ZURICH

Weekly Macro and Markets View

4 September 2023

Highlights and View

Job openings, unemployment and payrolls are pointing at a softening US labour market

The gap between open jobs and unemployed workers is closing rapidly allowing the Fed to move to a less hawkish stance going forward.

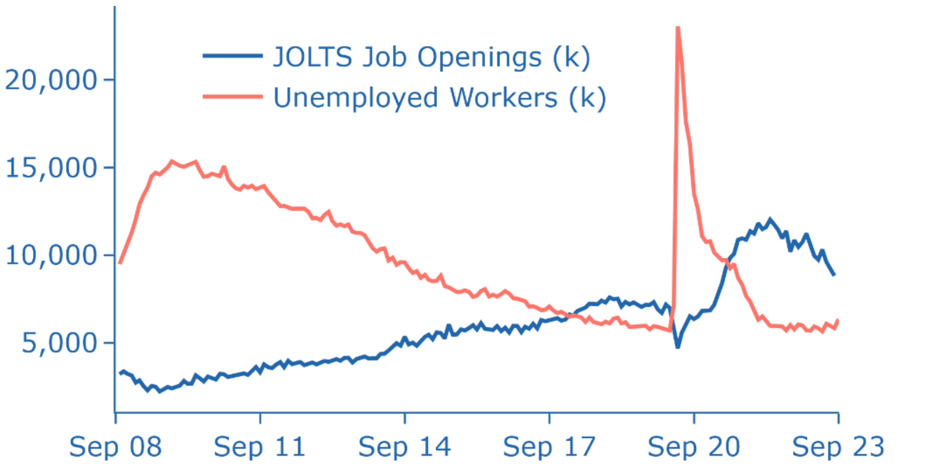
China's August PMIs stabilise while policy support for first and second home owners is gaining momentum

With the volume of August home sales tumbling 73.4% from its 2020 highs, continuous policy support is urgently needed.

Eurozone core CPI inflation edges lower in August, but at 5.3% remains well above the ECB's target

The ECB is faced with a difficult rate decision in September. While weak economic activity warrants a pause, inflation remains sticky and problematic.

The US labour market is losing momentum



Source: Bloomberg

Last week brought more evidence that the economy and the labour market particularly are losing momentum. In August, 187'000 new nonfarm payrolls were created but earlier numbers were revised down substantially. Similarly, the number of job openings dropped from 9.2mn in June to 8.8mn in July, significantly below consensus expectations. At the same time, the unemployment rate rose markedly from 3.5% to 3.8% while the broader underemployment rate climbed from 6.7% to 7.1%, indicating a deteriorating employment situation. As a result, the gap between open jobs and unemployed workers is closing rapidly though it remains elevated for now. Growth in average weekly earnings has softened to 0.2% MoM from 0.4% MoM the month before, slowing the annual increase to 4.3% from 4.4%. Meanwhile, the ISM Manufacturing Survey indicates that manufacturing remained in contraction in August for the tenth month in a row though at a slightly less pronounced pace than in July. New orders receded from 47.3 to 46.8, however. Consumer confidence fell back markedly, driven by the current situation as well as expectations. The deterioration of households' labour market perception to the lowest level since April 2021 is further evidence of a weakening employment situation. Market expectations for further rate hikes have receded though growth worries seem to be having a limited impact on financial markets so far.

Equities

Stocks rally as investors revisit hopes of a soft-landing macro outlook

There was a better tone in equities last week as investors were back in the economic 'soft-landing' camp on renewed hopes of dovish monetary policy given weaker economic data. The MSCI World Index rallied 2.7%, with the TOPIX in Japan tacking on 3.7% and breaking out of its range trading summer slumber. While economic data from Japan supported a more positive outlook and were taken positively, weak US jobs growth and further evidence of weakening conditions in Europe encouraged fickle investors to price in less hawkish monetary policy as a positive for stocks. The bulls are clearly still in charge. Despite the better week, and unlike the TOPIX, both US and European equity markets failed to break higher and instead now appear more vulnerable. In China, further targeted stimulus has helped to bolster its ailing stock market and there are some signs of stabilisation and a modest improvement in sentiment, which we believe to be warranted.

Eurozone

Inflation remains brisk in the Eurozone, raising the odds of another ECB rate hike

CPI inflation surprised to the upside in August. Strength reflected a rebound in energy prices while core inflation fell from 5.5% to 5.3%, with core goods, services and food price inflation all edging lower. Other Eurozone data remained weak, with a marked drop in money (M3) growth, which slumped to -0.4% YoY. This was the first negative print since 2010, partly reflecting a retrenchment in lending to the private sector. While the Eurozone labour market remains very tight, conditions are tentatively beginning to ease, particularly in Germany where the unemployment rate edged higher again in July, but with some softening in Italy and France as well. Looking forward, the question is whether the decline in core inflation along with weak activity and credit growth will be sufficient for the ECB to pause rate hikes in September. A pause seems warranted, and this is also what is currently priced into the rate market. It will be a close call, however, given still elevated inflation and tight labour markets.

