

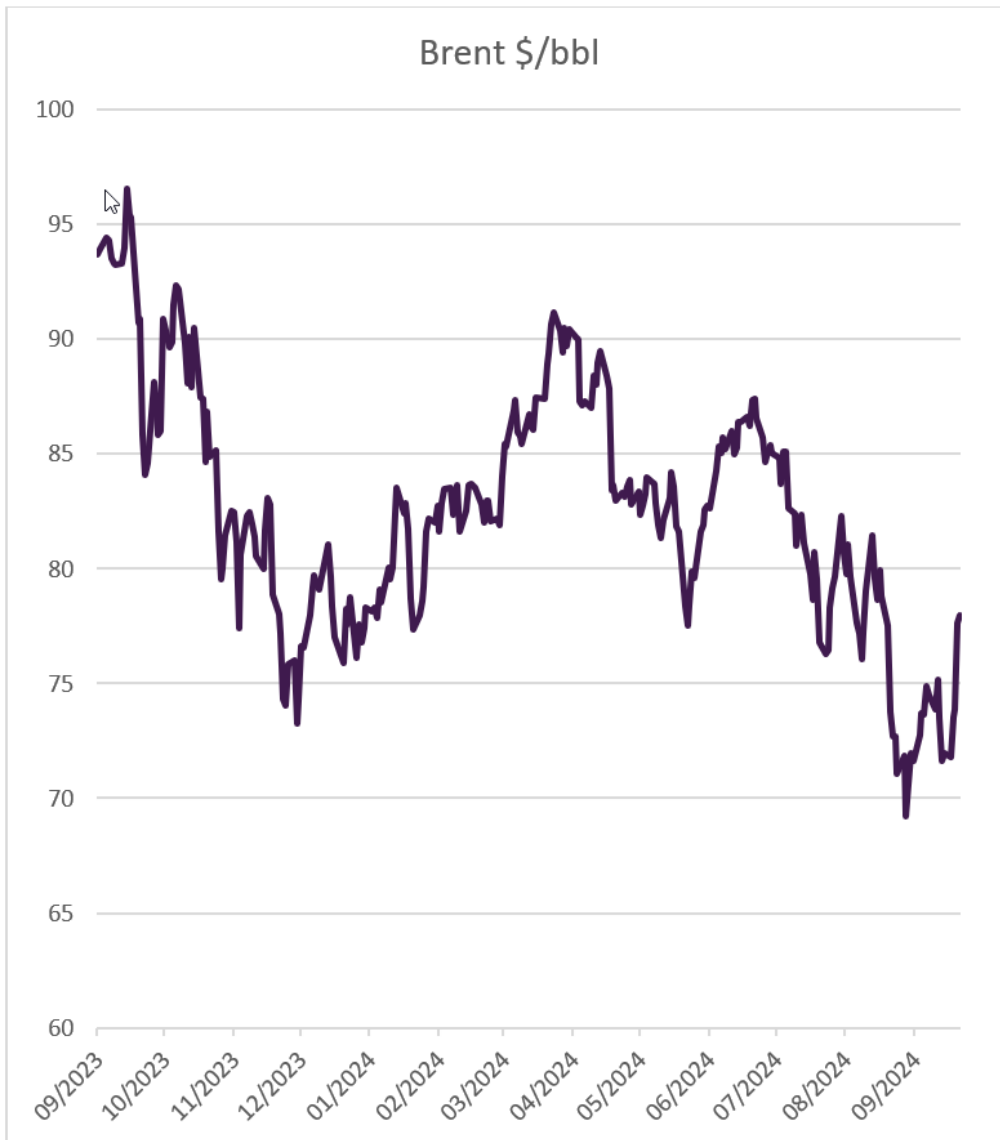
October 4, 2024

Weekly Investment Insights



*Comments from central bankers toyed with both currencies and rate markets over the past week. The Fed Chair Powell said that the US central bank is in no hurry to cut rates, and that the goal is to adjust monetary policy “**over time**” towards a more neutral stance. He reminded markets that the Fed is “recalibrating policy to maintain the strength in the economy, not because of weakness in the economy” and said that the “baseline” was two more quarter-point cuts rather than another half-point move. Friday’s strong US jobs report dampened rate cut hopes further. In an interview, the UK’s Bailey hinted at the BoE becoming a “bit more aggressive” in cutting interest rates, sending the Pound tumbling. In Japan, a dovish policymaker said that the BoJ will raise rates again if the economy stays in line with forecasts but that it will need to do so slowly and cautiously. Japan’s new Prime Minister Ishiba on the other hand, said that Japan should not rush to raise interest rates just yet. A comment which caused the Yen to fall and Japanese equities to rally.*

A flare up in Middle East tensions pushed up the oil price, with Brent heading for its strongest weekly increase in two years at the time of writing on Friday.



