Weekly Macro and Markets View

20 November 2023

Highlights and View

US headline CPI slowed to 3.2% YoY in October while Core CPI ticked down to 4.0% YoY

Falling energy prices were a main driver of lower inflation but service components including shelter costs are also reflecting reduced price pressure.

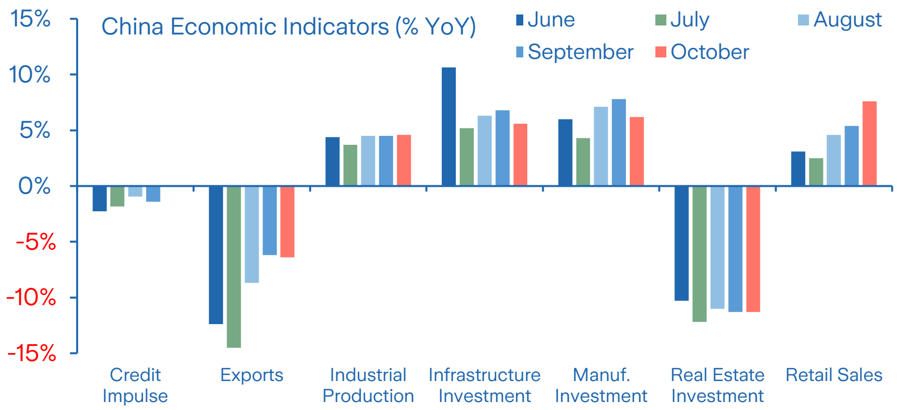
Argentina's presidential election is won by Javier Milei in a surprise result

Despite a commitment to reinvigorate the economy and stamp out rampant inflation, Milei lacks a majority in Congress and will have to work with the rivals he reviled.

Global bond yields fall further, led by a downside surprise on US CPI inflation

Bond market sentiment has improved, but conditions are expected to remain volatile for now.

Solid consumption in China, but a still ailing property market



Source: NBS, Bloomberg

China's October data continue to show weakness in the property sector, still no credit impulse, but better than expected retail sales growth once again. Even though the annual 'Singles Day Shopping Festival' only revealed a slight increase in sales compared to last year, overall consumption remains brisk, particularly in services consumption. Meanwhile, manufacturing and infrastructure investment continue to grow, though at a slower pace than in the prior month. The latter is driven by government bond financing, while in addition industrial production growth continues to be stable. Property investment remains the weak link, down 11.3% YoY, while new home sales, according to the NBS-70 city measure, declined 0.4% MoM and were down 0.6% YoY. Home price declines accelerated to -0.38% MoM, as did price declines for existing homes, at -0.58% MoM.

Elsewhere we note that the PBoC may fund at least RMB 1tn of major infrastructure and property projects via policy banks. This 'QE' injection may indeed help to revitalise the related sectors. While the urban village renovation project might benefit first, we believe the lagging delivery of pre-sold homes should be prioritised. Finally, we applaud the very constructive meeting between US President Biden and China's President Xi at the APAC conference in California.

US

Inflation falls faster than expected

Inflation rates fell slightly faster in October than consensus expected, with headline CPI being flat after rising 0.4% MoM in September while Core CPI slowed to 0.2% MoM from 0.3% MoM the month before. On an annual basis, headline inflation slowed to 3.2% from 3.7% while Core CPI ticked down to 4.0% from 4.1%. The slowdown in price pressure was fueled by a significant drop in gasoline prices. As expected, shelter inflation continues to slow, but other service components like lodging away from home and airfares are also receding, reflecting consumers' reduced willingness to spend. This is also visible in retail sales falling by 0.1% MoM in October, down from a plus of 0.9% the month before. Falling industrial production, a significant drop in the National Association of Home Builders' market index, as well as a pick-up in both initial and continuing jobless claims are further signs of the softer growth environment. Finally, Congress has passed a bill that averts a government shutdown for now, but the issue will quickly resurface in January.

