

# Weekly Macro and Markets View

14 August 2023



## Highlights and View

### Country Garden, one of China's major property developers, faces liquidity problems

A complicated restructuring process or even default seems the most likely outcome expected by market participants.

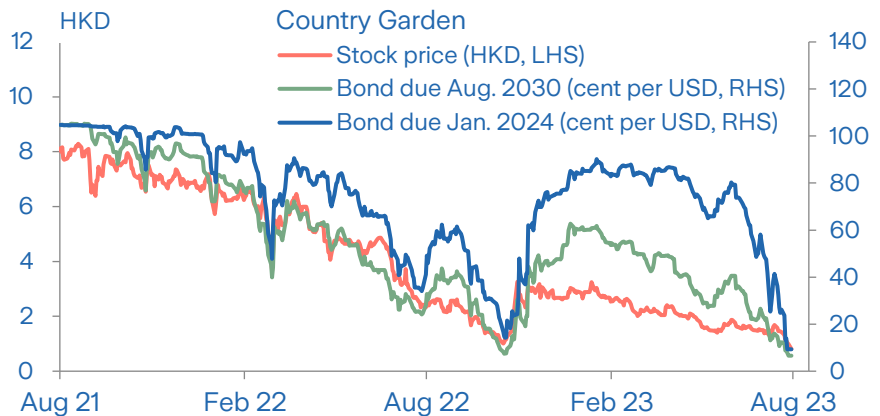
### Both headline and core inflation rise only modestly in the US

Monthly inflation rates are back in line with the Fed's inflation target though producer prices have picked up, keeping the Fed on its toes.

### Taiwan's exports are down -10.4% YoY in July vs. -23.4% in June and consensus expectations of -20.7%

Taiwan's export malaise is showing early signs of abating in H2, though we need further evidence, particularly when watching semiconductor exports from Taiwan, Korea and Singapore going forward.

## China's property market remains in the doldrums



Source: Bloomberg

China had to swallow a series of bad economic and property related news last week. Consumer prices made headlines as CPI joined PPI in deflationary territory in July, though we note that core and services CPI rose. Both export and import statistics for July came in weaker than the already cautious consensus had expected while weak credit data surprised even the doomsayers. We suspect record low broad credit growth will spur further monetary easing, while the implementation of announced policy measures is expected to speed up as explained in our latest 'Topical Thoughts' paper, [China: Will the ailing economy be bolstered?](#)

Meanwhile, China's property market suffered another blow as concerns about a potential default by Country Garden, a major property developer, increased following missed interest payments on two offshore bonds. Country Garden dominates China's smaller tier-3 and tier-4 cities with about 3'000 housing projects nationwide and nearly 700'000 property units delivered last year. The developer has a grace period of 30 days to fulfil its obligations, but the market is already speculating about a prolonged debt restructuring process.

On a positive note, China has issued a third batch of tourist group tour permits to another 78 countries including the US, UK, Japan, South Korea and Australia, which should help to revive outbound tourism.

## US

### Inflation remains modest in July

At 0.17% MoM and 0.16% MoM both headline and core CPI inflation rates have been modest in July and in line with the Fed's inflation target at an annualised basis. The slowdown in inflation is relatively broad-based although some components stood out, like another steep drop in airfares leading to the sharpest two-month decline excluding the Covid-induced lockdown period. While the modest inflation data are promising, a pickup in producer prices reminds us that the fight against inflation is not yet over and the Fed will be looking out

for any signs of renewed price pressure. On a positive note, both small business price plans and consumers' inflation expectations have ticked down. Treasury yields changed directions multiple times but ended the week higher after a subdued 30yr auction following the strong 3yr and 10yr auctions earlier in the week. The struggle to find a clear direction was also reflected in the stock market with the S&P 500 finally edging lower to end the week with a modest loss of -0.3%.