Source: Bloomberg, BIL

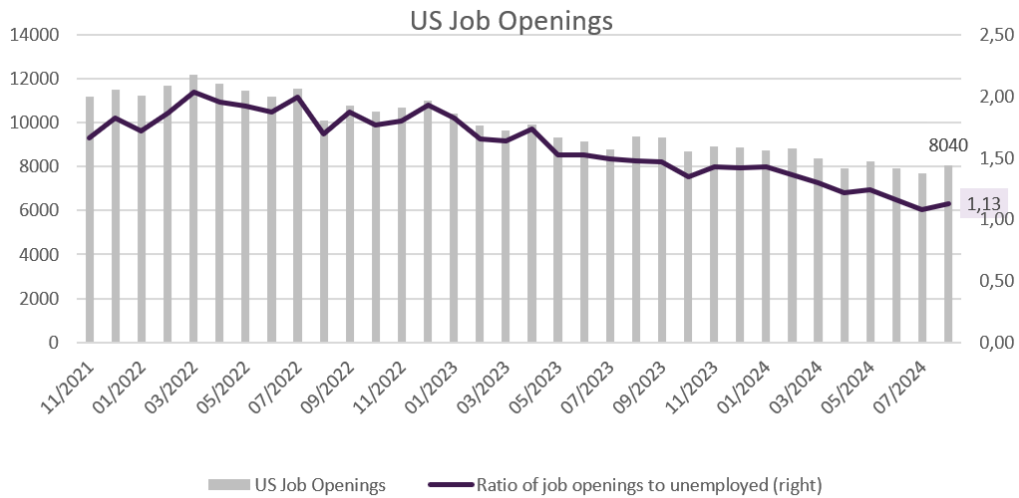
WEEKLY ROUNDUP

Undercurrents of strength in the US labour market

As of late, the **US labour market has cooled considerably, but without breaking**. The Fed wants to prevent any further deterioration, and this was one of the reasons underpinning its decision to enact a 50 basis point bumper rate cut in September. While the impact of that move will take several months to impact the real economy and employer costs, Powell said this week that the Fed has growing confidence that with an appropriate recalibration of its policy stance, **“strength in the labour market can be maintained in an environment of moderate economic growth and inflation moving sustainably down to our objective.”**

Last week, data seemed to support those claims. **Job openings picked up**, rising to 8.040 million

in August, led by construction (+138k new positions). This brought the overall vacancies-to-unemployment ratio up to 1.13. For context, averaged 1.19 in 2019, and it peaked at 2.0 amid the “Great Resignation”. **The quits rate fell to just 1.9%, with the level of quits at the lowest since August 2020**, implying that caution is creeping into the collective psyche.

