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Weekly Macro and Markets View

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Highlights and View

Contrary to expectations, both the Flash Eurozone Composite PMI and the German ifo Business Climate Indicator improved in November

While the bounce in the surveys is encouraging, it is too early to sound the "all clear" on the energy crisis in Europe.

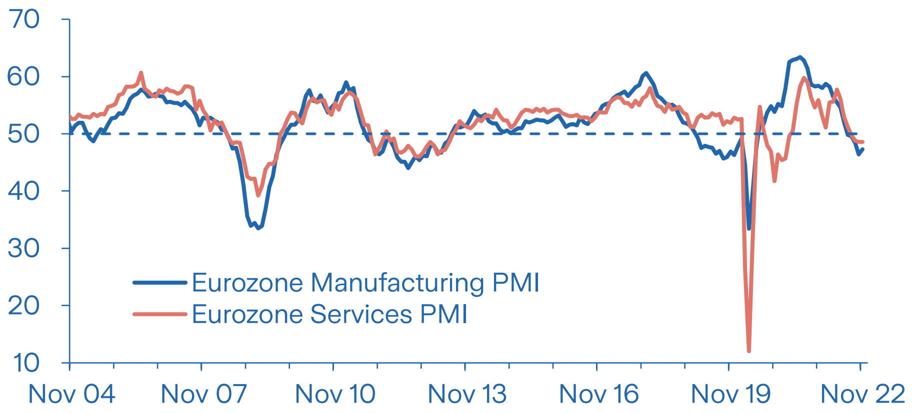
PMIs show that the economic slowdown is accelerating in the US

On a positive note, input cost inflation is softening further while firms raised their selling prices at the slowest rate in more than two years.

Anwar Ibrahim becomes Malaysia's 10th Prime Minister

Malaysia's stock markets have reacted positively on hopes that Anwar will initiate meaningful reforms and focus on the economy.

Eurozone surveys improve, but too soon to say the worst is over



Source: Bloomberg

Contrary to expectations, the Flash Eurozone Composite PMI improved from 47.3 in October to 47.8 in November. Meanwhile, the German ifo Business Climate Indicator bounced back last week by two points, driven by an almost five-point gain in the expectations component, though the current conditions index fell by one point. The improvement in the surveys, albeit from low levels, has led some to argue that the worst is already behind us for the Eurozone economy and financial markets. However, we think it is too early to draw such a conclusion.

Admittedly, unusually mild weather at the start of this winter has meant that gas reserves have yet had to be drawn down and the risk of gas rationing over the winter months has been reduced. However, with a 20% rebound in Eurozone equities since late September, investors seem to have gone a long way to already pricing in such a scenario, and we are still relatively early in the winter season. A cold snap could easily reignite fears of gas rationing. Furthermore, rebuilding gas reserves after this winter could be more problematic that it was in 2022. Russia only cut off the gas supply via the Nord Stream 1 pipeline in June of this year, after reserves had already built up substantially. The upshot is that while the improvement in the surveys is encouraging, it is unfortunately too early to sound the all-clear on the European energy crisis and its impact on financial markets and the economy.

US

The growth slowdown is broadening

Markit's PMI figures for November show that the economic slowdown is both broadening and accelerating. The Manufacturing index fell from 50.4 to 47.6, the lowest level since May 2020. Service activity slowed from 47.8 to 46.1, the fifth month in a row below 50. This is reflected in the Composite PMI falling to 46.3, with new orders in the private sector falling at the fastest pace since the initial pandemic wave in May 2020. Both service providers and manufacturers are reporting increasing customer reluctance and order postponements.

On a positive note, input cost inflation softened for the sixth month in a row, increasing at the slowest rate since December 2020. Firms, in turn, raised their selling prices at the slowest rate in more than two years. In response to the deteriorating outlook, firms increased their workforce numbers only marginally. A softer employment situation was also indicated by initial jobless claims picking up to 240'000, the highest level since August and more than consensus expected.

Japan

Slowing economic growth and a 40-year inflation high

PMIs for November show that Japan's economy is slowing both in the manufacturing and the services sector. The Manufacturing PMI fell 1.3 points below the 'boom or bust line' of 50, while most of the relevant sub-indices fell further within contractionary territory, suggesting that industrial production is likely to suffer, in line with corporate expectations. In that respect, we will watch production data for October released this Wednesday. The Services PMI fell 3.2 points to 50 as the acceleration of inflation dampened consumer confidence.

