

Weekly Macro & Markets View

Highlights and View

- **Fed Chair Jerome Powell signals the Fed is likely to start tapering its QE purchases later this year**

Powell provided no details regarding the pace of tapering but emphasized that tapering is not related to an eventual rise in interest rates.

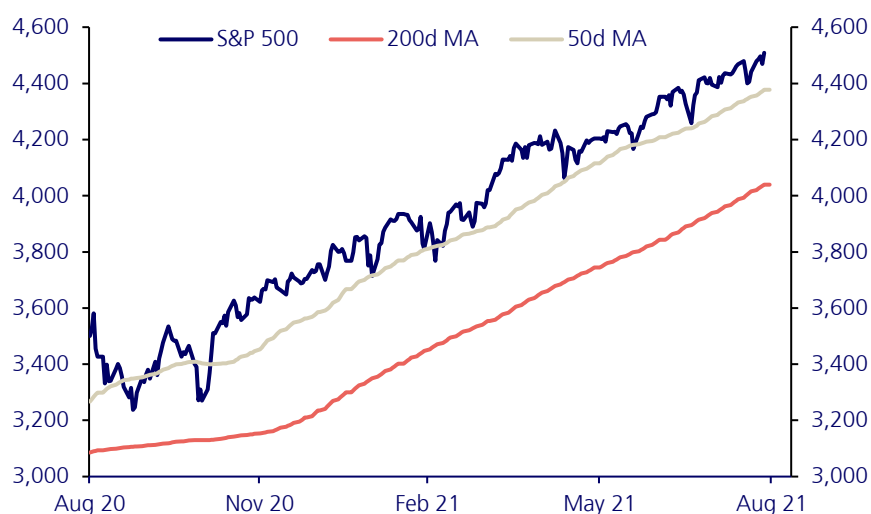
- **UK business activity slows in August due to staff shortages and supply chain issues**

The deceleration in business activity was driven by a marked slowdown in the service sector though firms remain very optimistic regarding the business outlook.

- **The Eurozone Flash Composite PMI and German ifo survey fall back in August**

The declines in business confidence are from very robust levels and the Eurozone recovery remains intact.

Fed Chair Powell prepares investors for a dovish tapering



Source: Bloomberg

As expected, Jerome Powell used his speech in Jackson Hole to prepare investors for a tapering of the Fed's asset purchases later this year. He did not provide any further details, however. More important than when the tapering will begin will be the actual pace once it does. The pace will depend on further economic development in the coming quarters and the tapering is likely to last through most of next year. Importantly, Powell went a long way to emphasise that tapering is not related to an eventual rise in interest rates. This and the overall relatively cautious tone reassured investors that monetary support will remain abundant for some time, lifting the stock market to a new record high on Friday. Longer-term Treasury yields fell back a few basis points after the speech though were still up for the week. The latest set of economic data reflect strong though softening growth momentum with the Markit Composite PMI falling to 55.4 in August from 59.9 in July. Major reasons for the slowdown were ongoing supply chain disruptions, the spread of the Delta variant and difficulties in hiring new staff. Meanwhile, personal spending growth slowed markedly in July while the PCE core inflation measure came in at 3.6% YoY in July, the same as in June. Finally, both new and existing home sales were slightly up from the month before.

Eurozone: PMI and German ifo survey fall back, but still consistent with robust growth

Various Eurozone business surveys released last week indicated that growth has probably peaked, but that the recovery is still proceeding well. The Flash Eurozone Composite PMI fell back to 59.5 in August from 60.2 in July, but this is still consistent with very strong growth. The detail of the survey showed manufacturing sentiment fell back, while services confidence was virtually unchanged. Manufacturers are still reporting that problems in the supply chain are affecting output. Separately, the German ifo Business Climate Index also fell back, led by a

sharp decline in the expectations component, which is seen as a useful leading indicator for the economy as a whole. Supply-chain problems and the Delta variant were cited as reasons for the decline. Overall, the surveys suggest growth in the Eurozone is peaking, but from an extremely robust pace and we think the recovery remains intact. Indeed, it has been encouraging to see that the EU Covid vaccine passport scheme has allowed a substantial amount of travel within continental Europe over the summer tourist season, despite the Delta variant concerns.

