

# Weekly Macro & Markets View

## Highlights and View

- **The UK's Composite PMI rises to the highest on record**

Pent-up demand is fuelling a strong acceleration in business activity and consumer spending, lifting consumer sentiment and the employment outlook.

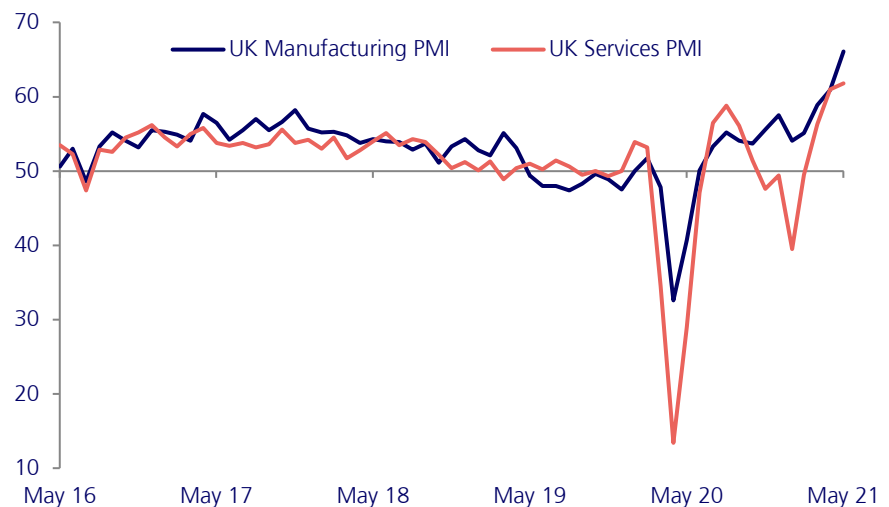
- **Japan's Q1 GDP contracted 5.1% in sequential annualised terms**

Forward looking indicators like the Manufacturing PMI and the Reuters Tankan make us more optimistic about the economic outlook once the current COVID-19 wave subsides.

- **The results of the election in Chile show a clear demand for change, increasing political uncertainty.**

Asset prices should remain under pressure with higher volatility and uncertainty, despite the favorable economic fundamentals, while the new constitution probably will include more social rights.

## UK business activity rises to the highest in decades



Source: Bloomberg

The UK economy is exhibiting significant growth acceleration with Markit's Composite PMI rising to the highest level since the start of the series in 1998, indicating a very strong expansion of business activity lifted by both manufacturing and services. Similarly, business expectations for the next 12 months also edged up to a new record high. Improvements were visible in all sectors, but the strongest pickup in demand was reported for hotels, restaurants and other consumer-facing services. The flipside of the strong acceleration in growth are cost pressures due to shortages of raw materials and high shipping costs, leading to the sharpest increase in average prices charged by private sector firms since the index began. These price pressures are not yet fully visible in CPI data with headline inflation accelerating to 1.5% YoY in April from 0.7% the month before, while Core CPI ticked up to 1.3% YoY. The stronger growth environment is also reflected in an improving labour market situation with jobless claims falling the second month in a row, while employment has picked up at the fastest pace since February last year. All this has helped to lift consumer sentiment back to pre-crisis levels and boost retail sales by 9.2% MoM in April, leaving it more than 40% higher than a year ago.

## Eurozone: PMIs points to an economic boom coming

The latest business surveys from the Eurozone indicate that we will soon see a strong pickup in the pace of growth in the region, something we have argued previously was likely, especially as Covid restrictions are gradually eased. The flash Composite PMI for the Eurozone increased by around three points to 56.9 in May from 53.8 in April. Manufacturing confidence was almost unchanged, remaining close to a record high, while service sector confidence surged by almost five points to 55.1 from 50.5 in April. The Eurozone is thus likely to soon join the US

in terms of seeing an economic boom, though there are also signs of pricing pressures emerging, especially in the manufacturing sector. Meanwhile, plans for a "EU digital Covid certificate" continue to progress, with the European Commission proposing last week the creation of a temporary digital certificate that would allow travel throughout the EU in time for the crucial July/August holiday season for people who have either had a vaccine, or have previously caught the virus and recovered or have recently tested negative for it.

