September 30, 2024

Weekly Investment Insights

Autumn is in full swing and with the change of season came a turnabout announcement that was noticed in all corners of the market. Beijing's stimulus roll-out last week brought Chinese stocks on an impressive upward journey, recording their best week since 2008, with many other stock markets also enjoying a boost.

Hope for a revival in China, however, was not enough to buoy the oil price. Brent crude fell on higher potential supply coming from Saudi Arabia, which is reportedly ready to abandon its $100/barrel price target in order to gain back market share, and on output from Libya resuming, following an agreement on the central bank head.

After US consumer confidence fell by the most in three years last week on growing fear about the job market, investors will be laser-focused on employment data due this week, including tomorrow's JOLTs report and the Non-Farm Payrolls on Friday. These releases will be instrumental in guiding the Fed's policy pathway.

WEEKLY ROUNDUP

China attempts to lift growth

The Peoples' Bank of China announced its **biggest stimulus since the pandemic to support economic growth** last week, lifting market hopes about the future of the Chinese economy. After a series of disappointing data releases and rising doubt about China's ability to reach its 2024 growth target of "around 5%", it was time for the central bank to step in.

The measures include:

- **interest rate cuts**
- **lower reserve requirements for banks**
- **$114Bn lending pool to help asset managers, insurers and brokers buy more stocks and help companies perform stock buybacks**
- **Property market support package**[1]**, aimed at addressing the property market crisis**

However, the measures announced last Tuesday did not really hit the nail on the head. With loan demand muted, **more direct government fiscal spending was perceived as the missing piece** of the puzzle to improve the growth outlook.

The announcement **lifted market spirits** though, mainly because it opened the doors to potential fiscal support, in addition to the monetary measures. And indeed, on Thursday, the Politburo confirmed the hope that more is coming, announcing **increased fiscal support to further boost the economy.** Questions about the size of this support remain, but stock markets around the world took the news in their stride.

[1] Including a 50 bps reduction on average interest rates for existing mortgages, and a cut in the minimum downpayment requirement to 15% on all types of homes

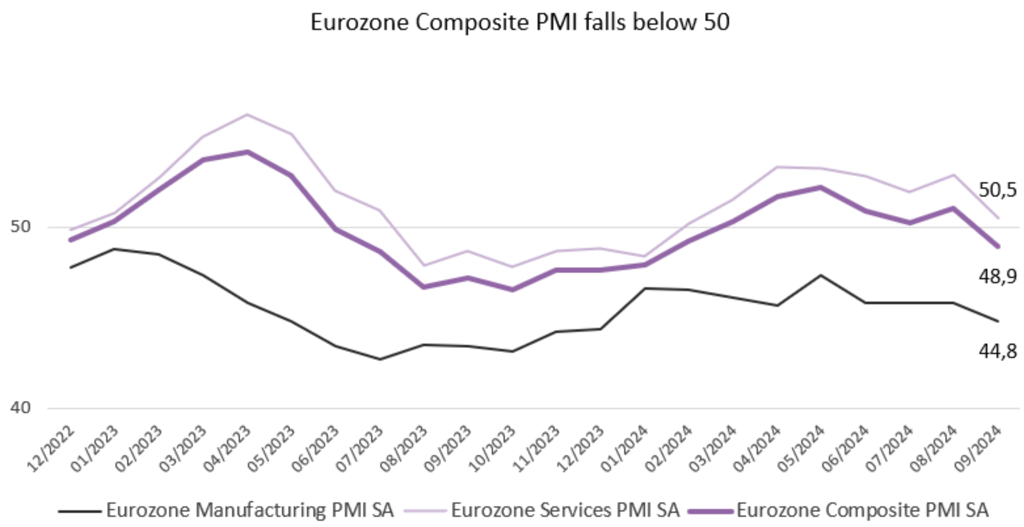
Flash PMIs

Eurozone private sector activity contracts in September

The **composite PMI for the Eurozone fell below 50** in September entering what is considered contraction territory. This comes amid a **deepening recession in the manufacturing sector** (PMI at just 44.8), with weakness concentrated in Germany and France. Goods manufacturers saw output fall by the most in 9 months and in turn, **employment levels were reduced by the largest amount in four years.**

