

Weekly Macro & Markets View

Highlights and View

- **China's economy is growing at a snail's pace, up less than 1% in Q3 in sequential annualised terms**

Policy makers are starting to stimulate the economy, but in a very targeted and more prudent manner than previously.

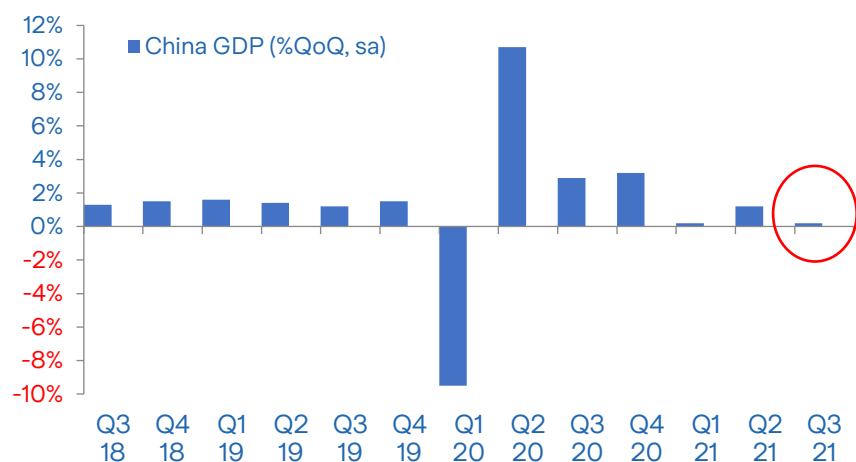
- **US headline inflation ticks up to 5.4% YoY while core CPI remains at 4.0%**

While annual inflation rates will remain elevated for some time a number of pandemic-induced price distortions show signs of fading.

- **US banks kicked off the earnings season on a strong note, beating analyst expectations**

Strong results were supported by reserve releases and M&A related fees and confirm our view that the creditworthiness of US banks remains strong, supported by a diversified set of revenue streams.

China's economic growth momentum slows further



Source: NBS, Bloomberg

China's economy barely grew in Q3. GDP increased a meagre 0.2% QoQ, or 0.8% on a sequential seasonally adjusted annualised basis. Compared to a year ago, GDP was up 4.9% YoY. As base effects are distorting the data, we prefer to show sequential growth in the chart above. However, even the low official growth numbers might paint a too rosy picture. Alternative measures suggest that the economy may have contracted following the latest power supply shortages and the downturn in home sales. Industrial production, up only 3.1% YoY in September, and fixed asset investment, down 1.8% YoY, were weaker than consensus had expected, while retail sales, up 4.4% YoY, and services output came in stronger. Obviously, some pent-up demand following the Delta virus induced lockdown measures played a role. On a positive note, exports surged to a record high in September. Meanwhile, China's broad credit growth continued to slow from 10.3% to 10% YoY, a record low. Slowing household lending and shadow banking finance as well as contracting government bond issuance and long-term corporate loans contributed to the slowdown. Adding to the concerning data set comes record high producer price inflation of 10.7% YoY and 1.2% MoM, driven mainly by surging coal prices. Fortunately, consumer price inflation is stable at 0.7% YoY, impacted by record high pork price deflation of -46.9% YoY, a reversal from the prior swine-flu related pork price surge.

US: Inflation remains elevated as shelter costs pick up

The S&P 500 rebounded last week, showing the best weekly performance since July with a gain of 1.8%. The move higher was supported by reassuring economic data and a promising start to the Q3 corporate earnings season. Headline inflation ticked up to 5.4% YoY in September while Core CPI stayed at 4%. Not surprisingly, given the steep rise in house prices, rising shelter costs were a major contributor in pushing core inflation higher. This trend is likely to continue for a while. On the other hand, some of the pandemic-induced price distortions are starting to fade.

Producer price pressure slowed in September with headline PPI growth receding to 0.5% MoM from 0.7% and PPI Ex Food & Energy falling to 0.2% MoM from 0.6%. Meanwhile, consumer confidence has ticked down in October, driven by current perception as well as expectations. Despite the more modest consumer sentiment, retail sales rose more than consensus expected in September. Finally, the latest small business survey revealed that the employment bottleneck persists with the jobs-hard-to-fill measure reaching another record high in September.

