Weekly Macro and Markets View

2 April 2024

Highlights and View

The ISM Manufacturing index moves back into expansionary territory

US manufacturing has expanded for the first time in 18 months. New orders are signalling further modest growth ahead while employment keeps contracting.

While there are some doubts about the Fed's intentions, the ECB looks ready to deliver policy easing, likely in June, as inflation data continue to move lower

The full March inflation picture will be confirmed later this week when overall Eurozone inflation is released, but individual country releases for March are broadly pointing towards slowing inflation.

China's NBS March PMIs rose in the manufacturing, services and construction sectors

The PMIs for small and mid-sized manufacturing companies finally moved above the critical level of 50, while sub-indices like new orders and new export orders recovered as well. However, the data may still be distorted due to statistical Lunar New Year.

A 34-year high for USDJPY

Source: Bloomberg

Following the record high of the Nikkei-225 and multi-year high wage settlements for major companies, the US dollar rose to a 34-year high of 159.97 versus the yen. The yen continued to weaken despite the Bank of Japan's recent exit from emergency monetary settings and its policy rate hike from zero to an upper bound of 0.1%. The weak yen prompted the Ministry of Finance, which is responsible for currency interventions, to threaten 'bold steps', saying it is 'not ruling out any options', which immediately helped the yen to recover somewhat. We believe the expiry of certain FX options in the market may have contributed to the urgency. The weak yen likely reflects US dollar strength due to protectionist US policies and seems to be impacted by daily parity setting operations by China's PBoC.

Aside from forex, it is worth noting that Japan's land prices have continued to rise, increasing by 2.4% YoY as of early 2024 versus 1.6% a year ago. The increase is particularly noticeable in Tokyo, where commercial land prices rose by 7% YoY, up from 3.6% a year ago, while residential prices increased by 5.4% YoY, marking the strongest rise since 2008. Meanwhile, Japan's quarterly corporate survey, the Tankan, showed weakness in the auto sector. However, non-manufacturing sentiment was firm, at levels last seen in the early nineties. The survey also revealed severe labour shortages and signs of a positive wage-price loop.

US

PCE core inflation slows in line with expectations

Personal spending accelerated in February as households dipped into their savings while there were no major surprises in the latest set of PCE inflation numbers. PCE core inflation slowed in line with expectations from 0.5% MoM to 0.3% while the annual rate receded to 2.8% from 2.9% the month before. Meanwhile, the growth environment remains mixed as reflected by a number of regional activity indicators that mostly decelerated. The Conference Board's latest survey shows that consumer confidence was largely unchanged in March. However, the headline number hides a widening gap between an improvement in the present situation and a deterioration in expectations. New homes sales ticked down slightly in February while house prices grew at the slowest monthly pace in a year according to the Case-Shiller index. Markets were relatively quiet in a holiday-shortened week, with the S&P 500 marginally positive by the end of last week. Treasury yields rebounded at the beginning of this week after a better than expected ISM Manufacturing survey.

Eurozone

March inflation cools

The Easter holiday led to some re-jigging of Eurozone data releases, the most important of which are the March national inflation releases, which started slowly filtering in around the holiday. So far, so good—inflation has broadly come in below consensus forecasts. In particular, the French release last Friday showed inflation slowing significantly from 3.2% YoY to 2.4%. Italian inflation had been expected to pick up from low levels, but did so at a slower pace than anticipated with inflation now at 1.3% YoY. The breakdown of inflation looks tentatively promising too, with signs that core and services inflation measures are falling at a slightly quicker pace than earlier in the year. This bodes well for the ECB's plan to begin cutting in June, and may even ignite comments from some governing council members about the possibility of starting in April. While possible, we continue to think April is too early for a cut with broad consensus. While falling, inflation remains above 2% and policymakers are erring on the side of caution.

Switzerland

The manufacturing recovery is still on track while services activity should remain resilient

PMI data show that the manufacturing sector continued its gradual recovery in March, with the overall index rising for the fifth consecutive month, led by improving output and employment, while price pressures eased on the back of the strong franc. The Services PMI fell sharply, however, and at 47.6 is now consistent with contraction in the sector. This was a surprise as services activity had been resilient so far. Consumer sentiment and spending should benefit from declining inflation and still solid labour markets. Other data have also been more encouraging, with the KOF economic barometer still consistent with an above-trend level of growth, helped by positive services dynamics. The SNB's quarterly survey on business conditions also highlighted an improving outlook for the sector. Looking forward, the SNB's rate cut and the weaker franc should help to further maintain momentum in the economy, with both domestic demand and exports likely to benefit in coming months.

Australia

Improving marginally

Retail sales rose modestly by 0.3% MoM and rebounded to 1.6% YoY in February, reflecting a fairly steady consumer outlook. Consumption is likely poised for further improvement, underpinned by the tick up in household disposable income amid easing inflation, prior wage increases, and favourable wealth effects from higher house prices. However, elevated mortgage rates remain a barrier to any significant consumption growth. Credit growth is modestly rising, with private credit up by 0.5% MoM and 5.0% YoY, hinting at a slight rebound in housing credit growth. A further drop in job vacancies suggests a gradual easing of the labour market. Nevertheless, inflation, particularly within the services sector, is proving sticky, with the monthly CPI for February unchanged at 3.4% YoY and core CPI at 3.8%. While the macroeconomic environment is improving, the crucial question is whether inflation will fall swiftly enough to prompt the Reserve Bank of Australia to cut rates. We anticipate rate cuts will only come through in Q3, in line with market expectations.

LatAm

Sectoral indicators surprise positively in Chile

While the Chilean labour market has remained stable, the unemployment rate has been on a downward trend. In February, however, it did increase slightly from 8.4% to 8.5%. This rise can be attributed to an increase in the labour force (3.2%), which outpaced the growth in employed individuals (3.1%). Meanwhile, industrial production experienced a significant expansion of 7.9% YoY in February compared to 3.6% in January, and was above market expectations of 5.1%. The growth was driven by the positive performance of three sectors: manufacturing at 8.8% YoY, mining at 7.7% YoY, and production of electricity, gas, and water at 5.9% YoY. Commercial activity saw 1.9% YoY growth in February, influenced by increases in two of three divisions.

In other news, the Chilean government launched an initiative encouraging private sector investment in over twenty salt flats for lithium exploitation, boosting the local stock market at the end of March.

What to Watch

- In the US, the latest batch of labour market data will give crucial insights into the current state of the US economy.
- Wednesday brings March Eurozone inflation, where the year-on-year pace should slow. We will also receive the Eurozone unemployment rate for February, which is expected to be unchanged at a very low 6.4%, as well as a variety of factory and industrial related numbers across the Eurozone.
- Swiss CPI inflation is expected to tick higher in March while consumer sentiment should improve from a weak level.
- In Japan, the third round of shunto wage agreement data will show whether wage hikes are forthcoming for service-related industries, following promising data for the manufacturing sector. China will release its Caixin March PMIs. The central banks of India and the Philippines are expected to keep their policy rates unchanged. Korea, Taiwan and the Philippines will release March CPI data. Markets will be closed in Mainland China, Hong Kong and Taiwan on Thursday and/or Friday.

Disclaimer and cautionary statement

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