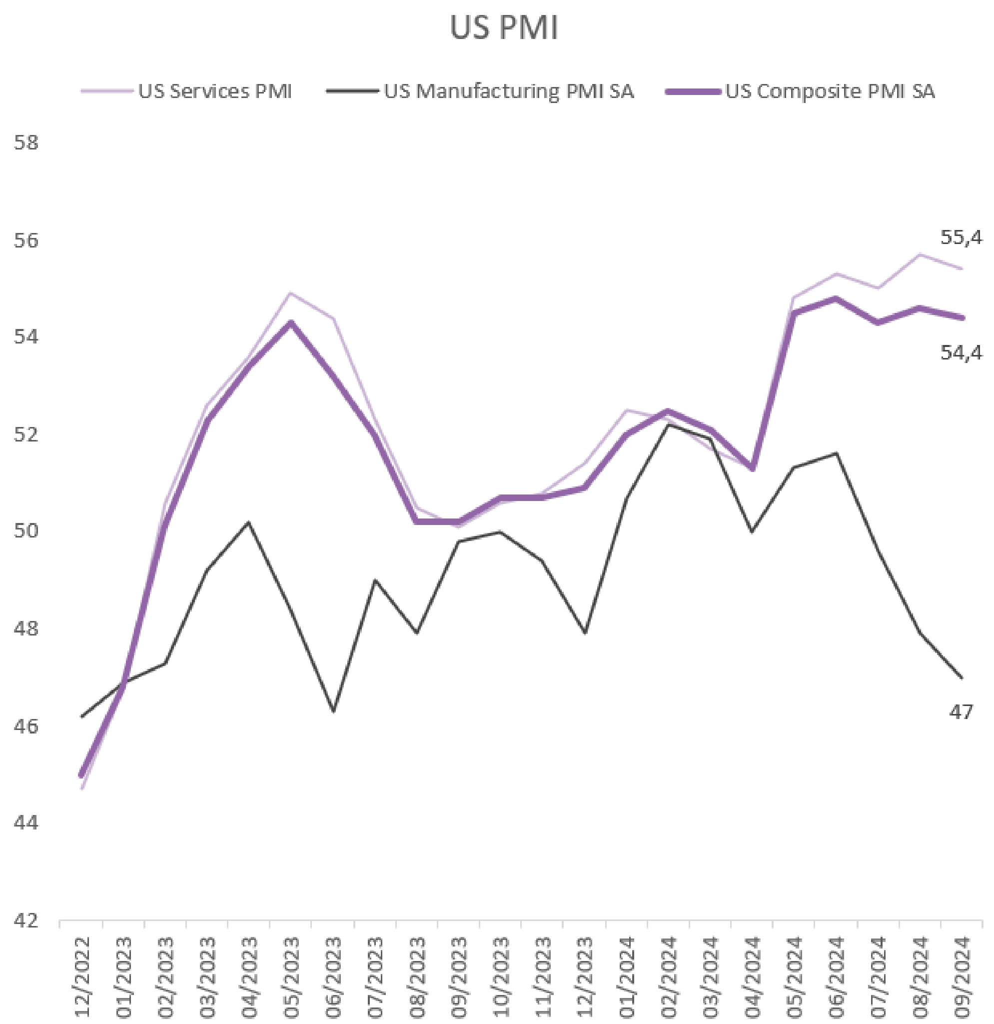
With the boost from the Olympic games fading, the **services PMI dropped sharply**. New business decreased for the first time in seven months, amid a weakening demand environment. **Employment continued to rise, but at the slowest pace** since August 2023. In good news for the ECB, which is keeping a close eye on sticky services inflation, input costs reportedly rose at the slowest pace in three-and-a-half years.

Some loosening in the labour market and more muted wage growth would give the ECB the green light to persist in its rate cut efforts to prop up growth in the eurozone, which is now heading towards stagnation, according to the PMI report.



Source: HCOB, Bloomberg, BIL

The service sector continues as the dominant force driving US activity



Source: S&P Global, Bloomberg, BIL

Private sector activity in the US remains robust, thanks to ongoing strength in the services sector. Therein, new business inflows remain strong, however, **confidence was slightly diluted** by concerns about the economic outlook and future demand. **Employment declined**, albeit at a slower pace than in August, as companies faced difficulties replacing departing staff and remained uncertain about future conditions. Challenging the notion that the US has "turned the page on inflation" (a comment by Biden's National Economic Advisor, Lael Brainard), **selling price inflation climbed to a six-month high**, exceeding pre-pandemic averages, driven mainly by rising wage pressures.