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## Japan: GDP contracted in Q1, but leading indicators are encouraging

Japan's economy contracted by 5.1% in annualised terms compared to the prior quarter and was down 1.9% YoY. Private and public consumption were the main drivers on the downside, in line with expectations. Private capex also contributed negatively, which was a surprise. A rather feeble rebound in machinery orders in March confirms this weakness. Meanwhile, export values recovered in April to the highest level in 2½ years, driven by strong machinery deliveries to the US and China. Though the Manufacturing PMI and most of its components declined in

May, manufacturing activity remains strong with the PMI holding above the 50 boom/bust line. The Services PMI, however, took a beating, falling 3.8 points to 45.7 in the wake of the state-of-emergency's impact on consumption. On a positive note, the Reuters Tankan manufacturing diffusion index for April surged 8 points to 21, reaching the highest level since the end of 2018. Machine tool orders for April were also stronger than expected for domestic and particularly foreign orders. The latter indicators offer a glimpse of hope amid the weak Q1 statistics.

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## Taiwan: Infection of a paragon

Taiwan has been a role model for the world with respect to handling the COVID-19 pandemic. Gathering early intelligence about the outbreak, tracing technologies and testing had helped the nation to avoid severe infections and fatalities. However, cases have suddenly climbed above 10,000, though they remain small on a per capita basis. Less than 1% of the population has been inoculated due to vaccine supply constraints. The impact on the economy will be visible in lower private consumption as mobility data already show a slowdown in activities. However, the

important semiconductor industries are unlikely to be impacted as production is largely automated. Taiwan was one of the few territories growing last year. While real GDP was up 3.1% in 2020, growth in Q1 was even more impressive, up 8.2% YoY, mainly driven by the export boom. In April, export orders surged 42.6% YoY while industrial production was up 'only' 13.6%, negatively impacted by supply constraints in chip manufacturing. We believe that following a dip, growth is likely to pick up again later this year once the vaccine rollout will gain speed.

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## Australia: Fiscal tapering seems to have a limited impact on the labour market

The unemployment rate edged slightly lower from 5.6% to 5.5% in April. There were more than 64,000 part-time job losses in April as the wage subsidy program expired in March. However, the number of newly added full-time jobs helped offset the weakness in the part-time segment. Encouragingly, indicators such as the number of job ads and job vacancies show the labour market should be well supported going forward. Both the May Manufacturing and Services PMIs remained extremely robust at 59.9 and 58.2 respectively. Notably, the manufacturing input

and output prices were elevated, probably tied to the supply bottlenecks post Covid. However, we think this is rather transitory. Q1 wage growth hardly changed compared to the last quarter. Without the pressure coming from wage growth, underlying inflation is unlikely to rise above 2% sustainably. Meanwhile, April retail sales were up by 1.1% MoM, surprising consensus to the upside. Café, restaurant, and takeaway food services rose strongly, most likely linked to the ongoing reopening of the economy.

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## Chile: Higher volatility and uncertainty ahead

Traditional political forces saw disappointing results in the election of the constituent assembly to draft the new constitution. The centre-right coalition won only 37 of the total 155 seats, well below the threshold of 52 seats needed to block any proposal. The centre-left coalition won 25 seats, while the extreme-left parties got 28 seats. The most significant result, however, was that the independent groups did much better than expected, obtaining 48 seats. Most of them are probably inclined to change the country's political and economic institutions radically.

The turnout was 43.4%, significantly lower than last year's referendum (51%). These results imply a reassessment of risks as well as increased uncertainty and volatility in financial markets, not only because of the new constitution but also because of the changed political outlook for the presidential and congressional elections later this year. Financial markets reacted negatively. The stock market fell 10.8%, while nominal and real 10yr rates rose ~25bps and ~40bps, respectively. The exchange rate saw a less dramatic reaction, depreciating 2.5%.

## What to Watch

- In the Eurozone, the German ifo survey and other data should provide further evidence of an economic boom coming soon in the region.
- In APAC, we expect the Bank of Korea to keep its policy rate unchanged at 0.5%, while revising up its growth and inflation outlook. In Japan, labour market data for April and Tokyo's CPI for May will be released. Hong Kong's April exports are likely to have remained resilient. Malaysia's exports in April should have remained supportive while Australia's private capex is likely to have improved further in Q1. Thailand's industrial production probably declined in April from March.

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