

# August Repeated?

## Macro Overview

### US

***Inflation over the last couple of years has burned a hole in the wallets of just about every consumer there is, but that has finally started to cool off.*** With the Fed Reserve poised to start cutting rates, investors are starting to position themselves for what could be a LT cycle of rate cuts. This should provide needed liquidity to the economy, but then why are markets in this early part of September going the other way like it did in August? The S&P 500 was down well over 4% for the shortened week, whilst the Nasdaq Composite fell 5.75%.

***Macroeconomic uncertainties fueled by a deteriorating employment environment are keeping bulls from having real conviction on their stance.*** The US unemployment rate improved as expected to 4.2% but non-farm payrolls came in lower than expected at 142k. The average hourly earnings both for MoM and YoY improved to 0.4% and 3.8% respectively from July. Initial jobless and continuing claims released the previous day showed a rather benign figure not indicative of a dire employment situation. The selloff is mainly fueled by a worry that the Fed may have to cut by 50 bps on September the 18th not because of the disinflation but because of a rapidly slowing economy. Wednesday's JOLTS data certainly didn't help as it showed there were 7.673 mln job openings for July vs views for 8.1 mln. Big Tech and communication services led losses Friday. It marked an about-face after the S&P 500 entered the start of the week near an all-time high, with the broad equities gauge now sitting 4.6% from its July 16 peak. The VIX spiked to 22.38. Rekindled worries that the mania surrounding artificial intelligence had gone too far added to the bearish sentiment, with the Philadelphia Stock Exchange Semiconductor Index, home to chipmakers like Nvidia, Advanced Micro Devices Inc. and Intel Corp., posting its worst week since the height of the pandemic in March 2020.

Data from the PMI Composite report showed the index at 54.6, up from last month's 54.3 and the services index came in at 55.7 vs last month's 55.2. August ISM Manufacturing printed at 47.2, a little below expectation (47.5), a bit better than previous Month (46.8) but nevertheless still in contraction territory. Prices paid sub-category were higher than expectations, employment rebounded to 46.0 from 43.4 the previous Month but new orders printed at 44.6 weaker than previous Month (47.4).

In crude, OPEC+ postponed its oil supply hike by two months, but the move wasn't enough to roll back steep losses in crude prices amid fears about fragile demand. Key coalition members won't

now increase production by 180,000 barrels a day in October and November, according to a statement on OPEC's website. WTI\$ was last at \$67.67 and Brent at \$71.06 a barrel. Cryptos went the same way with risk sentiment trading below BTC\$55k and ETH\$2,350.

This week will see the eagerly awaited Presidential debate between Kamala and Trump on the 10th. We will then have CPI on Wednesday, expecting headline YoY to come in at 2.6% from 2.9% and core MoM at 0.2% (unchanged). Thursday sees PPI followed by Friday's U. of Mich. 1 Yr and 5-10 Yr inflation expectations.

We all know markets come back, some stocks DON'T. Stick with ones that would benefit most from additional liquidity, healthcare and utilities (electricity generation) companies.

### EUROPE

***The Stoxx 600 closed down 1.15%, with almost all sectors ending in the red.*** Tech and mining stocks saw the biggest losses. The benchmark ended the week down 2.5%, marking its biggest weekly loss since early August sell-off. Last Wednesday, European stocks fell after a semiconductor-driven-sell-off on Wall Street, with Nvidia dropping 9.5%. ASML dropped 5%, marking the worse session since early August as UBS downgraded the chipmaker from Buy to Neutral, cutting the price target to EUR900/share from EUR1,500/share, amid rising concerns for future growth.