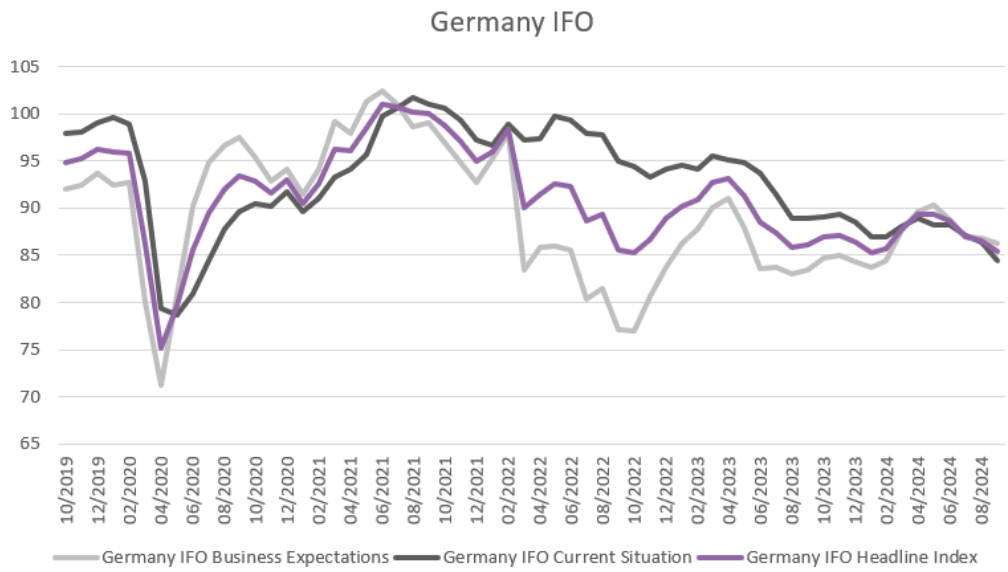
The **US manufacturing sector saw its third consecutive month of contraction,** and its sharpest decline in new orders since December 2022. This led firms to shed the most jobs since June 2020. Input inflation eased to a six-month low amid lower energy prices and fewer supply chain price pressures.

Gauging sentiment in Germany

Last week brought two important indicators offering insight into the mood in Germany, the Eurozone's largest economy.

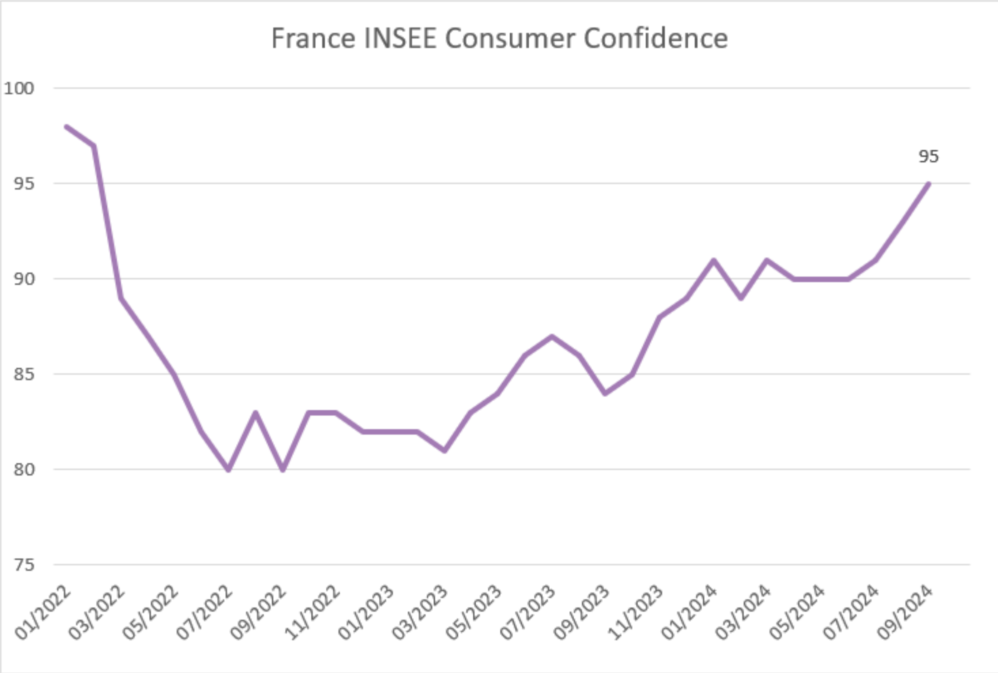
The Ifo Business Climate indicator dropped further to 85.4 in September from 86.6 in August. It was the lowest reading since January and missed expectations of 86. Across sectors, the manufacturing index dropped to -21.6 from -17.8 and the services gauge fell to -3.5 from -1.3%. Contrastingly, the construction index rose marginally.

