

Weekly Macro & Markets View

Highlights and View

- **US business activity remains strong but lost momentum in November**

Both the ISM Manufacturing and Services surveys reflect an ongoing expansion with solid new orders, though some headwinds are expected in the coming weeks.

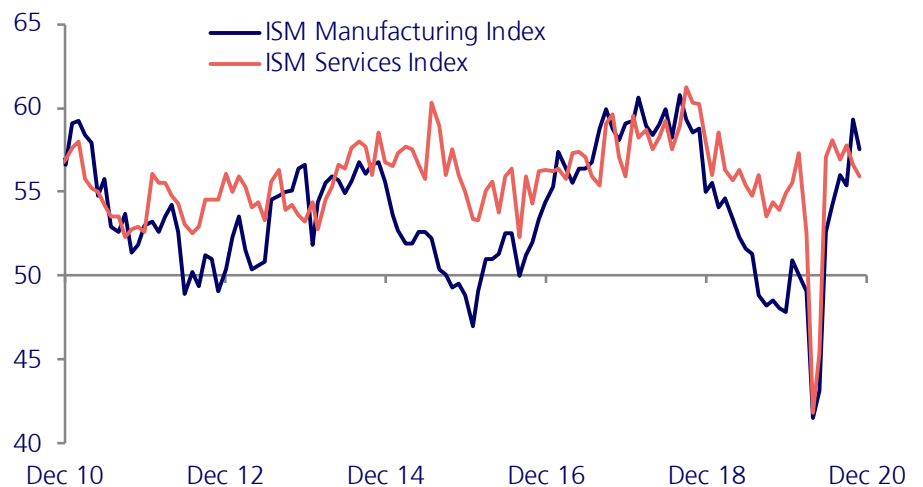
- **Final Eurozone PMIs confirm strong hit to the service sector in November but also resilience in manufacturing**

As lockdown restrictions are gradually eased over the next few weeks and months, we expect service sector activity to gradually recover.

- **The global PMIs reveal that economic growth was solid in November, led by strong manufacturing activity**

The global economy should remain resilient, though services activity is expected to weaken as lockdowns and social distancing bite.

Business activity remains high



Source: Bloomberg

The S&P 500 rose 1.7% last week to reach a new record high, helped by a bipartisan push in the Senate for another round of fiscal stimulus to support the economy. The stock market rose despite weaker employment data which, ironically, may even increase the likelihood of further fiscal measures. 245'000 new payrolls were created in November, significantly below consensus expectations and a marked slowdown from a month before. The unemployment rate ticked down to 6.7% from 6.9% in October, but that was due to a lower participation rate as people dropped out of the labour market. Initial jobless claims fell last week, painting a slightly better picture of the employment situation, but the number is likely to be distorted by the Thanksgiving holiday and is expected to rise again this week. While the labour market is showing some signs of weakness, business activity remains high. Both the ISM Manufacturing and Services surveys reflect a solid expansion in November, though momentum has slowed compared to a month ago. Somewhat below the radar, firms keep reporting significant price pressure in the pipeline and longer-term market-based inflation expectations have risen to the highest level in more than 18 months. Finally, pending home sales fell the second month in a row, indicating that the pandemic related pent-up demand has now been worked off.

Eurozone: Final PMIs and German factory orders confirm manufacturing resilience

The final November PMIs for the Eurozone confirmed not only the sharp hit to services confidence in November as the partial lockdown took hold, but also the relative resilience of the manufacturing sector in Germany and France as well as in Spain and Italy. Germany's industrial sector remains clearly the most resilient, however, as was also confirmed by October factory orders data released last week that showed continued strong underlying demand. Germany also announced last week that partial lockdowns will continue into early next year, suggesting

that the service sector will bounce back, but only gradually over the next few months. Meanwhile, Poland and Hungary have still not come to agreement with the rest of the EU regarding the multi-annual budget and Next Gen EU initiative, setting up for a crucial EU summit meeting later this week where we hope and expect more tangible progress will be made.

