

Weekly Macro and Markets View

11 December 2023



Highlights and View

Global PMIs stabilised in November, helped by a tick up in manufacturing, but the employment component slowed markedly

Global growth remains weak and slowing services momentum is now also visible in stalling job growth in the sector.

US payrolls increase by 199k in November while consumer sentiment moves higher

Data continue to show a resilient labour market with elevated wage growth, which will likely keep the Fed sounding hawkish at this week's FOMC meeting.

Hawkish remarks by Bank of Japan Governor Ueda and his deputy Himino suggest that the BoJ may end Negative Interest Rate Policy (NIRP) as soon as January 2024

Financial markets reacted swiftly, pushing the 10yr JGB yield up 12bps, while the JPY appreciated by JPY 10 versus the USD before stabilising. Yen appreciation is in line with our expectations.

Yen weakness has peaked



Source: Bloomberg

While there were no major surprises coming out of the Bank of Japan's Monetary Policy workshop on Monday, currency markets were shaken mid-week by hawkish comments from BoJ Governor Ueda and one of his deputies, Himino. Both seemed to suggest that the Policy Board is willing to abandon its Negative Interest Rate Policy (NIRP) sooner than expected. In our outlook for 2024, we believed that NIRP would end in April, but consensus has now quickly shifted to January 2024, with some even predicting action at the December 19 BoJ policy meeting, which we think is unlikely. Financial markets reacted accordingly. The 10yr JGB yield rose from 0.63% to 0.76% while the USDJPY tumbled by more than JPY 10 from its recent high of almost 152 to an intraday low of 141.7, slightly below its 200-day moving average, before bouncing back above 146 on Monday. The strong yen appreciation is in line with our expectations. Meanwhile, both Tokyo's November headline and core CPI fell more than consensus had expected while wages rose quicker in October, suggesting that a positive wage-inflation loop is developing, even though real wages are still negative. Q3 GDP growth has been revised downward to an annualised sequential rate of -2.9%. However, considering favourable readings from the latest Reuters Tankan and Eco Watchers surveys, we believe Q4 growth will pick up, avoiding a technical recession.

China

When will the bad news end?

Chinese equities suffered various blows recently, including a disappointing earnings outlook by an index heavyweight, continuing property market weakness, and perceived insufficient policy action to spur the economy. Even the outcome of the Politburo meeting over the weekend could not give a fresh impulse to the market. Last week, the rating agency Moody's downgraded China's A1 credit rating from stable to negative, rattling the equity market. Moody's referred to the weak property market as well as local government debt issues as reasons for its

downgrade. China's 5yr CDS rose slightly, though it is far below levels seen two months ago, which suggests that the equity market setback may have been overdone. Meanwhile, China's inflation data for November were disappointing, with both CPI and PPI falling deeper into deflationary territory on softer energy and food prices (weaker pork prices were the main driver on the downside) while lower imported commodity prices also contributed. Core inflation remained unchanged at 0.6% YoY.

US

US data surprise positively, requiring a still cautious Fed

US data were positive last week, implying that the economy continues to confound expectations, with activity still running at a decent pace. ISM services surprised positively at 52.7, while new orders remained at a healthy level of 55.5. Consumer sentiment was also strong, with the University of Michigan reading showing a sizable jump. Both the assessment of current and future conditions improved, while consumer inflation expectations fell markedly. It was the job readings that garnered the most attention, however.

Payrolls beat expectations with a gain of 199k. While there were some distortions due to the end of the auto workers' strike, the strength was broad-based. Unemployment fell to 3.7% and the participation rate ticked higher. The resilience of the US economy is evident, but this will be a challenge for the Fed. Financial conditions have eased appreciably in recent weeks as markets have rallied and bond yields have plunged. With a 4% YoY gain in average hourly earnings and a still tight labour market, a hawkish message from the Fed is likely.

Eurozone

The faint echo of the hammers

Last week saw mixed Eurozone data, with broad evidence of ongoing struggles in the manufacturing sector against consumer resilience. Eurostat released more details regarding Q3 GDP numbers, where the bloc's GDP growth slowed by 0.1% QoQ. Household consumption actually grew on the quarter, against broad estimates, while business investment stagnated. We see consumption growth struggling next year as labour markets weaken. We also saw October industrial production numbers in key markets, and with it the first confirmation

of weak data feeding into Q4 GDP. Figures from Germany, France, Italy, and Spain all showed monthly contractions. There is no sign of respite here for Germany, where October factory orders came in significantly below consensus at -3.7% MoM, continuing a clear trend of falling real order volumes since Q2 2022. Lastly, both real exports and imports fell in Germany in October. The trade balance has been trending more positively, and with imports falling faster than exports, net trade is not detracting from GDP despite total trade volumes falling.

Brazil

GDP growth remains resilient in the third quarter, above market expectations

GDP growth for the third quarter was 0.1% QoQ, above market expectations of -0.3%. The economy rose 2.0% YoY. Cumulative growth in the last four quarters decelerated to 3.1% from 3.7% in Q2. The expansion shown in the quarter highlights the Brazilian economy's resilience despite tight credit conditions. On the supply side, agriculture showed a decline of -3.3% QoQ following two strong quarters. On the other hand, industry, and services each rose by a robust 0.6% QoQ. Industrial utilities, at 3.6%, led industrial growth, offsetting a 3.8%

contraction in construction. Transportation was the only service sector that declined, dropping -0.9%. Financial services and real estate activities, both 1.3% in Q2, were positive highlights. On the demand side, household and government consumption, as well as exports of goods and services drove growth, offsetting the contraction in investment. Should the economy hold its Q3 growth level in the final quarter of the year, growth would average 3% for 2023.

Credit

Activity slows while US munis remain supported

Activity slowed in credit markets amid a year-end wind down with issuance slowing in general. Europe saw a more pronounced slowdown, where weekly volume reached its lowest level since August. Credit spreads were stable to slightly tighter, with cash bonds outperforming CDS indices. US ABS and European Covered Bonds reversed their underperformance with spreads tightening in both. US municipal bonds continue to outperform Treasuries. After a near-record total return performance in November, market technicals are still supportive with

lower supply and mutual fund flows having improved over the last month. Current ratios of municipal bond yields to US Treasury yields are now well below their long-term averages and further outperformance potential appears limited. However, absolute levels of after-tax yields remain high from a historical perspective and should attract new investments from retail investors. January is also likely to benefit from sizable redemptions and coupons payments, further supporting technicals.

- Please note that we have recently published our [Economic and Market Outlook 2024: Skating on thin ice](#)
- The Fed, the ECB, the BoE and the SNB are all expected to keep rates unchanged in this week's policy meetings.
- On Tuesday US CPI inflation will be reported, which may prove to be a little stickier following a run of surprisingly weaker readings.
- In the Eurozone, the ECB's quantitative tightening plans will be closely watched, the German ZEW survey should confirm tentative optimism, and December PMIs for Germany, France and the Eurozone will be released earlier than usual given the season.
- In Brazil, we expect inflation at 0.3% MoM and a downtick in YoY inflation to +4.7%, confirming that inflation remains under control. Economic activity indicators for October will be published, and we anticipate growth of 0.1% MoM and 1.9% YoY.
- In APAC, Japan will release the Q4 Tankan Survey and December PMIs. Australia will report November labour market data as well as business and consumer confidence surveys. Taiwan's CBC and the Philippines's BSP are expected to keep policy rates stable. China will report various November indicators, while India will publish October industrial production and November CPI data.

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 Group Ltd

Investment Management
Mythenquai 2
8002 Zurich