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Weekly Macro and Markets View

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Highlights and View

The US ISM Services Index bounces unexpectedly, leading to hopes of economic reacceleration

The data were good, with strong subcomponents, but we interpret that as signalling resilience rather than an acceleration of the broader US economy.

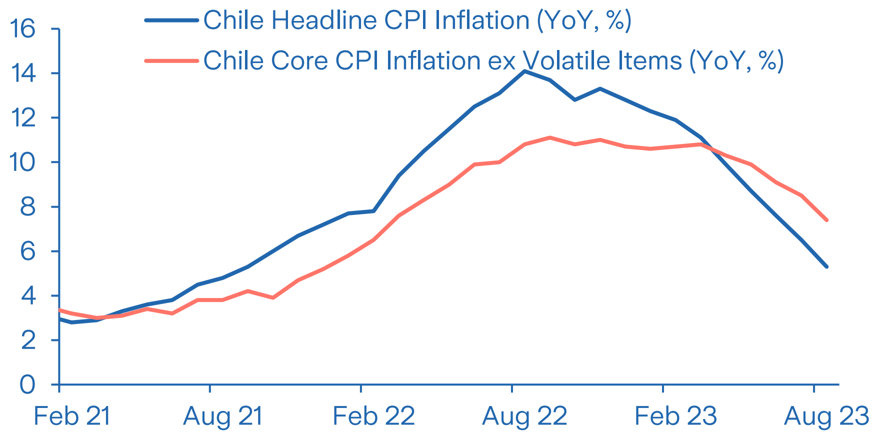
Base effects push China's August CPI out of deflation to +0.1% YoY, with core inflation stable at +0.8% YoY; August credit data came in stronger than expected

Producer price deflation, at -3% YoY, is likely to continue abating on strong infrastructure spending and higher energy prices. Mortgage lending is improving as housing demand stabilises. Government bond issuance is also picking up.

Australia's Q2 GDP figures suggest sustained economic resilience

Q2 GDP rose by 2.1% YoY, exceeding expectations, with last quarter figures revised upwards, indicating the economy, though slowing, is on course for a soft landing.

Chile's CPI inflation surprises, shows smaller increase than expected



Source: Bloomberg

August inflation showed an increase of 0.1% MoM, while the market had been expecting 0.4% MoM, similar to the previous month's 0.4% MoM reading. August YoY inflation was 5.3%, down from 6.5% in July. However, when the volatile components are excluded, inflation showed a decline of -0.1% MoM, accumulating a variation of 7.4% in 12 months. At the component level, seven of the 12 components that make up the CPI basket contributed positively to the monthly variation of the index. Although inflation remains above the Central Bank's target, it continues to decelerate faster than the Central Bank had been expecting. Current projections show the average headline rate falling to 4.6% in the fourth quarter and 3% in 2024. While base effects should back that moderation there are some factors such as the recent CLP depreciation, oil price increases, and El Nino that could generate short-term price pressure. In the monetary policy report for September the Central Bank projected that the Chilean economy will not grow this year, setting a GDP growth range for 2023 of -0.5% to 0%, down from the -0.5% and 0.25% range projected in June. The change in the outlook can be traced to the operational problems affecting mining production in recent months. In regard to prices, the report showed a slight upward adjustment from 4.2% to 4.3%, to converge to 3% in the second part of 2024.

US

Data surprise positively, raising prospects of even higher rates

A holiday-shortened week and limited data releases in the US still gave pause for thought. In the hotly-debated, will-they-or-won't-they Fed rate-hiking debate, first ISM Services data and then the initial jobless claims report pushed sentiment in a hawkish direction. The services part of the US economy has been remarkably resilient and, despite signs of cooling in recent months, last week's reading of 54.5 surprised to the upside. This was the highest reading since February and, importantly, sub-components of new orders and employment were particularly strong, although a jump in prices paid was a reminder that pockets of inflation remain. Jobless claims were also back at the lows of February, though some flattering distortions persist. In aggregate the data show the US economy continuing to hold up, despite numerous headwinds. This, however, raises the possibility of additional policy rate hikes. While this is not our view, stocks eased back, not helped by a 6% fall in Apple on new Chinese restrictions on usage by government officials.