Consumer sentiment showed a slight upturn however, according to the GfK Consumer Climate Indicator. The slight improvement was driven by increases in both income expectations (10.1 vs 3.5 in September) and the propensity to buy (-6.9 vs -10.9). However, it is premature to assume the start of a more protracted upturn. Inflation, unemployment, a rise in insolvencies, and potential job cuts continue to worry consumers. The latest PMI showed that job shedding in Germany hit a fifteen year high in September.



Source: IFO, Bloomberg, BIL

Post-Olympics France



Source: Insee, Bloomberg, BIL

While the French PMI left much to be desired, **consumer confidence surprised on the upside last week**, according to Insee. While it remains below the long-term average of 100, it reached its highest level since February 2022 in September. Consumers were **less pessimistic about the outlook on their financial situation** (-6 from -9) and standard of living (-38 from -44). Households were also **slightly less negative about making major purchases and inflation expectations dropped**. It is to be seen, however, how the upcoming announcement of the budget might have an impact on consumer confidence going forward. Especially with **potential tax rises on the horizon.**

Bond markets are wary of France's budget situation. Illustrative of this, last week, we saw **French borrowing costs rise above Spain's for the first time since 2008**, with the so-called spread between French and Spanish 10-year bonds briefly falling into negative territory.

France's freshly appointed finance minister, the 33-year old Antoine Armand, commented last week that the country faces **"one of the worst deficits in our history"**. The deficit could reach 6% this year, well above the European Union's limit of 3%.

Switzerland makes its third consecutive rate cut

The Swiss National Bank **cut its rates by 25bp to 1% last week**, noting that inflationary pressure has decreased significantly compared to the previous quarter. Outgoing Chairman Thomas

Jordan also noted that they **"remain willing to be active in the foreign exchange market as necessary".**

Jordan went on to say that he expects growth to "remain rather modest in Switzerland in the coming quarters due to the recent appreciation of the Swiss franc and the moderate development of the global economy". The **strength of the Swiss franc has been a hot topic for Swiss manufacturers**, with concerns that it will damage, and already is damaging, export growth.

The SNB was dovish on the forward development of their monetary policy, **noting that further cuts could still be on the table** "if necessary to ensure inflation remains within the range consistent with price stability over the medium term."

Economic calendar for the week ahead

Monday – China Caixin PMIs (September). UK GDP Growth (Q2, Final), Mortgage Approvals. Switzerland KOF Leading Indicators (September). **Italy, Germany Inflation Rate** (Prel, September).

Tuesday – Japan Unemployment Rate (August), Consumer Confidence (September). Switzerland Retail Sales (August). Eurozone HCOB Manufacturing PMI (Final, September), **Inflation Rate Flash** (September). US S&P Global Manufacturing PMI (Final, September), **JOLTs Job Openings** (August).

Wednesday – UK Nationwide Housing Prices (September). **Eurozone Unemployment Rate** (August).

Thursday – Switzerland Inflation Rate (September). France Budget Balance (August). Eurozone HCOB Services PMI (Final, September). **US Challenger Job Cuts** (September), Jobless Claims, S&P Global Services PMI (Final, September), Factory Orders (August).

Friday – **Switzerland Unemployment Rate** (September). **Eurozone HCOB Construction PMI** (September). **US Non Farm Payrolls** (September), **Unemployment Rate** (September).

Disclaimer

BIL
1856