December 21, 2020

Weekly Macro & Markets View

Highlights and View

- **As Brexit talks extend, the UK becomes isolated due to the rapid spread of a new COVID-19 variant**

  The mutation of the virus is not a surprise, but it is coming at the worst possible time and will take a heavy toll on consumption and sentiment over the peak holiday period.

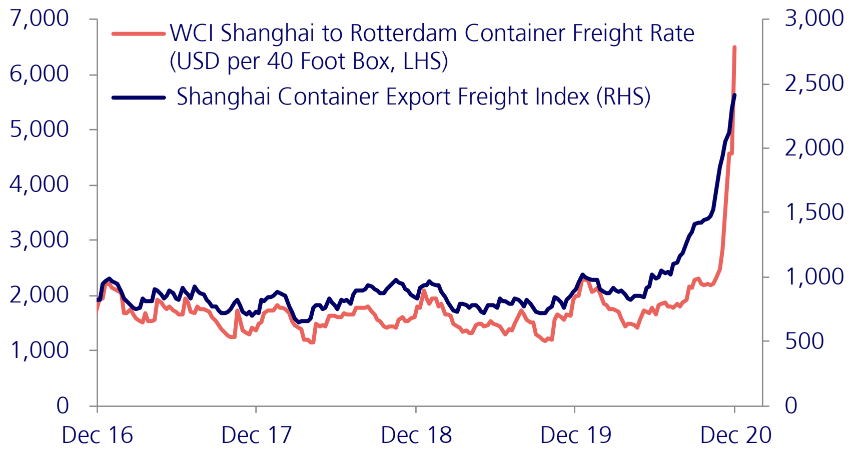
- **Bipartisan agreement is reached in the US for a further USD 900bn COVID relief package**

  Congress is expected to approve the plan later on Monday, which comes in the nick of time and is a much-needed development to tide the US economy over until more sustainable growth gains traction.

- **China's latest economic data remain encouraging**

  Policies are likely to remain accommodative, though more targeted in 2021.

Steering China's boom



Source: Bloomberg

China's economic indicators for November, published last week, were fully in line with optimistic expectations. YoY growth rates for retail sales, industrial production and fixed asset investment edged higher again. As growth rates for fixed asset investments may be distorted to the upside due to base effects following downward revisions for investments in 2019, we are focusing on shifts within investment categories. So far infrastructure and property investments have been the main growth drivers, but last month manufacturing investment took over the baton. The latest surge in exports, particularly to the US and Europe, is causing manufacturing and logistics bottlenecks and encouraging firms to invest more. Meanwhile, the Central Economic Work Conference (CEWC), which formulates economic policy priorities and targets for next year, concluded last Friday. It seems that policy continuity will prevail, not at least to create a benign economic environment to celebrate the 100th anniversary of the founding of the Communist Party. This does not preclude somewhat less accommodative monetary and fiscal policy in our view, which the CEWC has labelled as 'prudent'. Self-sufficiency in China's supply chains and a focus on technological progress are fully in line with the 14th Five-Year Plan and Vision 2035. We also note that anti-monopoly policies are moving more into focus, targeting the major internet giants.

UK: Additional lockdown measures dash Christmas spirits

Business activity recovered modestly in December with the Composite PMI ticking up to 50.7 from 49. The recovery was mainly driven by the manufacturing sector. New orders expanded at the fastest rate since August, supported by a temporary boost due to stockpiling ahead of the Brexit deadline. Not surprisingly given the COVID restrictions, development in the service sector was rather muted. On a more positive note, the rate of job shedding in the private sector was the slowest in ten months. The unemployment rate ticked up to 4.9% but remains severely distorted by the government's furlough program, which was extended by one month to last until the end of April. The closure of non-essential shops in November as part of the second lockdown also affected retail sales, which fell by 2.6% MoM but were still 5.6% above their level a year ago. Spending is expected to rebound in December, but new lockdown measures announced on Friday will curb activity into the New Year. Finally, the BoE kept rates on hold but signalled further easing ahead should economic prospects deteriorate.