Switzerland: The economy is resilient, with continued expansion expected

GDP data show a solid and broad-based expansion in the third quarter, with the level of GDP only down 1.6% compared to a year ago at the end of September. While parts of the economy have been badly hit, this is a strong performance, particularly compared to the Eurozone—Switzerland's main trading partner—where GDP is still down over 4% YoY. The resilience reflects the highly diversified Swiss economy, with the pharma sector providing an offset during the first half of the year and consumption bolstered by domestic tourism and reduced cross-border

shopping. More timely indicators show that activity is holding up into Q4, despite a surge in infections and harsh lockdowns among its trading partners. The environment is deeply deflationary though, with consumer prices down 0.7% YoY, and with downward pressure on broader costs and prices. The SNB is expected to leave policy unchanged in its meeting next week.

Asian PMIs: More boom than gloom

Several Asian Manufacturing PMIs surged to multi-year highs in November. The Asian new orders index, China's Caixin Manufacturing PMI and the employment component within the Caixin Services PMI even marked ten-year highs. We note that the regions that were exposed to strong demand for electronic products and semiconductors fared particularly well in the surveys, including the Manufacturing PMIs for Taiwan and South Korea as well as the Electronics PMI in Singapore. Global home office related electronics demand remains buoyant.

Indonesia's Manufacturing PMI recovered back above the boom/bust line of 50, benefitting from a loosening of pandemic induced restrictions in Jakarta. Meanwhile, the Manufacturing PMI remains below 50 in Malaysia, following a new wave of infections, and fell back below 50 in Vietnam and Singapore. We suspect a series of major typhoons hitting Vietnam may have played a role. Overall, we are encouraged to see that both domestic and export orders, combined with low inventories, paint an encouraging picture for many Asian countries into 2021.

Australia: Encouraging economic data suggest that monetary stimulus might not be extended

Most economic indicators released last week painted a rather rosy picture of Australia's economic recovery following the end of Victoria's pandemic induced lockdown. Real GDP grew 3.3% QoQ in Q3, stronger than expected, on brisk private consumption. We would not be surprised to see positive QoQ retail sales growth in Q4 and perhaps even double-digit percentage growth in YoY terms. Car sales surged in November, ending 31 consecutive months of YoY decline. We also expect a strong contribution of net exports to Q4 GDP growth following the sharp rebound

of exports in October versus a shallow rise of imports. The number of first homebuyers has risen to an 11-year high in response to stimulus, as home loans surged to a record high in October. Strong building approvals, a surge in the construction index and the CoreLogic median house price index rose for the second month in a row confirming our view that the RBA may be hesitant to expand its QE program in April next year. While the RBA kept monetary policy unchanged last week, Governor Lowe noted that 'we have an open mind'.

Latam: Financial assets continue to recover

The depreciation of the US dollar and the increase in commodity prices have continued to drive regional currencies' appreciation. The Brazilian real, the Colombian peso, and the Chilean peso were among the world's most appreciated currencies last week. The BRL reached its highest level since July, the MXN is the strongest since March, and the CLP recovered to levels seen at the beginning of the year. The MSCI Latin American Index outperformed the MSCI EM Index for the fifth consecutive week. In Chile, while retail sales reached record levels and industrial

production continued to recover, the monthly economic activity indicator disappointed, declining 1.2% YoY, due to the service and construction sectors. In Brazil, Q3 2020 GDP showed strong growth of 7.7% QoQ, led mainly by the industrial sector. The manufacturing industry continues to recover, with the Manufacturing PMI reaching 64 in November. In Mexico, the Manufacturing PMI continues to show a slow recovery while remittances continue to grow faster, boosting consumption.

What to Watch

- In the US, small business optimism and the University of Michigan's consumer confidence survey will indicate how much firms and households have been affected by the recent surge in infection rates.
- The ECB is expected to announce a substantial increase and an extension to its asset purchases, while the EU summit aims to overcome disagreements between Poland and Hungary and the rest of the EU. The latest developments in Brexit negotiations will also be assessed.
- In Japan, the focus will be on the new economic stimulus package, which will be announced on Tuesday, and leading indicators including the Reuters Tankan for December, the Q4 BSI business survey and the Eco Watchers survey for November. Inflation data for November will be released in China and Taiwan. In Australia, business and consumer confidence data will take centre stage.
- We expect the central banks of Brazil and Chile to keep their policy rates unchanged. Also, in Brazil, Chile and Mexico inflation will be the most relevant economic data of the week.

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