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## Switzerland

The growth slowdown broadens out to services while inflation ticks lower

The Manufacturing PMI fell below the boom/bust level of 50 in January and has been falling since then. Hopes of stabilisation failed to materialise in July when the PMI tumbled to 38.5, which is the lowest reading since 2009. We suspect weak external demand and a strong franc are driving the slowdown, amplified by a desire among producers to hold less inventory. The Services PMI also slumped, led by a sharp decline in new orders. On a more positive note, CPI inflation continues to trace lower, with core CPI at 1.7% YoY in July. We had

expected growth to weaken following bank stresses in Q1, given tighter credit conditions and elevated uncertainty, but the latest data are concerning. Looking forward, falling growth and inflation and the strong franc argue for a pause for the SNB. However, unless conditions deteriorate further or the ECB steps back from its hawkish stance, we suspect that the SNB may hike again given concerns around rising rent inflation and a tight labour market.

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## Japan

Consumer activity remains solid while the hot weather is taking its toll

Japan's reopening boom, though solid, appears to be fizzling out somewhat according to the Eco Watchers survey for July. Small businesses related to consumer activity remain upbeat with both the headline and the outlook indices for households, non-manufacturing businesses and employment improving comfortably above the 50 boom/bust line, while the manufacturing index is lagging. The hot and humid weather took its toll, with strong demand for air conditioners, beer and ice-cream, while leisure activities slowed down. We prefer the

Eco Watchers survey to the classic household survey, which is struggling with the definition of households and a negative sample bias and shows real disposable income falling 5.1% YoY and real core spending down 4.7% YoY in June. Meanwhile, the wage statistics for June show a drop in real wages by 1.6%. We also note that Covid cases are rising again to levels last seen in Q4 2022, probably as people refrain from wearing masks during the heat wave, which is a concern.

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## LatAm

Higher rates for longer in Mexico and Peru

This past week, the Bank of Mexico decided to leave its reference interest rate unchanged at 11.25%. The board unanimously decided to maintain the rate for a third consecutive month after the +725bp tightening cycle that ended in May this year. The main concerns stated by the board were persistency of core inflation and pressures on costs and commodity prices. We believe the Bank of Mexico will continue to align with the Fed, specially considering the MXN depreciation that was observed after the Fed's latest decision.

On a similar note, the Central Bank of Peru also left its rate unchanged at 7.25%. The main reasons for the decision were related to inflation pressures from social conflicts and El Niño. Moreover, the board did not rule out additional hikes should future data prove it necessary.

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## US ABS

Credit card borrowing trends pose risks to consumer resilience

Total household debt rose in the US by only 0.1% during Q2, increasing in nominal terms by USD 16bn. However, credit cards balances rose by a strong 4.6% quarterly increase, climbing above USD 1tn for the first time. Both new accounts and higher credit card limits contributed to this dynamic, highlighting the fact that current strong consumer spending is being fuelled in part by higher debt. This trend is particularly relevant for low income households, which seem to have exhausted their extra savings and are now being penalised by high

inflation. Even if current delinquencies remain low, performance is now worsening with more loans transitioning into serious delinquencies. We think that the resumption of student loan payments in October and the high level of current interest rates charged to borrowers will impact credit performances and cause defaults to rise further. Most credit card issuers have started to raise their provisions and given tighter credit standards the delinquency trend will continue to raise risks for the economy and the banks.

## What to Watch

- In the US, retail sales will give insights into households' current spending mood while the latest batch of housing data is expected to reflect a stabilisation in housing activity.
- The ZEW survey and industrial production data will show whether Eurozone growth momentum and sentiment remain weak.
- In APAC, we believe the Philippine's BSP will keep policy rates unchanged for now. Japan will release Q2 GDP, July export and CPI data as well as June machinery order statistics. Our focus will be on the Reuters Tankan survey for August. Australia will publish Q2 wage and July labour market statistics. China will report the remaining July statistics for industrial production, investments and retail sales. Malaysia's GDP growth in Q2 is likely to have decelerated markedly. Indonesia, Malaysia and Singapore will release July export statistics.
- Brazil is expected to report economic activity for June. Consensus is expecting a 1.8% annual expansion from 2.5% the prior month. Chile is also reporting Q2 activity figures, with market expectations of a 1.8% annual decline.

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