Eurozone: Flash PMI rebounds sharply in December

Encouragingly, the Flash Eurozone Composite PMI for December has rebounded to 49.8 in December from 45.3 in November, driven by a sharp improvement in services confidence. The December Composite PMI is now back close to its October level, before the November lockdowns. What's more, forwarding-looking components in the survey such as hiring intentions, new orders, and business expectations picked up, probably helped by news around vaccine developments. While the rebound in business sentiment is encouraging and consistent with stronger growth in 2021, we still expect overall GDP to have contracted in Q4 given the hit to activity from the lockdowns in November that will only be partly made up in December. Indeed, Germany announced further restrictions last week lasting until at least January 10. Other data out last week confirmed the resilience of the manufacturing sector in particular. For example, Eurozone industrial production was up 2.1% MoM in October, with broad-based gains across sectors and countries.

Switzerland: Labelled a currency manipulator

Switzerland was designated a currency manipulator in last week's US Treasury report. This was expected as the bilateral trade surplus with the US exceeds the threshold of USD 20bn, the current account surplus is 8.8%, far exceeding the threshold of 2%, and as the Swiss National Bank has intervened heavily in forex markets throughout the COVID-19 crisis. While this highlights the issues that the SNB is facing, FX purchases are an integral part of its policy framework and we do not expect the announcement to trigger a change in policy near term. This was also confirmed at last week's SNB monetary policy meeting, which concluded that the bank remains willing to intervene in the FX market. The need for interventions should, however, diminish over the coming year with vaccine developments an inflection point for safe haven asset demand. That said, with Swiss yields now trading above Bund yields on some maturities and with large-scale ECB asset purchases continuing any weakening of the franc is likely to be limited.

Australia: On solid footing

Economic indicators suggest that Australia's economy is healing surprisingly well post crisis. November job data beat the consensus expectation by a wide margin with 80k new jobs created following the boom in October, supported by Victoria's recovery. The unemployment rate edged down from 7% to 6.8% while the participation rate rose from 65.8% to 66.1%, hitting pre-crisis levels. Encouragingly, working hours and wage growth also ticked up, reflecting improving conditions in the labour market. December Flash PMIs also painted a rosy picture, with the Services PMI jumping from 55.1 to 57.5. We believe the economy will continue to recover solidly in the coming year given Australia's current success in containing the pandemic and the wide availability of vaccines next year. This should help businesses to reopen safely and restore confidence among firms and households.

Credit: Strong into the holidays

Credit markets were robust last week as investor optimism around vaccine rollouts, US fiscal stimulus and Brexit talks boosted risk appetite. US credit outperformed European credit, although the latter is now trading at year-end 2019 spread levels. While primary activity usually slows down by this time of year, US high yield saw heavy supply that was well received. Consequently, the month is likely to be the busiest December for the segment in over a decade. Primary markets in US investment grade and in Europe remained quiet, however, while inflows generally slowed down. The recent surge in commodity prices due to a weaker US dollar and optimism around reflation strategies for 2021 has also supported credit. Indeed, credit spreads of the US high yield energy sector and the European metals and mining sector are now notably tighter than at year end 2019. Even though credit markets are expected to slow down into Christmas and sentiment is soggy this morning, demand is likely to persist in January when primary activity will be keenly watched as it tends to be an important harbinger of yearly returns.

What to Watch

- The Bank of Thailand will probably keep its policy rate at 0.5%. In Japan, our focus is on November data for retail sales, housing starts and the labour market. Australia's retail sales and foreign trade data for November are likely to be robust given the current pace of the recovery. Taiwan's and Singapore's industrial production as well as export data in Korea, Taiwan, Malaysia and Thailand are also worth watching.
- In the US new and existing home sales are expected to show modest declines in November from robust levels, while durable goods orders will also be in focus.

We wish all our readers a happy and relaxing holiday period and best wishes 2021. The Weekly will return on January 11.

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