

# Weekly Macro and Markets View

6 May 2024



## Highlights and View

### Fed Chair Powell sets a high bar for further rate hikes

While imminent rate cuts are unlikely, the FOMC kept its easing bias and announced a slowing in the pace of quantitative tightening.

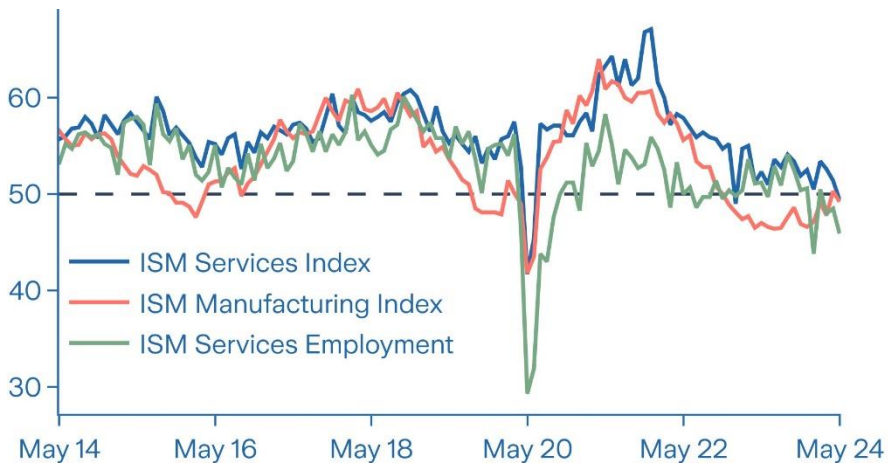
### Government bond yields decline on the back of soft US economic data and a relatively dovish Fed

After the correction, yields are more aligned with economic fundamentals, with a soft landing for the economy back in play.

### Japan's MoF obviously intervenes twice to support the yen

Potential further intervention will depend on monetary policy action by the US Fed and the Bank of Japan, with the USDJPY 160 level as a line in the sand.

## Further US rate hikes unlikely as growth and the labour market weaken



Source: Bloomberg

Last week brought more evidence that the US economy is slowing. The ISM Manufacturing Index ticked back into contraction in April after its brief excursion into expansionary territory the month before. Both new orders and employment fell, too. More importantly for the broader economy, service activity is also slowing with the ISM Services Index falling to 49.4, the first contraction since December 2022. New orders expanded modestly, but employment was weak. Prices paid have picked up, though this was at least partially due to the temporary rise in energy prices which have since fallen back. While the monthly numbers can be volatile, the trend towards a weaker employment situation has been persistent for months. Emphasising this trend, the number of job openings dropped by more than 300'000 in March to the lowest in three years. Similarly, growth in nonfarm payrolls slowed substantially in April while the unemployment rate rose to 3.9% and the number of hours worked fell. The weakening labour market led to a further slowdown in wage growth, which will be welcome news for the central bank. As expected, the Fed kept rates unchanged at its meeting last week. While Fed chair Powell acknowledged that more progress on inflation is needed he set a high bar for further rate hikes, triggering a relief rally in both bonds and equities.

## Markets

### Bonds rally while stocks lag

Treasury yields slumped last week on weaker US macro data and a relatively dovish Fed. The 10yr Treasury yield marked its largest weekly decline since December and is now back below 4.5%, as expectations for the first Fed rate cut were brought forward to November. Global bond markets also rallied, with the 10yr Bund yield back below 2.5%, as encouraging Eurozone CPI data increased the likelihood that the ECB will cut rates in June. After correcting lower, bond yields are now more aligned with economic fundamentals, with hopes of a soft landing

back in play. Equities were lacklustre last week, though emerging markets and the US did better. US small-cap and tech stocks were helped by the dovish Fed comments, lifting the Nasdaq and Russell 2000 indices up 1.4% and 1.7% respectively. Apple beat subdued expectations and tacked on 8.3% last week but remains down nearly 5% on the year, demonstrating investors' increasing discernment. Their USD 110bn buy-back announcement highlighted the recent spate of stock repurchases that appear to be amongst corporate Americas' priorities.

