

Weekly Macro and Markets View

8 April 2024



Highlights and View

The US labour market remains resilient, with 303'000 new payrolls in March

Although both ISM surveys are pointing to a weakening employment situation, payrolls and the unemployment rate show a strong labour market.

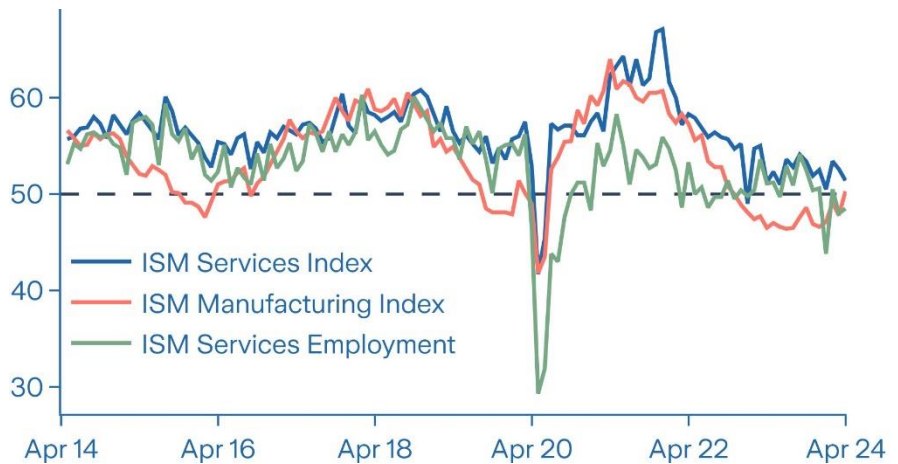
The Global PMIs show that the manufacturing recovery is becoming more robust while services activity remain brisk

Global growth is now tracking at a trend-like pace, but further progress on services inflation will be required for the expansion to be sustainable.

Eurozone HICP Inflation fell to 2.4% YoY in March, and core inflation fell to 2.9%

Both of these measures were lower than the market had expected, which is welcome news for the ECB. It looks set to deliver the first rate cut in June.

Slowing US service activity not yet translating into weaker employment



Source: Bloomberg

The ISM Manufacturing Index moved back into expansionary territory for the first time in 18 months in March, indicating that manufacturing activity is finally recovering. At the same time, however, service activity continues to slow down, with the latest ISM Services survey falling to 51.4, reflecting only modest growth. In both cases, employment has been contracting, which points to potential weakness in the labour market. Nevertheless, the latest batch of employment data shows that the labour market remains resilient for the time being. The unemployment rate ticked back down to 3.8% from 3.9% while 303'000 new nonfarm payrolls were created in March, up from 270'000 in February, which is at the upper end of the range we have seen over the past 12 months. Meanwhile, wage growth slowed to 4.1% YoY, the lowest since June 2021. The pickup in manufacturing prices, strong employment numbers, and rapidly rising energy prices have brought investors' focus back to still elevated inflation rates and the risk that the Fed may not be able or willing to cut rates at the projected pace. Treasury yields rose substantially over the course of the week providing some headwind for the stock market. At some point, the S&P 500 was on track for the worst week this year before partially recovering to end the week 1% lower.

Global PMIs

The manufacturing recovery is gaining traction

March PMI data show that a cyclical upswing in manufacturing is gaining traction and becoming more robust, with the Global Manufacturing PMI printing at or above the boom/bust level of 50 for the third consecutive month, helped by robust current activity and output and steadily improving new orders. This aligns with global trade data, which show that world trade is back in expansion after a prolonged contraction over the past year that left trade down 2% in 2023. The Services PMIs, meanwhile, continue to signal solid growth in the sector,

also helped by improving demand for consumer services. The data imply that the global economy is now expanding at a trend-like pace, while divergences between sectors are narrowing as manufacturing momentum picks up. This is encouraging as it makes growth more sustainable, though progress on services inflation is still incomplete. Further upside to global growth from the current level is also likely to be limited given tightness in labour markets and still restrictive monetary policy.

