets of weakness persist.

Japan: The Tankan and Tokyo Stock Exchange disappoint

The Tokyo Stock Exchange, the world's third largest stock exchange, had to shut down for a full day on Thursday due to a hardware problem, the first such incidence since the TSE switched to fully electronic trading in 1999. On the economic front, the Tankan, the quarterly corporate survey conducted by the Bank of Japan, disappointed consensus expectations and suggests that the economic recovery remains tepid in the corporate arena. Bottoming out for both manufacturing and non-manufacturing companies, the diffusion indices remained deep in negative territory, while corporate investment plans disappointed again. The only bright spot was 'easy' financial conditions, suggesting that monetary and fiscal stimulus is working. Overall, we are concerned about conditions for small companies, the backbone of Japan's economy. On a positive note, both retail sales for August and consumer confidence for September were reported better than expected. The inclusion of Tokyo in the 'Go To' travel discount campaign last weekend is likely to support our view that the ebbing of COVID-19 cases will spur consumption.

Australia: Home prices show resilience

Dwelling prices decreased by 0.2% MoM in September, led by Melbourne. Sydney was also affected as fears of COVID-19 spreading from Victoria to New South Wales weighed on consumer sentiment. Elsewhere in other cities, home prices rose moderately, while leading indicators such as sales-to-new-listings and auction clearing rates seem to suggest a rebound in prices further ahead. August building approvals declined by 1.6% MoM following a strong reading in July. Overall, the housing market has held up surprisingly well given soaring unemployment and prolonged border closures. The resilience can mainly be attributed to substantial fiscal and monetary stimulus. Direct cash handouts, loan deferrals and ultra-low interest rates have helped prevent major financial distress among households given their high indebtedness, mostly from mortgages. Looking forward, house prices are likely to improve further along with a pickup in activity. However, it is important that fiscal and monetary support remains intact as the economy still needs time to heal.

Argentina: New economic policy measures are announced

The central government announced new measures to support economic growth and reduce the drop in FX reserves, which has intensified mainly due to the withdrawal of private sector dollar deposits and the increased demand for USD after tightened capital controls. Measures announced by the Ministry of Economy included a temporary reduction of taxes for some exports to increase the USD supply. Furthermore, the Treasury will add USD-linked bonds (payable in pesos) to its domestic market auctions. The BCRA announced that they will abandon the currency's uniform devaluation mechanism, allowing greater currency volatility. To improve the attractiveness of financial instruments denominated in local currency, the BCRA also increased the overnight repo rate from 19% to 24%. After the announcement, the gap between the official exchange rate and the blue chip swap rate continued to widen. As the measures do not resolve the significant monetary imbalance, we anticipate that pressure on the exchange rate and inflation should continue.

What to Watch

- In the Eurozone industrial production and retail sales data should indicate that the recovery continues despite virus and lockdown risks.
- In Asia Pacific, we believe Japan's Eco Watchers survey for September and the household survey for August will confirm improving goods consumption, while services consumption is likely to have remained tepid. We expect the RBA to cut its policy rate to 0.1% though there is a possibility that the central bank will delay cutting its cash rate until November. Australia's FY20-21 federal budget announcement needs to be watched. September inflation data for Taiwan, South Korea, Thailand and the Philippines as well as Taiwan's September export data and August export statistics for the Philippines will also be released. China's markets will remain closed due to holidays.

Zurich Insurance Company Ltd
Investment Management
Mythenquai 2
8002 Zurich

173001566 (01/16) TCL

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