On the macroeconomic front, ***signs of weakness continued to emerge. The HCOB Eurozone Composite PMI for August was adjusted lower to 51, from an initial estimate of 51.2.*** Eurozone growth continues to rely on the services sector, which grew at its fastest pace in 3 months. However, the manufacturing sector remains in recession, with industrial production contracting for the 17th straight month. Euro area retail sales were up 0.1% m/m in July, and it stands 0.5% ar below the Q2 level, dragged by fuel spending, while retail spending ex fuel and food is broadly flat. Taking the data at face value, retail sales remain weak. The final 2Q24 GDP was revised down to 0.2% q/q (prelim: 0.3% q/q). The numbers were dragged down by Ireland, which could be volatile due to patents

and the ownership of production facilities abroad. The 2Q details were overall weak. On the expenditure, domestic final sales only added 0.3% pt to growth and on the production side, manufacturing continued to decline, although the 2Q decline is smaller than seen in recent quarters. Overall, the data showed GDP deflator was down to 3.0% yoy, suggesting weaker domestic price pressures,

While there's a growing consensus for easing, intensity and timing of future easing remain contentious. Most officials acknowledge significant progress in taming inflation, with recent data showing a decline to 2.2% in August. But Europe's manufacturing sector remains weak, and earnings forecasts are rolling over. Markets discounting approximately 60 bps of rate cuts priced by year-end reflecting over 30% chance of October cut, down from over 50%.

**In France, Michel Barnier was announced as the new Prime Minister.** He is likely to survive a no-confidence vote but will have to rely on support from the far-right National Rally Party. Barnier is well-known in the UK as the EU's Chief Negotiator during the Brexit negotiations. Previously, he served in numerous French cabinet positions as a member of the Les Republicains, a centre-right party. He is 73 years old, France's oldest prime minister since the Fifth Republic came into being in 1958.

The immediate next step is for Barnier to choose his ministers, which will be confirmed by the President. Barnier will likely try to cast a wide net but his government will be dominated by centrist and right-wing figures. **The next session of the National Assembly begins only on 1 October. Before that, MPs cannot call for votes of no confidence. He also faced pressure to prepare a budget to present to parliament before 1 October deadline.**

His nomination is a recognition by Macron that the refusal of the centre-left split from the NFP has given him no choice but to bet

on a minority centre-right government. Hence, to stay in place, Barnier's government will have to hope for clemency from the far-right. As long as it happens, the opposition of the NFP will not be sufficient to bring the government down. In a vote of no confidence, abstaining counts as votes in favour of the government would need 289 votes against Barnier and the NFP have only 193 seats.

**Overall, this is a market-friendly outcome because assuming Barnier survives a no-confidence vote, it allows a budget pass without support from the NFP.**

French stocks moved slightly higher following the announcement but remain 0.4% lower on previous session. The nation's CAC 40 index has suffered a volatile year, tumbling through much of June but ending up with a slight gain for July after an outright victory for the far-left or far-right did not manifest. French bond yields remain little changed on Thursday afternoon.

Over in the UK, the British luxury icon Burberry dropped out of the UK FTSE 100 on Wednesday. The relegation marks a fresh blow for Burberry, whose share price is down more than 53% this year. The changes will be implemented at the close of trade on September 20 and will take effect from September 23. As such, funds that invest in the FTSE 100 will exit their Burberry holdings.

August manufacturing PMIs were revised up 0.2pp to output and new orders, 0.4pp to services and composite. The growth rate of UK BRC retail sales picked up in August, with total sales up 1% yoy, the strongest since February.

This week, ECB should deliver its second rate cut of this easing cycle this Thursday and Industrial production on Friday. In the UK, we will see the monthly GDP figures and Industrial production on Wednesday.

## ASIA

September is proving a volatile month for markets as global stocks and commodities slumped amid fears of tepid global growth. **Asian equity markets maintained the risk-off start to the month with the Nikkei (-5.84%), Hang Seng (-3.03%), Taiwan (-3.74%) and KOSPI (-4.86%) all lower last week. MSCI Asia ex Japan was overall lower by 2.25%.**

The Nikkei 225 index slumped to its lowest in a month, as the yen's recent advance crimped the earnings outlook for exporters amid an economy that expanded slower than estimated. The yen, which had been rising on the Bank of Japan's July rate hike and expectations of a Fed rate cut, traded just under 143 per dollar. Bank of Japan board member Hajime Takata said on Thursday the central bank must keep raising interest rates if it can confirm that companies would continue to increase spending and wages.