North Asia: Interesting bits and pieces

In Japan, the race for the LDP leadership election on September 29 is heating up. Faction leader Fumio Kishida, former Chairman of the Policy Council, officially announced his candidacy to challenge the incumbent, PM Suga. Meanwhile, in China, the PBoC held a video conference with five ministries on supporting rural areas. In that regard, we believe a targeted RRR cut is in the offing. The Hong Kong Exchange will launch an 'A'-share future on October 18 based on the MSCI China A50 Connect Index, which, in our view, will be helpful in increasing the

participation of foreign investors in China's domestic 'A'-share market. In Korea, new export orders for the first twenty days of August remained brisk but are likely to level off soon. The Bank of Korea lifted its policy rate by 25bps to 0.75%, which we think is reasonable amid higher inflation and speculative tendencies in the property market. We anticipate more rate hikes later this year and into next. Taiwan's industrial production growth moderated in July on weaker production of consumer goods, while electronic parts production remains brisk.

Australia: Lockdowns weigh on the service sector

As expected, recent economic data revealed the economic damage of draconian lockdowns. Retail sales in July contracted by 2.7% MoM, led by the weakness in New South Wales. Lockdowns have hit the service sector heavily, with café and restaurant sales down 12.3% MoM. After a period of social relaxations, Victoria announced the return of lockdowns as Melbourne's new virus cases rose sharply. That means major parts of Australia are now under restrictions, raising concerns that the economic impact in Q3 will be more severe than initially estimated. Payroll

jobs and wages for the two weeks ending July 31 declined by 2% and 2.7% on a fortnightly basis respectively. The Flash Services PMI fell further from 44.2 to 43.3, but the manufacturing sector held up well. On a brighter note, vaccination rates have steadily picked up. The current projection is that Australia will be able to vaccinate 70% of its adult population by the end of October. We expect the recovery towards year-end to be swift, assuming an economic reopening in Q4.

LatAm: A positive week for regional stocks and currencies

The MSCI LatAm surged 5.2% last week, outperforming other EMs, as the Covid situation improves. In Brazil, the Bovespa and the BRL performed positively during the week but still show a negative performance for the month. The Speaker of the Lower House, Arthur Lira, reaffirmed Congress's commitment to comply with the spending cap, noting that there has not been and will not be a breach in fiscal responsibility. He also pointed out some delays in tax reform since more time is required to reach an agreement. The Central Bank Governor reaffirmed his

commitment to the inflation target and softened his fiscal risk concerns. However, inflation expectations for 2021 and 2022 continue to increase, and core inflation accelerated in mid-August. In Mexico, the monthly activity for June fell 0.9% MoM. The minutes of the last policy meeting confirmed the differing opinions within the Board regarding the policy rate decision. However, the space to continue raising rates seems limited, and subsequent decisions will be data dependent.

Credit: Roaring back to life in Europe

The European primary market roared back to life last week, following the summer lull, with highlights being a EUR 5bn offering from Vonovia, along with three corporate hybrid bonds being issued. Vonovia's offering, the largest debt deal ever by an investment grade real estate issuer, was more than three times oversubscribed, affirming the strong appetite of credit investors. The trend seen in US high yield, where companies have been refinancing expensive old debt with cheap new debt, is also now extending to European banks, with banks seemingly inclined to call old,

subordinated bonds on their call date. US primary activity was relatively quiet but should pick up this week, although we suspect the unseasonably heavy supply in August will have pre-empted some companies' funding needs. Amid the strong demand seen in primary markets, secondary market also traded with a firm tone. US credit markets rallied notably with the energy sector in high yield showing particular signs of strength. All in all, the strong demand dynamics in credit seem intact with investors continuing to show a buy on dip mentality.

What to Watch

- In the US, labour market data are expected to show further significant improvement in the employment situation while the ISM surveys are likely to reflect a slowdown in business activity.
- Japan's usual end-of-the-month data bonanza will meet investor's interest, while in China both the NBS and Caixin August PMIs will be released. Australia's GDP for Q2 and housing data are key to watch. PMI readings should paint a fragile picture of the ASEAN manufacturing sector. India's GDP Q2 will reveal the economic damage of its recent health crisis linked to the Delta variant. Singapore's retail sales and Thailand's exports are also worth monitoring. South Korea's August exports and July industrial production data will be in focus. Malaysia's financial markets will be closed on Tuesday due to their National Day.
- In Brazil, the focus will be on the Q2 GDP, while in Chile, we expect the Central Bank to accelerate the pace of normalisation, hiking the policy rate by 50bps. In Mexico, Banxico will publish the Q2 quarterly report.

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