Europe

Tentatively hopeful German investors, overly optimistic EU Commission

This week in the Eurozone we received a variety of data covering sentiment, labour markets and official sector forecasts for the economy. On the former, the German ZEW survey gauges economic opinions from around 300 domestic financial institutions. This month's results closely matched those of the similar IFO index: participant's assessment of the current state of the German economy stayed near historic lows, while the future outlook improved. We received mixed messages on the strength of the labour market. On the positive side of the ledger total Eurozone employment growth for Q3 came in at a robust +1.3% QoQ, despite the overall fall in GDP. More negatively, French unemployment came in at 7.4% for the same period, above market expectations for 7.3% and showing a clear trend of weakening from lows of 7.1% in March. Lastly, the European Commission released their Autumn economic forecasts. Despite revising down overall Eurozone growth in 2024 by 0.2% to 1.2%, we see this as exceptionally optimistic given an already challenging environment.

Australia

The labour market remains tight

Tightness remained in the labour market in October, with a robust 3% YoY increase in job growth. The economy added 55k new jobs, two-thirds of which were part-time. Increased labour participation led to a slight rise in the unemployment rate, from 3.6% to 3.7%, still near a 50-year low. Wage growth accelerated to 4% YoY in Q3, the highest since 2009, following the Work Fair Commission's decision in July to increase public sector wages by 5.8% YoY, with the private sector also seeing similar increases. With inflationary pressures easing, wage growth is likely to have peaked. We think the Reserve Bank of Australia (RBA) may have reached its peak rate at 4.35%. However, if inflation continues to exceed expectations, another rate hike early next year is possible. Market pricing now suggests a shift away from anticipating rate cuts in the first half of 2024, aligning with our view that the RBA will hold the elevated cash rate for a longer period than initially expected.

Equities

Momentum builds as the rally broadens

Another strong week for global stocks saw the MSCI World Index climb almost 3% as investors once again priced-in a peak in policy rates. The fall in bond yields, with 10yr Treasury yields off 20bps following good inflation readings, boosted the equity rally. The more interest rate-sensitive Russell 2000 US small stock index jumped 5.4% on the week and is back into positive territory for the year. We concur with investors' peak rate view, but we have also factored in the slowing growth environment, which we believe is being overlooked by many. Of particular note is that, despite good earnings last week from US retailers Target and Walmart, with Target's stock surging 19%, the outlook is opaque. Walmart noted customers are becoming increasingly discerning and price conscious as we approach the important holiday shopping season, which pushed the stock down 6.5%. For now we are encouraged by the breadth of the equity rally and the break-out of the S&P 500 from its down-track, but also note that stocks have jumped from over-sold towards over-bought territory very quickly.

Bonds

Government bonds rally on falling inflation

Government bonds rallied last week, with the 10yr Treasury yield down 22bps, closely matched by gilts while other European markets lagged. The trigger was a downside surprise to US CPI inflation, but falling oil prices, weaker US labour market data and a slump in UK inflation also contributed. The rate outlook shifted, with pricing now implying that all major central banks are done hiking, while the probability of a Fed rate cut in H1 has increased. Despite the moves at the short end, yield curves flattened modestly as the long end outperformed, with concerns around fiscal excesses and persistent inflation receding for now. Sell-off pressure in the Japanese JGB market also moderated, with the 10yr JGB yield back below 0.75%, well below the BoJ's 1% reference level. We agree with the change of direction in bond markets given global growth weakness and softer US data, but expect volatility to remain elevated for now, as inflation is not yet decisively beaten and central banks may well push back on the dovish repricing near term.

What to Watch

- The flash PMIs will be watched to see if global growth momentum fell further in November.
- In the Eurozone the European Commission's Confidence Index is due on Wednesday. In addition to key PMI data, Thursday also brings the ECB's accounts for the October meeting. On Friday the German IFO survey will show if optimism continues to build.
- In APAC, Japan will publish October CPI data. Indonesia's BI is expected to keep policy rates unchanged. Taiwan will report October data for industrial production, export orders and the labour market. Singapore will release October industrial production and CPI data. Thailand and Malaysia will publish October export data. Japan's markets will be closed on Thursday.
- In Mexico, the IGAE economic activity indicator for September is anticipated to show an expansion of 3.0% YoY; on the other hand, the final data on GDP growth for Q3 will be published. In Chile, GDP growth data for Q3 will be released, which is anticipated to show a growth of 0.2% YoY.

Disclaimer and cautionary statement

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