

# Weekly Macro and Markets View

22 January 2024



## Highlights and View

**The PBoC keeps its loan prime rate unchanged while Q4 data fail to show a notable improvement in activity**

While China has exceeded its 5% growth target for 2023 there is not much to celebrate. The property sector continues to cast a shadow over the economy and policymakers remain hesitant to deliver large-scale stimulus.

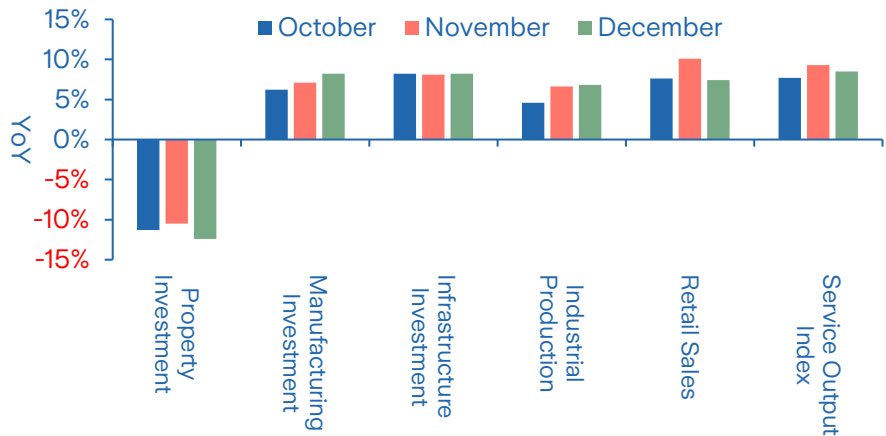
**UK wage data continue to decline from high levels while inflation rises slightly to 4% YoY in December**

The Bank of England is in an unenviable position as wage growth and inflation remain too high for comfort while economic activity continued to weaken through Q4 2023.

**In Chile, Claudio Soto is appointed as a new board member of the Central Bank**

The appointment of Claudio Soto, who seems inclined toward a more dovish monetary policy stance, has paved the way for upcoming monetary policy easing.

## China's property market continues to cast a shadow over the economy



Source: NBS

China's latest activity data have failed to show any significant improvement. While real GDP growth rose from 4.9% to 5.2% YoY in the last quarter of 2023, the rebound was largely driven by low base effects. Sequential growth, however, softened from 1.3% to 1% QoQ, and the GDP deflator was negative, reflecting a broad deflationary environment. The bright spots remain the manufacturing sector and infrastructure investment. Industrial production showed decent growth in December, buoyed by solid auto and mobile phone production, and the positive momentum in services persists. The property market continues to cast a shadow over the economy, with home sales and property investment in a slump. Despite lacklustre growth, policymakers do not show any urgency in delivering large-scale stimulus. The PBoC kept its loan prime rate unchanged this week, another disappointment for investors who are looking for further stimulus. China's equity market extended its losses following the PBoC's decision. The MSCI China index is now tracking around 50% lower than its peak in June 2021, measured in local currency, and is down almost 10% YTD. We suspect investor scepticism and the negative impact of the property sector will continue to put pressure on Chinese equities for some time until there are signs of more substantial stimulus from policymakers.

## US

Consumer confidence surges while stocks hit record highs

The holiday-shortened week saw a plethora of positive economic data and investors willing to buy stocks following consolidation since the start of the year. The US economy is again surprising positively, with retail sales in December strong and broad-based while both initial and continuing jobless claims moved meaningfully lower. With unemployment still close to 50-year lows, real incomes rising materially, mortgage rates finally falling, and gasoline prices off more than 15% since October, it perhaps should not have been a surprise that consumer

confidence jumped in January. Preliminary readings from the University of Michigan showed a remarkable rise in confidence in both current and future conditions while inflation expectations fell. Investors took the news positively despite the risk that expected rate cuts may have to be reassessed, with the S&P 500 breaking through resistance to breach the closing high from January 2022. While the economic resilience may make core inflation harder to tame, we are certainly encouraged by the data and the momentum in equities.