China Caixin manufacturing PMI 50.4 vs consensus 50.0 and 49.8 in prior month. **Sell-side firms are cutting growth forecasts for China** with more believing Beijing risks undershooting its official growth target of about 5% as confidence wanes. BofA lowered 2024 forecast to 4.8% from 5% and TD Securities lowered to 4.7% from 5.1%. Revisions came after UBS cut last week. Overall, **median forecast across dozens of economists** reported in Bloomberg has **slipped to 4.8%, compared with 4.9% in mid-August.**



South Korea's inflation slowed more than expected opening the door for monetary officials to conduct a policy pivot as soon as next month if home prices also show signs of easing. Consumer prices advanced 2% in August from a year earlier, moderating from a 2.6% clip in July, the statistics office reported Tuesday. The BOK has since early 2023 held its key rate at 3.5%, a level it characterizes as restrictive. South Korea's economy shrank 0.2% in the second quarter, revised central bank data showed. South Korean PMI quickened with output rising at fastest in 40 months amid stronger new orders. However, new export growth fell to lowest in six months.

PMIs in Asia - Japan Jibun Services PMI for August 53.7 and Manufacturing PMI 49.5. Other China-dependent countries were similarly weak with Malaysia and Indonesia PMIs contracting. India PMI remained above long-term average, but slowed as growth in output and sales fell to lowest since January. However, fall driven by fierce competition between manufacturers with demand proving resilient. Singapore Manufacturing PMI rose to 50.9 in August, up from 50.7 in July, marking the 12th consecutive month of expansion and the highest reading in three years. Employment and supplier deliveries, which had been in contraction, also turned positive this month. Taiwan PMI

growth weakened with main drag coming from slowdown in output growth as firms faced capacity constraints and new order growth eased. However, external demand healthy with new export sales highest in 2.5 years.

Other data from Asia: Malaysia held rates unchanged at 3% on Thursday. Thailand's headline consumer price index rose 0.35% in August from a year earlier. Taiwan's headline CPI inflation came in moderately above expectations in August at 2.36%- consensus estimates was 2.27%.

## GeoPolitics

New Zealand and Malaysia are strengthening their bilateral relations that would see the countries' two-way trade up 50% by 2030, according to a joint statement released Monday. New Zealand Prime Minister Chris Luxon and Malaysian Prime Minister Anwar Ibrahim pledged to draft an export plan for fresh fruit and vegetables from Malaysia to New Zealand, particularly the shipment of pineapples from the Southeast Asian country. Both countries are also looking into expanding their Halal trade, as well as increasing market access to each other's goods while reducing transaction costs.

Russian President Vladimir Putin arrived in Mongolia on Monday, his first visit to a member state of the International Criminal Court (ICC) since it issued an arrest warrant for him last year. Putin was welcomed by a guard of honor as he landed in the Mongolian capital Ulaanbaatar for the high-profile trip, seen as a show of defiance against the court, Kyiv, the West and rights groups that have all called for him to be detained.

Last Wednesday, Malaysian Prime Minister Anwar Ibrahim praised President Vladimir Putin for steering Russia's development and pledged to deepen ties, saying there was "enormous potential" to enhance regional trade relations already focused on semiconductors. Anwar, who is on two-day visit to Moscow, said it would be to Malaysia's benefit if Russia shared its achievements and agreed to "collaborate in all fields of endeavor." Both countries are discussing tie-ups ranging from aerospace and advanced technologies to agriculture and food security. "You have shown your determination to be able to undertake difficulties and survive, and we would certainly benefit from this experience," Anwar said in a meeting with Putin on Wednesday on the sidelines of Russia's Eastern Economic Forum in Vladivostok.