Eurozone

Inflation continues to slow

Aggregate Eurozone HICP inflation data were released last week, which were pleasantly surprising for the ECB (and citizens in the Eurozone). Headline inflation fell to 2.4% YoY while core inflation fell to 2.9%, the lowest level since the beginning of 2022. Enthusiasm has been somewhat tempered, however, by still-elevated services inflation, which remains at 4% YoY. Nevertheless, the overall picture further increases the chances of an ECB rate cut soon, likely in June. While policymakers could ease policy at this week's meeting,

lingering concerns around services inflation and high wage growth make June more likely. Otherwise, we also received PMI data for March, which broadly beat expectations. The Eurozone Composite PMI came in at 50.3 after nine consecutive months of contraction. This is good news, but still consistent with low growth. The services sector is considerably stronger than manufacturing, although both have been on an upwards trend. Spain and Italy continue to signal more optimism in sentiment than Germany, which remains a laggard.

Asia

Snippets

While March PMIs were not a major focus across the region, we note improvements in China, Indonesia and India. India's seasonally adjusted Manufacturing PMI posted a remarkable 16-year high of 59.1. Taiwan's major earthquake caused fatalities and damages at the Eastern coast while operations at semiconductor plants, which are mainly located in the Western parts of the country, were only shortly disrupted and appear to be back to normal. In Japan, the third round of shunto wage negotiations showed base pay increases of 4% for

manufacturers and 3.7% for commerce/trade, but only 2% for services/hotels and 1.5% for transportation. In February, basic wages for regular employees increased 2.1% YoY on a same-sample basis, while real wages were down 1.3% YoY. More time is needed for the shunto wage increases to trickle through into the statistics. Meanwhile, the Eco Watchers survey for March disappointed optimistic consensus expectations as the headline diffusion index fell 1.5 points below the 50 mark to 49.8 while the outlook fell 1.8 points to 51.2.

Credit

Still resilient

Last week, amid the move higher in US Treasury yields and the resulting volatility in US equities, credit markets were notably resilient. In both the US and in Europe, spreads closed the week tighter in IG and were only minimally wider in HY. Positive sentiment was also visible in weekly corporate bond fund flows, with inflows continuing into US and European IG funds and only small outflows from US HY, according to LSEG Lipper and EPFR data. As we have already highlighted several times during 2024, solid demand driven by all-in

yields has allowed the US IG market to well absorb the strong issuance seen year-to-date. This has resulted in new issue concessions (NICs) staying low. However, NICs in recent weeks have started moving higher, showing that demand still has its limits. In the coming weeks spreads could stay tight, supported by solid demand and slowing supply ahead of earnings. The flipside of that is that current valuations won't provide much protection against the multiple risks stemming from the uncertain trajectory of growth and rates.

Chile

Economic data surprise positively; the CBC reduces interest rates as expected

The IMACEC economic activity indicator was down from 2.0% MoM in January to February 0.8%, below market expectations of 1.0%. Year-on-year growth, however, rose to 4.5% as compared to 2.3% in January, and was above market expectations of 3.3%. The key factors contributing to this expansion were the additional day due to the leap year and increased public investment in 2024. If this positive trend in economic activity continues, it is likely that economic growth will reach 2-3% by the end of 2024.

The Monetary Policy Council made a unanimous decision to cut the monetary policy rate (MPR) by 75bps, bringing it down to 6.5%. While this move matched market expectations, it was below our forecast of a 100bp reduction. Since the start of the monetary easing cycle in July 2023, 475bps in rate cuts have been implemented. We anticipate that the Council will opt for a 50bp reduction at its next meeting. The Chilean peso reacted to the cut by appreciating 40 pesos (~4.1%) after the announcement, closing the week at 942.72.

What to Watch

- US inflation is expected to have slowed in March, but investors will watch closely for any sign of resurfacing price pressure.
- Japan's PM Kishida will meet with US President Biden. In Japan, the April Reuters Tankan plus March consumer confidence and producer price data will be released. China will publish inflation, export and monetary data for March. India will see March CPI and February industrial production data. In Australia, business and consumer confidence data will be in focus. Taiwan will release export and CPI data for March. We expect the Bank of Korea to stay on hold at 3.5%, while the Bank of Thailand may cut its policy rate by 25bps to 2.25%. National assembly elections will be held in South Korea.
- In the Eurozone this week the ECB will meet to set policy. While there is a very small chance it cuts rates now, June looks more likely. The quarterly Bank Lending Survey will be released on Tuesday.
- March inflation data will be released for various LatAm nations. Market expectations for Brazil are 0.23% MoM and 4.0% YoY, for Mexico 0.37% MoM and 4.51% YoY, and for Chile 0.6% M/M and 3.9% YoY.

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