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## UK

An uncomfortable bounce in inflation

Last week saw important data releases for the UK economy. Average weekly earnings data confirmed a further decline in the pace of wage growth, with the underlying ex-bonus measure slowing in line with market expectations from a 7.3% three-month average YoY in October to 6.6% in November. While the drop is helpful from the Bank of England's perspective, it is still more than double the level that they consider consistent with inflation at 2%. Inflation data itself surprised the market by coming in higher than expected across the board.

Headline UK CPI rose to 4% YoY in December, and while this is only up slightly from 3.9% in November, traders and economists had anticipated a further decline. The Bank of England's own messaging remains more balanced than market pricing of rapid rate cuts and seems sensible given continued uncertainties on inflation. Confounding the difficulty, there was further evidence of weak economic activity, with retail sales falling a significant 3.2% in December.

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## Eurozone

Forget the past, focus on the future

Data released so far this year have supported an established trend: Eurozone economic activity data for 2023 is consistent with a recession, but forward-looking sentiment continues its tentative improvement. While last week saw a further contraction in Eurozone-wide industrial production for November at a pace of -6.8% YoY, we note some room optimism. If the recent decline in natural gas prices are sustained there is significant scope for a re-acceleration in the energy-intensive subcomponent. The flash estimate of total

German GDP growth for 2023 at -0.3% was a small comfort, as the details of the release showed that Germany avoided a 'technical recession' in Q3 and Q4, as all of the H2 weakness was concentrated in the final quarter. A variety of surveys are signalling a less negative outlook for this year, including the ZEW expectations for Germany and the overall Eurozone. Lastly, the ECB's inflation expectation survey showed a further decline in long-term price expectations with participants seeing inflation averaging 2.2% over the next three years.

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## Chile

The Senate approves the appointment of the new board member of the Central Bank

With the Chilean economy showing a rapid slowdown in inflation and continuing weak economic activity, the appointment of Claudio Soto as a new board member to replace Pablo Garcia has paved the way for monetary policy easing. Soto stated in a press interview a few weeks ago, before his appointment, that the central bank should reduce the MPR by 75bps at its next meeting in January, which is in line with expectations of a rapid convergence of underlying inflation during the first quarter. In his view, a more limited move would keep the

reference rate at very contractionary levels for several months, considering that the next meeting is in April. Recently, other board members expressed the need for more aggressive monetary easing recently. In response, Rossana Costa, President of the Central Bank, stated that it will be key to first evaluate the evolution of inflation. We anticipate that the central bank will indeed cut the MPR by 75bps at the next meeting, although more aggressive rate cuts going forward could reactivate inflationary pressures in the medium term.

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## Credit

High yield lags as the S&P 500 sets new record

Credit spreads ended the week tighter, helped by a better tone in risk assets with the S&P 500 index rising to a new record. High Yield, however, underperformed Investment Grade in both cash and CDS. As is usual in January, primary markets remained busy with US banks issuing bonds after their earnings releases. High Yield issuance seems to be rebounding with more than USD 8.5bn sold in the US last week. The use of funds was mostly indicated for refinancing or replacing banks' credit lines. We expect more HY issuance in the coming

months as supply during the past two years was low and companies have depleted cash reserves, prompting the need to issue debt despite the elevated cost of funding. This should add pressure to HY credit spreads after last year's strong performance. In Europe, covered bonds issuance began to slow after a strong start. Given the record volume of the past two years and the lack of credit demand reported in the last Banks' lending surveys, we expect covered bonds issuance to slow, which should support spreads' outperformance.

## What to Watch

- The flash PMIs will show whether global growth momentum held up in January.
- Attention in the US will be on the release of the Fed's favoured PCE inflation measures, with the headline reading expected to remain at 2.6% YoY and the core down to 3.0% from 3.2%.
- In the Eurozone, the ECB will meet on Thursday. Policy is unlikely to be changed with the focus on messaging for anticipated rate cuts this year. We also receive the German ifo.
- Markets will closely watch the Bank of Japan's first meeting this year for policy signals. Key data to monitor include Japan's trade data, machine tool orders, and Tokyo CPI. Bank Negara Malaysia is expected to maintain its policy rate, and Taiwan's Industrial Production, Korea's GDP, and ASEAN trade and manufacturing data will offer further insights into Asia's manufacturing and export sector.

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