Indeed, Tokyo's CPI for November increased from 3.5% to 3.8%, reaching a 40-year high. Food inflation was the main contributor. Core inflation, excluding fresh food and energy, increased from 2.2% to 2.5%. Hotel accommodation prices fell following public travel subsidies. We expect inflation to peak in Q1, as input prices within the PMI survey have already peaked. Meanwhile, PM Kishida's approval rating fell to new lows amid the resignations of three core ministers.

China

The RRR is cut by 25bps, while new Covid cases surge to record highs

In the biggest sign of resistance in decades, public protests against lockdown measures have erupted in several cities as new Covid cases surge to record highs day by day. The government has requested more than twice as many cities enact Covid containment measures than during the major surge back in April, which was followed by the Shanghai lockdown. Meanwhile, the State Council has ordered the PBoC to cut the RRR by 25bps as of December 5, the second time this year. This measure should help banks that have been requested to defer interest and principal loan payments of SMEs suffering from lockdown measures. Stricter Covid measures as well as weaker export growth and producer price deflation have contributed to industrial profits shrinking at a quicker pace, down 3% in the first ten months of this year. Meanwhile, on a separate note, Taiwan's President Tsai Ing-wen stepped down as head of the ruling Democratic Progressive Party (DPP) following losses at local elections.

Credit

New Chinese support measures to bolster IG property sector

Chinese USD-denominated corporate bonds held on to their gains last week, after rallying vigorously during the prior week. According to Bloomberg indices, China USD IG and HY index spreads tightened 30bps and 370bps, respectively, in two weeks. The rally has likely been triggered by the 16-point support package. Among the many new policy measures, the ones most directly impacting credit include support for more creditworthy developers in the form of access to lending, ability to extend loans' maturity, and support for bond issuance.

Notably, such measures do not equate to a bailout of the weakest companies. We believe this is in line with the desire of policymakers to achieve a managed deleveraging of the property sector, without creating moral hazard risks. Thus, we expect that the main beneficiary of the measures will be China property IG credit. For China property HY credit, where year to date default rates have reached around 40%, challenges are likely to persist and the recent rally could well fade, at least until the underlying property market recovers.

ASEAN

Anwar Ibrahim is appointed as Malaysia's Prime Minister

Anwar Ibrahim was sworn as Malaysia's 10th Prime Minister on November 24 following a week of political uncertainties amid a divided election. Anwar vowed to unify the country and focus on the economy. Stock markets cheered the news, with the Kuala Lumpur Composite Index up by more than 4% on the same day. Meanwhile, October CPI prints showed a decline in headline inflation from 4.5% YoY to 4%, while core inflation was almost flat compared to the previous month. On a three-month to three-month basis, inflation momentum is slowing in Malaysia.

With headline inflation at 6.7% YoY and core inflation at 5.1%, Singapore's October CPI prints surprised consensus to the downside, supported by moderating food and transport prices. In Thailand, the ongoing recovery of tourism bolstered private consumption and the service sector, contributing to strong GDP growth in Q3, up 4.5% YoY. We believe the recovery of the tourism sector in Thailand will have further to run.

What to Watch

- In the US, the ISM Manufacturing Index is expected to reflect weakening activity while payroll growth is likely to have slowed down in November.
- In the Eurozone, the EC Business and Consumer Confidence survey as well as the first estimate of inflation in November will give further indications as to the health of the economy.
- In APAC, we expect the Bank of Thailand to hike its policy rate by 25bps to 1.25%. We expect China's NBS and Caixin November PMIs to remain weak. Japan will report most of its October economic indicators. Australia will release October data for CPI, retail sales and building approvals as well as house prices and financing data for November and Q3 private capex. Q3 GDP data will be reported in Taiwan, South Korea, and India.
- In Brazil, Q3 GDP growth is expected to show a fifth consecutive expansion, supported by private consumption. In Chile, monthly economic indicators will likely indicate a recession for 2023, while the unemployment rate is expected to stay low in Mexico.

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