Switzerland

The economy stalls, led by manufacturing

The Swiss economy stagnated in Q2, with GDP flat QoQ and annual growth at 0.5%. There were sharp drops in equipment and software investment and construction while consumption and net trade held up better. Weakness was led by manufacturing, particularly chemicals and the machinery sector. Services were stronger and boosted net trade despite a large drag from the goods sector. Looking forward, we expect economic weakness to persist, but a deeper drawdown should be avoided. This was also the message from the latest Manufacturing PMI, which remained very weak while the Services component rebounded after having dipped in July. On the pricing side, August data showed a further decline in core CPI, to 1.5%. Despite slowing growth and disinflationary pressures, we aren't ruling out a further rate hike by the SNB in the September meeting given concerns around domestic price pressures. It will be a close call, however, given slowing growth.

Japan

Signs of slower growth

Japan's GDP statistics tend to be revised significantly, as happened again with Q2. GDP growth was revised down substantially from a seasonally adjusted annualised rate of 6% to 4.8%. The main drag came from capex, in line with the recent MoF capex survey, but other demand components like private and government consumption, public fixed investment and exports also contributed. We will need to keep an eye on capex when the BSI Q3 Business Conditions Survey for large companies and core machinery orders for July are published this week. The outlook component of the Eco Watchers Survey for August also drifted lower from high levels. Severe weather conditions, including record high heat in August and a typhoon, negatively impacted entertainment expenditure, particularly restaurant sales, while air conditioners, ice cream and soft drinks saw strong demand. Meanwhile, wage growth slowed significantly to only 1.3% YoY, though we believe certain statistical distortions were behind the negative surprise.

Australia

Growth proves resilient despite a slowdown in consumer spending

The Reserve Bank of Australia (RBA) held its cash rate at 4.1%, in line with market expectations. This marked the end of Governor Lowe's seven-year tenure. Despite the leadership transition, the current policy direction will likely remain, at least in the near term. Q2 GDP grew by 0.4% QoQ and 2.1% YoY, with Q1 figures revised up. Q2 growth was driven by net exports, particularly from the services sector, and commodities were helped by favourable weather conditions that enabled efficient shipments. However, the inventory drawdown in Q2 was a significant counterweight to growth. Consumer spending, although tepid, was not at recessionary levels. Meanwhile, July exports fell by 2% MoM, hinting at a weakening momentum. While service exports should remain robust, commodity exports will likely recede after the recent weather-related boosts, and China's languishing recovery is not offering much support. Overall, while growth will likely slow further, the economy remains on track for a soft landing.

Credit

Supply surge tests investors' appetite

Amid a weaker stock market backdrop, CDS spreads widened last week although cash credit was resilient. Credit spreads were flat in US IG and marginally wider in US HY, trading close to 2023 lows. As usual for the week after US Labor Day, issuance surged in the US IG market, with more than USD 55bn notes priced during the week, the bulk of it priced on Tuesday alone. Despite the resilience of spreads, new issue concessions rose. Issuance resumed in the US HY market, which hasn't seen any deals since August 17. In Europe, primary activity was also brisk. Notably, after six weeks with no deals, the European HY market came back to life with two BB-rated deals, both priced at a coupon lower than the initial target. The notable resilience in HY spreads seems to be driven by subdued issuance, coming predominantly from BB-rated issuers. However, lower-rated issuers may not be able to stand on the sidelines for much longer as cash positions continue to deteriorate, leaving them less room to maneuver as the economy cools while rates may stay higher for longer.

What to Watch

- After stronger US data last week, attention will be on CPI inflation, where core is expected to fall back from 4.7% to 4.3%. Retail sales, industrial production and consumer sentiment will also be closely watched.
- In the Eurozone, the ECB is expected to leave rates unchanged, in a finely balanced decision.
- In APAC, Japan will release the Reuters Tankan for September and July data for industrial production, machinery orders and tertiary activity. China will publish August data for industrial production, fixed asset investment, retail sales and credit. Australia will release labour market data for August as well as consumer and business confidence indices. Indonesia will report August export data; India, July industrial production and August CPI data; and South Korea, August labour market data.

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