China

Policy support is gaining steam while Manufacturing and Construction PMIs improve

China's economy finally seems to be stabilising at a low level. The Caixin Manufacturing PMI for August was back above the boom-bust line of 50 and the NBS Manufacturing PMI was up 0.4 points to 49.7, driven by the production and new order components, both of which are in expansionary territory. The new export order component, however, remained weak. The Non-Manufacturing PMI deteriorated by half a point to 51, driven by its weaker services component, which continued to fall for a fifth month in a row to 50.5. Having tumbled nearly 15 points since March, the Construction PMI finally recovered by 2.6 points to 53.8, underpinned by the government's push to spur infrastructure spending. Policy support for the economy is now becoming more visible, with major banks cutting their deposit rates between 10 to 25bps, paving the way to cut mortgage rates later this month. The down payment ratio for mortgages was cut by ten percentage points to 20% for first homes and 30% for second homes in many cities.

APAC PMIs

A mixed bag, with India leading and Taiwan lagging

India and Indonesia were the driving forces that lifted the Asia Manufacturing PMI (ex-Japan and China) slightly higher to 51.7 in August. India's reading, at 58.6, was one of its highest in the last 13 years, which may not be surprising for an economy that experienced GDP growth of 7.8% YoY in Q2. India's output and new orders acted as accelerators, with strong readings above the 60 mark. Indonesia's manufacturing sector also did well, with the respective PMI rising for the fourth month in a row to 53.9. Lagging the pack once again was Taiwan, with its Manufacturing PMI still hovering below 45. High inventories continue to be a drag on production growth. Weaker new export orders for Japan, South Korea, Taiwan and Malaysia do not bode well for the export outlook, particularly for electronics exports. A glimmer of hope can be found, however, in the new orders minus inventory index, which is faring better than that of the G3 regions US, Europe and Japan.

LatAm

Solid economic activity in Chile and Brazil

In Brazil, second quarter GDP growth accelerated, surprising to the upside and reaching 3.4% YoY. On the demand side, all components showed growth in the quarter, highlighted by the recovery of investment, which showed an expansion of 0.1% QoQ, after contractions in the two previous quarters. On the supply side, despite the contraction in the agriculture sector (-9.0% QoQ from 21.6% in Q1), all other sectors expanded. Growth is likely to exceed 2% in 2023. However, factors such as the risk of resurgent inflation and inflationary pressures from increased spending, mean that the central bank could slow or pause the pace of cuts in the Selic rate. In Chile, the economic activity indicator IMACEC for July showed a surprising expansion of 1.8% YoY (from -0.8% the previous month), driven mainly by base effects, due to longer than usual school holidays a year ago. After the central bank started the cycle of rate cuts relying on well-anchored inflation expectations, growing concerns about China and the global growth outlook, we expect another 100bp cut to 9.25% at this week's meeting.

What to Watch

- In a holiday-shortened week in the US, the ISM Services Index will give crucial insights into the current state of the service sector.
- Eurozone retail sales data and Germany's industrial production and factory orders will be released.
- In APAC, we expect both Australia's RBA and Malaysia's BNM to keep policy rates unchanged. Australia will report Q2 GDP and July foreign trade statistics. Japan's Q2 GDP growth may be revised down slightly on weaker capex. Our focus will be on the August Eco Watchers Survey, but we are also keeping an eye on wages and the household survey for July. Mainland China, Taiwan and the Philippines will report export data, while Taiwan, South Korea, Thailand and the Philippines will release August CPI data. India's markets will be closed on Thursday, Vietnam's on Monday.

Disclaimer and cautionary statement

This publication has been prepared by Zurich Insurance Group Ltd and the opinions expressed therein are those of Zurich Insurance Group Ltd as of the date of writing and are subject to change without notice.

This publication has been produced solely for informational purposes. The analysis contained and opinions expressed herein are based on numerous assumptions concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies. Different assumptions could result in materially different conclusions. All information contained in this publication have been compiled and obtained from sources believed to be reliable and credible but no representation or warranty, express or implied, is made by Zurich Insurance Group Ltd or any of its subsidiaries (the 'Group') as to their accuracy or completeness.

Opinions expressed and analyses contained herein might differ from or be contrary to those expressed by other Group functions or contained in other documents of the Group, as a result of using different assumptions and/or criteria.

The Group may buy, sell, cover or otherwise change the nature, form or amount of its investments, including any investments identified in this publication, without further notice for any reason.

This publication is not intended to be legal, underwriting, financial investment or any other type of professional advice. No content in this publication constitutes a recommendation that any particular investment, security, transaction or investment strategy is suitable for any specific person. The content in this publication is not designed to meet any one's personal situation. The Group hereby disclaims any duty to update any information in this publication.

Persons requiring advice should consult an independent adviser (the Group does not provide investment or personalized advice).

The Group disclaims any and all liability whatsoever resulting from the use of or reliance upon publication. Certain statements in this publication are forward-looking statements, including, but not limited to, statements that are predictions of or indicate future events, trends, plans, developments or objectives. Undue reliance should not be placed on such statements because, by their nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, developments and plans and objectives to differ materially from those expressed or implied in the forward-looking statements.

The subject matter of this publication is also not tied to any specific insurance product nor will it ensure coverage under any insurance policy.

This publication may not be reproduced either in whole, or in part, without prior written permission of Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland. Neither Zurich Insurance Group Ltd nor any of its subsidiaries accept liability for any loss arising from the use or distribution of publication. This publication is for distribution only under such circumstances as may be permitted by applicable law and regulations. This publication does not constitute an offer or an invitation for the sale or purchase of securities in any jurisdiction.

Zurich Insurance Company Ltd

Investment Management
Mythenquai 2
8002 Zurich

173008049 01/22) TCL

ZURICH®