

# Weekly Macro & Markets View

## Highlights and View

- **President Trump nominates Jerome Powell to become the next Federal Reserve Chair**

Powell's nomination stands for a continuation of the current Fed policy, reducing the risk of a sharp reaction in the bond market.

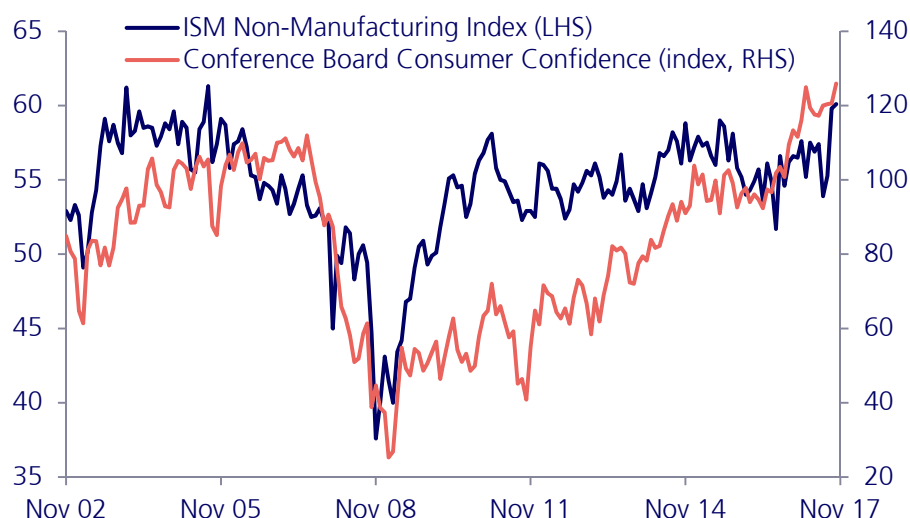
- **The Bank of England hikes rates for the first time in more than a decade**

The rate hike came with a dovish message, making more hikes in the near future unlikely. Accordingly, both gilt yields and sterling came under pressure.

- **Q3 Eurozone GDP grows at an above consensus pace of 0.6% QoQ, Q2 growth is revised up**

The region continues to grow at a well-above trend pace, which should be supportive for corporate earnings and local equity markets.

## The US economy enters the fourth quarter on a very solid footing



Source: Bloomberg

While the ISM Manufacturing Survey ticked down slightly to 58.7 after a hurricane-skewed 60.8 in September, it remains at a very high level. In particular, the new orders and employment components keep signalling a solid pace of business activity. The strong manufacturing numbers were trumped by an even stronger reading in the service sector with the ISM Non-Manufacturing Survey climbing to the highest level since 2005. The positive business sentiment was accompanied by very optimistic consumers as the Conference Board Consumer Confidence Index climbed to the highest level since 2000, helped by a jump in expectations. An important factor lifting households' mood is the healthy employment situation. The unemployment rate ticked down to 4.1%, the lowest since 2000, while the broader underemployment rate showed a significant decline to 7.9% from 8.3% the month before, reaching the previous cycle's low. New nonfarm payrolls have recovered from the hurricane-induced dip, reaching 261'000 in October after 18'000 the month before. As expected, no actions were announced at the Fed meeting, and the high likelihood of a rate hike in December remains. The earnings season is slowly reaching its end with more than 80% of the S&P 500 companies having reported. The average earnings surprise stands at 4.7%, resulting in a blended growth rate of 7.2% - meaning it's a decent, though not overwhelming quarter.

## UK: The BoE hikes rates for the first time in more than a decade

The first rate hike in more than ten years was well flagged and was already priced in by the market. Therefore, the focus was on the accompanying message and the outlook for further rate hikes. After some relatively hawkish statements ahead of the November meeting, the BoE refrained from signalling any further rate hikes in the near future. Acknowledging considerable risks to the economic outlook, all MPC members agree that further increases will be limited and gradual. The dovish message led to both sterling and gilt yields coming under pressure

after the BoE's announcement. Fuelled by a weaker currency, the FTSE 100 was lifted to a new record closing high. Economic data were mixed last week. While consumer confidence receded slightly, business sentiment has improved. The Manufacturing PMI ticked up to 56.3 in October from 56.0 the month before, while the Services PMI rose to 55.6 from 53.6, lifting the Composite PMI to 55.8 - the highest level since April. However, firms remain cautious regarding the longer-term outlook.

