

Weekly Macro and Markets View

22 May 2023



Highlights and View

China's April statistics for retail sales, industrial production, property investment and youth employment surprised consensus expectations to the downside

As discussed in last week's Weekly Macro & Markets Insights cover piece on China, the reopening boom has subsided, prompting the need for some targeted public stimulus support.

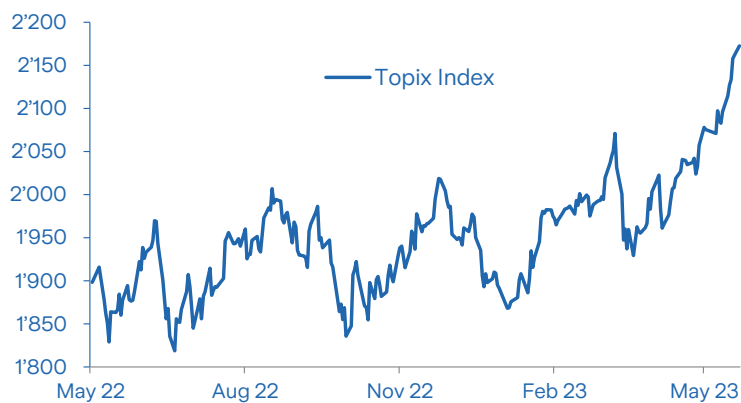
The UK unemployment rate ticked up to 3.9% in March, the highest in more than a year

Though still tight, there are increasing signs that the labour market is loosening with the number of payroll employees falling and jobless claims on the rise.

Government bond yields snap higher on rising optimism on the US debt ceiling, led by a hawkish repricing of the near-term Fed outlook

Slowing growth and a peaking of policy rates should pull yields lower in the months ahead, though conditions are expected to remain volatile and data dependent for the time being.

Japan returns to the limelight



Source: TSE, Bloomberg

The G7 summit in Hiroshima, hosted by Japan's PM Kishida, concluded with a series of commitments including support for Ukraine, aiming for stable ties with China while de-risking relations, and supporting the further integration of nations from the so called 'Global South' to multilateral politics. Multiple one-on-one meetings between heads of states helped to foster bilateral cooperation, including improving ties between Japan and South Korea, for example.

Meanwhile, Japan's GDP statistics for Q1 came in better than consensus had expected. In real terms, Japan's economy grew for the first time in three quarters, up 1.6% in sequential annualised terms and 1.3% YoY, mainly driven by strong services and durable goods consumption as well a private and public capex, while net exports remained a drag. In nominal terms, growth surged by an annualised 7.1% on a sequential basis, which supports solid corporate earnings growth. Indeed, operating profits for Topix constituents were up 5.1% YoY in the fiscal year that ended in March, while net profits were up 2%. As usual, corporate earnings forecasts for the current fiscal year remain too conservative in our view, leaving room for upside surprises. Furthermore, rules changes by the Tokyo Stock Exchange have resulted in higher share buybacks and are supporting stronger interest from foreign shareholders, with Japanese equities outperforming global stocks.

US

Debt ceiling negotiations continue

Positive statements from both parties pointing at the possibility of reaching an agreement on raising the debt ceiling have lifted investor sentiment and helped push the S&P 500 to its highest level since August 2022 before it fell back due to the lack of progress in the negotiations. Meanwhile, economic data published last week show a mixed picture. Retail sales recovered less than consensus expected in April following the dip in March. The annual rate fell to 1.6%, the lowest level since May 2020, reflecting the weakening momentum

in consumer spending. The housing market continues to show signs of stabilisation with housing starts in April recovering from the drop in March, though building permits fell more than expected. The national home builder index rose for the fifth month in a row in May though it remains well below pre-pandemic levels. Finally, the Conference Board's leading index of economic indicators dropped to -8.0% YoY in April, a level usually only seen in a recession.