Eurozone: Industrial production and ZEW survey fall

Eurozone industrial production fell 1.6% MoM in August, driven by weakness in Germany's auto sector, which is still suffering from disruption to supply chains. The German ZEW survey, seen as a good leading indicator for industrial production, declined further to around 22 in October, well below the 21-year high of 84.4 it reached in May. This suggests further weakness in the industrial sector ahead. However, we still think that supply chain problems will eventually diminish. In addition, the service side of the German and wider Eurozone economy is still recovering

quickly from the Covid crisis and households have a large amount of savings that could potentially be spent over the next few quarters. Meanwhile, various ECB officials have spoken recently, revealing an emerging divergence between hawks and doves. However, as ECB President Christine Lagarde remains dovish, we do not anticipate that the ECB will remove stimulus anytime soon. Finally, the EU issued its first green bonds last week as part of its funding for the NextGenEU initiative, with the issue massively oversubscribed.

Australia: Out of the woods

Employment data point to an ongoing struggle given lockdowns in New South Wales and Victoria in September. There were 138k job losses, driven by part-time employment. The unemployment rate was 4.6%, better than consensus expectations. However, unemployment data during this period were highly noisy, given a notable drop in the participation rate owing to lockdowns. Still, there were a few bright spots that signalled a turn for the better. Despite a sharp fall in part-time jobs, the number of full-time jobs rose by 26.7k. Worked hours picked up by 0.9%

MoM. While lockdowns in Q3 led to a major setback for the economy, the damage to the labour market was rather moderate. High vaccination rates and a shift in mentality from zero-Covid to 'living with the virus' mean the bar for another draconian lockdown is high, paving the way for a solid recovery. Indeed, ANZ weekly consumer sentiment in October and business confidence in September have already shown improving sentiment among consumers and firms, likely signalling a rebound in consumption and business activity in Q4.

LatAm: A more aggressive tightening in Chile and higher inflation in Argentina

The central bank of Chile, driven by the acceleration in inflation and the higher likelihood of a new withdrawal of pension funds, decided to hike the policy rate (MPR) more than expected. The Board accelerated the tightening pace, increasing the MPR by 125bps to 2.75%. They also modified the forward guidance, signalling that the MPR will reach its neutral level earlier than expected in the last inflation report. Political uncertainty continues to drive local assets, which remain under pressure. Despite the increase in MPR and copper prices, the Chilean peso has been

one of the worst-performing emerging market currencies this year, while the equity market continues to fall. We estimate that the CBC will bring the MPR to at least its neutral level in December. In Argentina, inflation accelerated above expectations, growing 3.5% MoM in September. Core components were the most significant contributors. Headline inflation reached 52.5% YoY. The government agreed to freeze the prices of ~1,300 products for 90 days. We expect some relief in food inflation in the short term but an acceleration at year end.

Credit: Underperformance vs stocks continues despite robust US bank earnings

Credit markets continued to underperform equities last week with spreads mixed despite a strong tone in stocks. Primary markets continued to see issuers pay new issue concessions, while fund inflows remain mixed. While market participants' explanations for credit underperformance to stocks range from inflation fears to rates volatility, we think the current sogginess is simply a breather after the strong relative performance seen in previous weeks. US bank earnings lent a bright start to the US earnings season. Banks reported stellar results, comfortably beating

analyst expectations. Reserve releases remained an important earnings driver given the improved outlook on defaults and delinquencies. Furthermore, M&A related fees jumped, while equity trading offset weaker fixed income trading revenues. Loan growth remains tepid, however, given high saving rates but should show a recovery in coming quarters. The results confirm our view that the creditworthiness of US banks remains strong, supported by a diversified set of revenue streams.

What to Watch

- US housing data are expected to show a further slowdown while Markit's PMIs will give an indication as to the state of business activity.
- All eyes will be on this Friday's Eurozone Flash PMI releases to gauge the strength of the recovery in the economy, especially in the industrial sector.
- In APAC, we expect Bank Indonesia to keep its policy rate unchanged. September export data for Japan, Taiwan and Thailand are likely to be softer than last month. In Australia, the NAB business confidence indicator for Q3 will be released. September CPI data will be published in Japan, Hong Kong, and Malaysia. In Japan, the campaign for the Lower House elections on October 31 is starting. Markets will be closed due to national holidays on Tuesday in India and Malaysia, on Wednesday in Indonesia and on Friday in Thailand.

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