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## Eurozone

Good to go

Last week saw top-tier data releases in the Eurozone, with both Q1 GDP and inflation data. Growth was stronger than expected across the board while inflation data confirmed a continued slowdown. We think this leaves the ECB in a fairly comfortable position to deliver a June cut. GDP growth came in at 0.3% QoQ for the Eurozone overall, defying a variety of weak indicators. While private consumption did contribute positively, the majority of growth appears to have come from net exports, with trade adding considerably to the number. We think

this is unlikely to be a driver for the remainder of the year and therefore, despite better activity figures, still see the economy as weak enough to justify rate cuts. The inflation picture improved as well, with headline and core inflation falling. Core inflation is now at 2.7% YoY for April, the lowest since February 2022. Services inflation, which continues to most concern policymakers, finally fell from 4% to 3.7%. We see price pressures continuing to ease, allowing for a gradual easing of monetary policy.

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## Switzerland

Stronger inflation while manufacturing weakness persists

Inflation surprised to the upside in April, with the CPI gaining 0.3% MoM while the annual rate rebounded from 1% to 1.4%. The increase was driven by higher prices for imported goods, likely reflecting pass-through from the sizable weakening of the franc since the start of the year. The Manufacturing PMI, which had risen for five consecutive months, slumped in April. Weakness was broad based, with soft current output and new orders while the employment component remained in contraction. The weakness aligns with the latest unemployment data,

which showed falling employment in parts of manufacturing, while the sector is also making use of the government's short-time working compensation scheme. In contrast, the Services PMI rebounded sharply in April, and continues to signal robust activity and demand. The SNB is expected to maintain its dovish stance for now, but a further sharp weakening of the franc is unlikely to be desired.

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## Japan

Don't fight the MoF

Japan's Ministry of Finance used the first Monday of the 'Golden Week' holiday as an opportunity to intervene in currency markets in support of the yen. A second round of yen support occurred during the week. Though the interventions were not officially announced or confirmed, it is pretty clear when analysing the accounts. The total intervention amount is estimated to have summed up to around USD 57bn, marginally below the respective intervention amount employed back in 2022. This helped to push the JPYUSD rate from above 160, another

34-year high, back to below 155. The need for further intervention depends on monetary policy action by both the US Fed and the Bank of Japan. Watch the BoJ's 'Summary of Opinions' report published this week. Meanwhile, various statistics for March came in weaker than consensus had expected, including retail sales, industrial production, housing starts and labour market data. April's consumer confidence retreated from its 'double top', marked in 2021 and more recently in March.

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## Asia

Export hubs see pickup in activity

For the first time in 24 months, Taiwan's Manufacturing PMI managed to climb back above the boom/bust level of 50 from its 41.5 low. Q1 GDP was up a stronger than expected 6.5% YoY. Solid exports and resilient private consumption were the main drivers. South Korea's Manufacturing PMI slid back a bit to 49.4, but export growth was healthy in April, up 13.8% YoY and 4.8% MoM on a working day adjusted basis. Growth was driven by solid semiconductor and tech exports while auto and steel exports remained soft. Elsewhere in the

region, India's PMIs continue to suggest strong economic momentum, positioning India as the star performer. In ASEAN, domestically oriented economies still fared better than export-oriented ones. Despite this, export hubs, which include Vietnam, Malaysia, and Singapore, are seeing some marginal improvement, particularly Singapore, which mirrors the momentum in Taiwan and Korea. On balance, conditions are getting better, helped by improving exports, but the recovery is proceeding at a relatively slow pace.

## What to Watch

- The remaining PMI figures for the Eurozone, including Spain and Italy, and March Industrial Production for the majority of member states will be published; the European Commission will release their Investor Confidence Survey.
- The Bank of England is expected to keep policy rates unchanged at its meeting this week.
- In Japan, we will focus on the Eco Watchers Survey for April and March wage data. In Australia, we expect the RBA to keep policy rates unchanged, while Malaysia's BNM should also stay put. China will release foreign trade statistics for April, while India and Malaysia will report industrial production data for March. Taiwan and the Philippines will release April CPI as well as foreign trade data. Q1 GDP data will be published in Indonesia and the Philippines. Markets are closed on Monday in Japan, Korea and Thailand, and on Thursday and Friday in Indonesia.
- The central banks of Brazil and Mexico will announce their monetary policy decisions. A 25bp cut is anticipated in Brazil while Mexico is expected to leave rates unchanged. Additionally, inflation data will be published in Brazil, Mexico, and Chile.

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