The Malaysian prime minister has followed in the footsteps of other Asian leaders in meeting with Putin since the start of Russia's invasion of Ukraine more than two years ago, unmoved by the West's condemnation of the Russian leader and his charges for alleged war crimes. The decision to visit Russia, Anwar said, was "not an easy feat," but it was "the right decision." Anwar said Southeast Asian countries belonging to the Asean bloc have always engaged with Russia and there is an "open trade" focusing on semiconductors and other related fields. "I look forward to work with you and your team, but more so, Mr. President, I agree with you. The potential is huge," he said. Washington has been critical of smaller nations that have played host to Putin since Russia attacked Ukraine. The US

Embassy in Hanoi earlier said "no country should give Putin a platform to promote his war of aggression and otherwise allow him to normalize his atrocities," in response to Vietnam hosting the Russian leader this year. Malaysian PM Visits Russia as Asian Leaders Defy West Over Putin Anwar accepted a personal invitation from Putin for Malaysia to participate in the October BRICS Summit in Kazan, marking a "significant step" toward Malaysia joining the grouping.

China, Tanzania and Zambia signed an initial agreement on a railway project aimed at improving the rail-sea intermodal transportation network in East Africa, Chinese state media said. The proposed link offers an alternative to bypass logistics bottlenecks in South Africa that have held up copper and cobalt exports from Zambia and the Democratic Republic of Congo.

Chinese President Xi Jinping on Thursday (Sep 5) pledged US\$51 billion in fresh financing to Africa, support for 30 infrastructure projects across the resource-rich continent, and promised to create at least 1 million jobs. Speaking at the opening ceremony of the summit, Xi said China is ready to launch 30 clean energy projects in Africa and also support the continent's nuclear energy goals, helping address a power deficit that has long held back Africa's broader industrialization objectives.

China said it will launch an anti-dumping investigation into canola imports from Canada, after Ottawa announced tariff hikes on Chinese EVs, following lead of US and EU. China's commerce ministry criticized Canada's measures, which it said were "discriminatory". In addition, China will initiate similar investigation into some chemical products from Canada.

**Donald Trump pledged on Saturday to make it too costly for countries to shift away from using the US dollar**, adding a new pillar to his tariff platform. **"You leave the dollar and you're not doing business with the United States because we are going to put a 100% tariff on your goods,"** the Republican presidential nominee said at a rally in the battleground state of Wisconsin. Trump said the dollar has been "under major siege" for eight years. While dollar dominance has lessened in recent decades, **the US currency still accounted for 59% of official foreign-exchange reserves** in the first quarter of 2024, with the euro second at almost 20%, according to the International Monetary Fund. Last year, China, India, Brazil, Russia and South Africa discussed de-dollarization. Separately, senior official confirms Turkey's interest in joining BRICSS alliance.



## Credit/Treasuries

**After 26 months of inversion, the 2-10 part of the US Treasury curve finally end-up the week normalized with the 10years yield currently 8bps above the 2years.** This is the longest ever inversion for the 2s10s curve in available data stretching back well over 60 years. Given that inversions have historically been a leading indicator of recessions, the re-steepening has previously led to suggestions that removing such an environment means a recession would now be less likely to happen. But sadly, the historic precedent isn't particularly favourable on this front, as in previous cycles the final stage before the recession was actually a re-steepening of the curve back into positive territory. So we have to be cautious in being too optimistic about waving bye to an inversion.

Coming back on US Treasury, the curve bull steepens last week with the 2years yield down 27bps over the week, 5years yield was down 21bps, 10years yield was down 19bps & 30years yield was down 17bps. 5years US IG Credit Spread widened by 4bps & 5years US HY credit spread widened by 25bps to reach 350bps. In the meantime, VIX rebounded by about 7points to end the week above 22 & WTI dropped by more than 8% during the week.

In term of performances, US IG gained 1.40% last week, US HY & Leverage loans gained around 25bps.