Eurozone

Industrial production falls sharply, food price inflation moderates

Industrial production fell by -4.1% MoM (-1.4% YoY) in March. The decline may have been exaggerated by a large fall in Ireland, but other countries such as Germany, France and Italy also saw weak outturns. Combined with soft Eurozone Manufacturing PMIs over recent months, this could indicate that the sector is already sputtering. Separately, Eurozone GDP growth was confirmed at a meagre 0.1% QoQ in Q1 (1.3% YoY), though again a weak Irish number may have distorted the overall outturn. Excluding Ireland, GDP growth was slightly stronger at

around 0.2% QoQ. Finally, inflation was confirmed at 7.0% YoY on the headline measure and 5.6% for core in April. Energy inflation was almost zero, a sharp fall from a few months ago when it was running at around 35% YoY. Encouragingly, food price inflation also fell for the first time in a while, to 13.5% in April from 15.5% in March, but it remains high by historical standards. More worrying for the ECB is that core inflation remains sticky, suggesting that they will maintain a hawkish stance.

Australia

Labour market data provide comfort to the RBA

In April, the unemployment rate unexpectedly rose to 3.7% from the previous 3.5%, driven by a contraction in full-time jobs. However, total hours worked still rose by 2.9% MoM and 7.4% YoY. While the Wage Price Index climbed to 3.7% YoY in Q1, the QoQ rise of 0.8% was slightly softer than consensus expectations. The Reserve Bank of Australia (RBA) will welcome any signs of a loosening labour market. However, further evidence is needed to confirm a sustainable trend given that employment data have been volatile in the last few months. Overall, the

RBA anticipates wage growth will peak at 4% YoY given the impending minimum wage decision that will take effect in July and a 15% pay rise for aged care workers. This should bolster overall wage growth, especially for lower-income employees. We expect the RBA to maintain its cash rate at 3.85%. However, future wage and employment trends will continue to play a key role in determining whether further rate hikes are warranted.

LatAm

Banxico ends the monetary policy hiking cycle

In Mexico, after almost two years of hiking rates, the central bank decided to keep the policy rate unchanged at 11.25%, adjusting its short-term inflation expectations to the downside. The statement mentioned that the economy is in a disinflationary phase, but the inflation outlook remains challenging. Banxico considers it appropriate to maintain the current rate for a prolonged period until inflation converges to the target. We believe the hiking cycle has ended, and Banxico will likely start cutting in December. In Brazil, economic activity surprised to the upside in

March, growing 5.5% YoY. The service sector continues to show a solid performance, rising 0.9% MoM, above market expectations. Monthly core and broad (including vehicles and construction materials) retail sales significantly beat market expectations, increasing by 0.8% and 3.6% respectively. As a result, retail sales expanded 2.0% QoQ in Q1. The MSCI Brazil index closed another positive week as one of the best-performing markets in LatAm and outperforming EMs.

Structured Credit

UK RMBS supply surge may forebode better sentiment in housing market

The European asset backed securities (ABS) primary market saw a surge in the supply of residential mortgage-backed securities (RMBS) last week. Almost all RMBS came from UK issuers, with the exception of one Dutch Buy-to-Let deal. Notably, some of these issuers have been absent from the primary market since the Covid crisis and the implementation of the cheap funding facilities set up by the Bank of England. All transactions were well received by investors and Lloyds Banks was able to upsize its senior (AAA rated) tranche to GBP 1bn,

making it the largest UK RMBS tranche sold since January 2020. The strong demand also pushed UK Prime RMBS spreads tighter. What is very interesting to note is that UK mortgage approvals picked up in Q1, with March recording strong growth as well despite the global banking sector turmoil. While it is still early days, an active and robust RMBS market can facilitate mortgage provisions by banks despite pressures on balance sheets, which may cause housing market sentiment to bottom.

What to Watch

- The flash PMIs will show how economic activity is holding up amid policy tightening and bank stresses.
- In the Eurozone, data this week will give further clues as to the state of the economy, especially the industrial sector.
- In APAC, both the Bank of Korea and the Bank Indonesia are expected to keep their policy rates stable at 3.5% and 5.75% respectively. Japan will report a series of leading indicators: Flash PMIs, the Reuters Tankan and Tokyo CPI for May. Australia's retail sales for April and May PMIs will gauge the underlying trend of private consumption. Industrial production statistics for April are likely to remain soft both in Taiwan and Singapore. April CPIs will be reported in Hong Kong, Singapore, Malaysia and Vietnam. Hong Kong will celebrate the Buddha's birthday on Friday.
- Please note that the next *Weekly Macro and Markets View* will be released on Tuesday, May 30, 2023.

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