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## Eurozone: The ECB makes small changes to its language in its monetary policy meeting

Eurozone GDP came in at an above consensus and above trend 0.6% QoQ in Q3, and growth in Q2 was revised up to 0.7% from an initial estimate of 0.6%. Above-trend growth is supporting corporate earnings, with the earnings season so far showing Eurozone companies growing profits at around 9% YoY in Q3. Indeed, the Euro Stoxx reached fresh YTD highs last week, supported by the encouraging macro data and earnings season, as well as a weaker euro. However, both core and headline inflation fell back in October, underlying the need for the ECB to continue

the ongoing stimulus in 2018, albeit at a reduced pace. Finally, political events in Spain continue to dominate headlines, but have limited impact on markets. The central government has so far managed to reassert control of the regional administration, while many of the former Catalan government leaders are in prison or in exile. However, regional elections are scheduled for December 21, with the latest polls suggesting that pro-independence parties would win the most seats, suggesting that the issue has not been resolved.

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## Switzerland: The case for deeply negative rates in Switzerland is diminishing

The latest data indicate that the positive impulse from the strong global economy is starting to feed into the domestic Swiss economy. The PMI remains strong and is tracking close to a cycle high, with input prices reportedly rising at the fastest pace since 2006. New orders ticked down in October, but remain well above a long-term average. The KOF leading indicator spiked to the highest level since 2010, boosted by banking and manufacturing, but employment also improved, which helps to support sentiment. Consumer confidence edged

higher, mainly on a more positive outlook for prices, though sentiment around job security is becoming less downbeat. While surveys indicate a build-up of inflation, CPI data show inflation stabilising at a positive, but low, level. Recent depreciation of the franc will help sustain inflation, though a further steep rise is not expected. The SNB is expected to stay on hold for now, but the need for deeply negative rates has diminished.

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## Japan: Equities rally on strong earnings, as foreigners pile in

Since the start of October, the Nikkei 225 index has fallen on only one out of 24 trading days, a record. We prefer to watch the broader Topix or MSCI Japan indices. Even though the count is different, the story remains the same. Japanese equities are booming, with both indices up about 14% from their September low, a performance that is not in line with the traditional seasonal pattern. Furthermore, the market has decoupled from the JPY. Even though the yen has weakened versus the US dollar, Japanese equities have also performed well in USD

terms. A sudden surge in foreign buying has been the game changer. PM Abe's call for snap elections, in which his coalition regained a two-thirds super majority in the Lower House, attracted foreign interest. More importantly, the earnings reporting season paints a promising picture. So far, about half of all companies have reported FYQ2 earnings and are exceeding consensus forecasts. Earnings revisions are likely to remain positive. Overall, the fundamental picture is favourable, though a pullback or at least a pause in the rally would be healthy.

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## Asia: Manufacturing PMIs... A slowdown, not a meltdown

The equal-weighted average of Asian manufacturing PMIs edged down to 51.2 in October from 51.7 in September, remaining above the 50 waterline. We read this as the sign of a slowdown, not a meltdown. On average, all sub-indicators moderated and new export orders now barely stand above 50. We note that Australian new export orders fell below 50 for the first time in over a year. Softer demand from China has probably affected exports in the region. The Caixin PMI was stable at 51, but the official Chinese PMI fell to 51.6 from 52.4, while demand from

SMEs contracted below 50. The golden week holiday disruption and ongoing enforcement of environmental policies can partly explain softer activity in China and Northern Asia. However, with the exception of Singapore and the Philippines, activity slowed across Asia. We offer two other explanations: the acute pressure of raw materials costs on margins, and ongoing inventory de-stocking. Overall, with demand from mature economies still solid, we are not too concerned about Asian manufacturers, but will be watching November data.

### What to Watch

- US President Trump is on 12-day trip to five Asian countries, starting in Japan.
- In terms of economic indicators, we will focus on September wages and machinery orders as well as the October Eco Watchers survey in Japan, October exports in China and Taiwan and inflation data in China. The central banks of Malaysia, Thailand and the Philippines are expected to remain on hold, when their MPCs convene this week.

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