## FX

### **DXY USD Index fell 0.51% to 101.18, driven by weak US Macro data.**

Nonfarm payrolls rose by 142k in August (C: 165k) with downward revisions to the prior two months, but the unemployment rate ticks down to 4.2% (P: 4.3%). Probability of a 50 bps rate cut in September jumped toward 65% following the employment report, with the market now pricing 115 bps worth of rate cuts in 2024. ISM Mfg rose to 47.2, above consensus but remained in contraction, as new order fell further to 44.6 (C: 47.4). Both services PMI and ISM services came in above consensus.

**EURUSD** rose 0.33% to 1.1084. In the Euro area, Retail Sales grew 0.1% m/m in July (C: 0.1%; P: -0.3%) as falling inflation and resilient labor markets drove retail sales up, while final 2Q24 GDP was revised down to 0.2% q/q (Preliminary: 0.3%; 1Q24: 0.3%). ECB Council Member Sinkus says he sees "quite a clear case" for a cut in September, but cutting in October or by more than 25bp in September seems "quite unlikely"; market pricing implies ~32% probability of an October cut. EURCHF fell 0.45% to 0.9348, driven by risk off sentiment despite Swiss inflation

surprising to the downside. Switzerland Headline CPI slowed to 1.1% y/y in August (C: 1.2%; P: 1.3%) and remained below the SNB's 3Q24 conditional forecast of an average of 1.5% y/y.

**USDJPY** fell 2.65% to 142.30. BoJ Governor Ueda reiterated his intention to raise the policy rate once the central bank is sufficiently confident that economic activity and prices are following the BoJ's baseline scenario. Strong July labor release with an unexpected monthly increase in real wages bolstered rate hike expectation. Japan nominal wages grew 3.6% y/y (C:2.9%; P:4.5%), while real wages grew 0.4% y/y (C:-0.6%, P:1.1%).

**USDCAD** rose 0.60% to 1.3573 driven by dovish BoC and weak CA macro data. BoC cut rates by 25bps as expected, points to "further cuts" if "inflation continues to ease broadly in line" with forecasts. In Canada, Jobs grew 22k in August (C: 25k; P: -2.8k), but only driven by part time growth as full time employment falls -43.6k. The participation rate edged up from 65.1% (P: 65.0%), while wage growth was a bit stronger than expected at 4.9% y/y (C: 4.8%) while the Unemployment Rate ticked up to 6.6% (C: 6.5%; P: 6.4%).



## Oil & Commodities

**Oil future** fell last week, with WTI falling 8% to 67.67 and Brent falling 9.82% to 71.06, despite OPEC+ agreeing to postpone its oil supply hike by two months. Weak nonfarm payroll pushes oil prices down even more with worsening global demand concerns. Goldman Sachs Group Inc. and Morgan Stanley — which once led calls for crude's return to triple digits — cut Brent price forecasts for next year to below

\$80 a barrel, while Citigroup Inc. and JPMorgan Chase & Co. have warned that futures may sink toward \$60. Global oil markets face a surplus of more than 1 million barrels a day in the first quarter of 2025 because demand growth is more than satisfied by a tide of new production from the US, Guyana and Brazil, according to the International Energy Agency.

## Economic News This Week

- **Monday** – JP GDP/Current Acc. Balance, CH CPI/PPI, EU Sentix Inv. Confid., US Wholesale Inv.
- **Tuesday** – AU Westpac Cons. Confid./Biz Confid., Norway CPI, UK Unemploy. Rate, US Small Biz Optim.
- **Wednesday** – UK Indust. Pdtn/Mfg Pdtn, US MBA Mortg. App./CPI
- **Thursday** – NZ Food Prices, JP PPI, SW CPI, EU ECB Rate Decision, CA Building Permits, US PPI/Initial Jobless Claims
- **Friday** – NZ House Sales, NZ Biz Mfg PMI, JP Indust. Pdtn, EU Indust. Pdtn, US Mich. Sentiment



# Key Market Moves

9 September, 2024

Name	WTD	MTD	YTD	Last px
MSCI ACWI Index	-3.73%	-3.73%	10.39%	802.57
S&P 500 Index	-4.25%	-4.25%	13.39%	5,408.42
Dow Jones Industrial Average	-2.93%	-2.93%	7.05%	40,345.41
NASDAQ Composite Index	-5.77%	-5.77%	11.19%	16,690.83
EURO STOXX 50 Price EUR	-4.44%	-4.44%	4.79%	4,738.06
STOXX Europe 600 Price Index EUR	-3.52%	-3.52%	5.76%	506.56
Nikkei 225	-5.84%	-8.19%	6.03%	35,480.93
Tokyo Stock Exchange Tokyo Price Index TOPIX	-4.25%	-6.44%	7.25%	2,538.04
MSCI AC Asia Pacific Index	-2.39%	-2.39%	7.44%	182.00
MSCI AC Asia Pacific Excluding Japan Index	-2.25%	-2.25%	6.72%	564.40
MSCI Emerging Markets Index	-2.28%	-2.28%	5.00%	1,074.89
Shanghai Shenzhen CSI 300 Index	-2.71%	-3.15%	-6.24%	3,216.92
Hang Seng Index	-3.03%	-4.03%	1.27%	17,263.64
India NSE Nifty 50 Index	-1.52%	-1.52%	14.36%	24,852.15
Taiwan Stock Exchange Index	-3.74%	-5.89%	16.87%	20,955.47
Korea KOSPI Index	-4.86%	-6.04%	-5.37%	2,512.82
Singapore Straits Times Index STI	0.34%	0.18%	6.45%	3,449.14
Thailand SET Index	5.05%	5.05%	0.83%	1,427.64
Jakarta Stock Exchange Composite Index	0.67%	0.67%	6.17%	7,721.85
Philippines Stock Exchange PSEI Index	0.56%	0.40%	7.37%	6,925.32
Vietnam Ho Chi Minh Stock Index / VN-Index	-0.77%	-0.77%	12.75%	1,273.96

Source: Bloomberg

Name	WTD	MTD	YTD	Last px
US Generic Govt 10 Year Yield	(0.05)	(0.04)	(0.04)	3.74
Euro Generic Govt Bond 10 Year	(0.06)	(0.06)	0.07	2.17
Japan Generic Govt 10Y Yield	(0.05)	(0.01)	0.45	0.89
MARKIT CDX.NA.HY.32 06/24	8.49%	8.49%	-2.01%	349.18
MARKIT CDX.NA.IG.32 06/24	9.67%	9.67%	-4.72%	54.02
MARKIT CDX.EM.31 06/24	3.87%	3.87%	0.45%	168.23
EUR-USD X-RATE	0.33%	0.32%	0.40%	1.11
GBP-USD X-RATE	0.02%	0.07%	3.18%	1.31
CHF-USD X-RATE	0.78%	0.51%	-0.45%	1.18
USD-JPY X-RATE	-2.65%	-2.24%	1.32%	142.90
USD-CNY X-RATE	0.09%	0.25%	0.13%	7.11
USD-HKD X-RATE	-0.03%	-0.01%	-0.19%	7.80
USD-INR X-RATE	0.09%	0.09%	0.89%	83.95
NYMEX Light Sweet Crude Oil	-7.99%	-6.63%	-4.16%	68.67
ICE Brent Crude Oil Future	-9.82%	-8.57%	-6.48%	72.05
VIX Index	49.20%	49.20%	79.76%	22.38
Gold Spot	-0.24%	-0.25%	21.04%	2,497.11
Silver Spot	-3.22%	-3.10%	17.55%	27.97
Palladium Spot	-5.53%	-5.29%	-16.53%	918.38
Bitcoin/USD	-6.92%	-6.37%	29.86%	55,201.08
Etherum/USD	-9.00%	-7.80%	1.28%	2,311.54

Sources – Various news outlets including Bloomberg, Reuters, Financial Times, FactSet, Associated Press

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