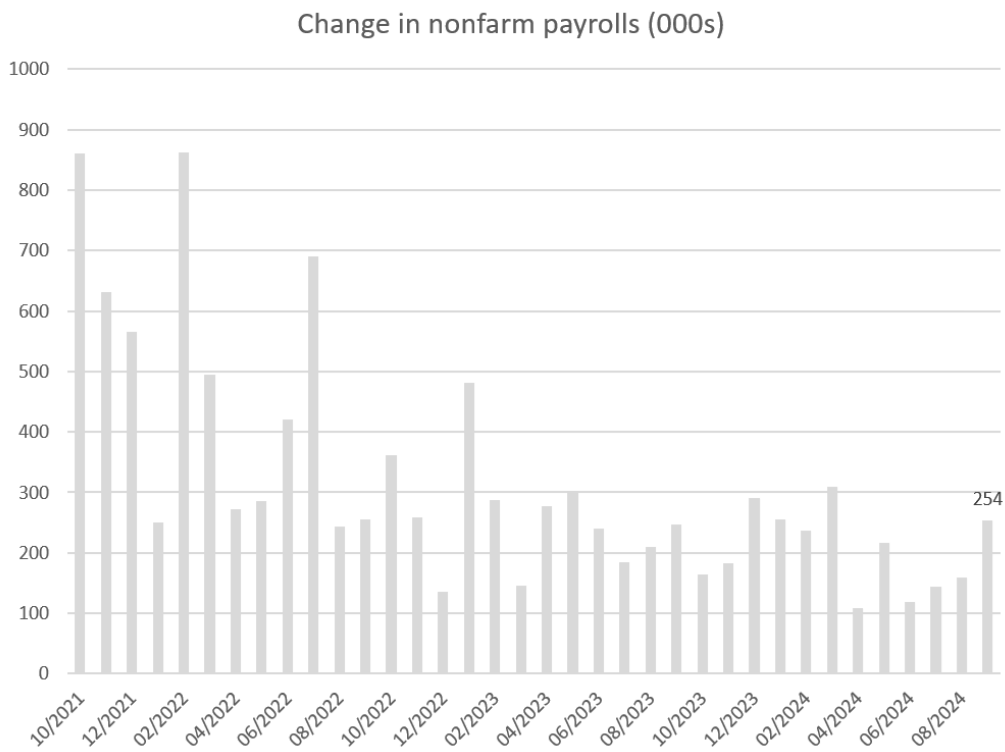


Source: Bloomberg, BIL

The Challenger report revealed **job cuts were slightly lower in September** and that they remain concentrated in Technology. This is somewhat unsurprising given years of hyper-hiring and the enormous changes sweeping through the industry. Looking at the year-to-date figures, **job cuts are up 0.8% from the same period last year**. Though less than a percentage point separates them, this is the first time this year that year-to-date cuts are higher than those tracked in 2023. Has the Fed done enough to prevent the job market tipping over at this inflection point?

Buried in the report was a nugget of optimism. The researchers noted that a **projected uptick in consumer spending could lead to more demand for workers** in consumer-facing sectors.

Finally, on Friday, we had the all-important jobs report. It showed that **US employers created 254,000 jobs in September, above estimates** of 150,000. Wage growth accelerated to 4% YoY (the quickest since May), and the unemployment rate fell to 4.1%.



Source: Bloomberg, BIL

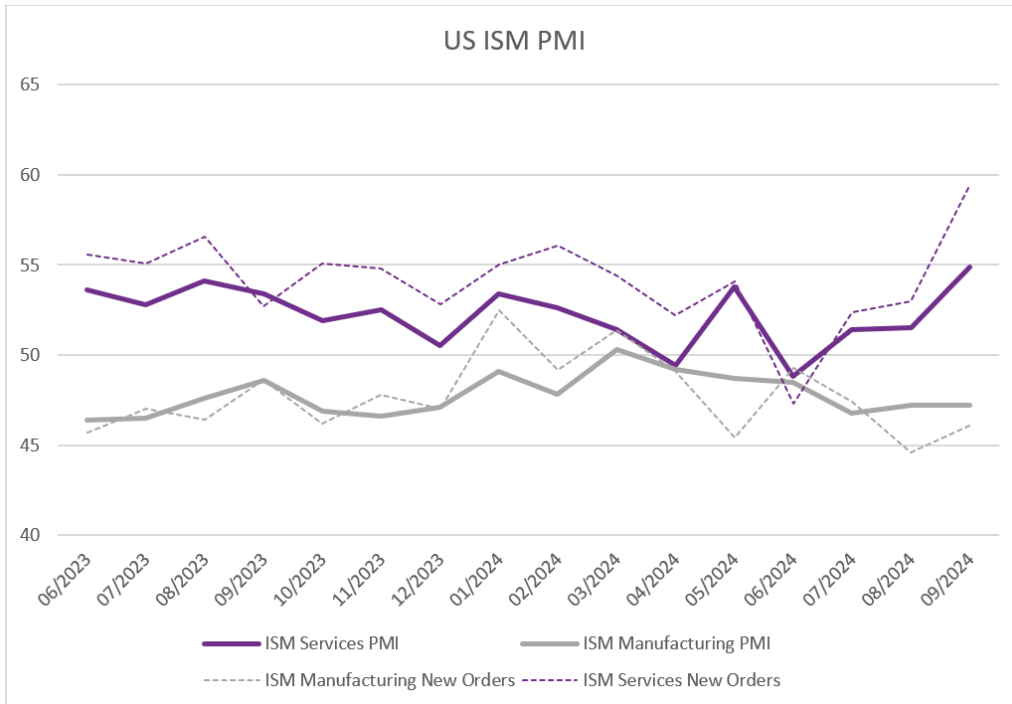
ISM PMI points to enduring service sector strength in the US

The mammoth US services sector accounts for over three-quarters of US economic activity. Data last week suggests that it remains in **great health and continues to serve as the backbone of growth**.

The ISM **services PMI rose to an impressive 54.9**, indicating the fastest pace of expansion since February 2023. **Activity is at a four-month high**, while new orders, which gives more insight into the future jumped significantly, pointing to still-solid demand.

However, the same cannot be said for **manufacturing**, where it seems demand has been suspended as companies await more clarity on the US presidential election, and friendlier financing costs as the Fed lowers rates. **The sector has spent six months languishing below the 50 mark** and the gap between it and services is now at the widest level since late 2019.

Companies in both sectors noted dockworker strikes as a key near-term risk to business. At the onset of last week, 45,000 port workers from Maine to Texas went on strike, potentially meaning billions of dollars worth of seaborne goods would not be able to enter the US – some of them perishable. However, the historic strike was suspended on Friday amid a tentative agreement that sees workers' wages by 62% over the life of the 6-year contract.



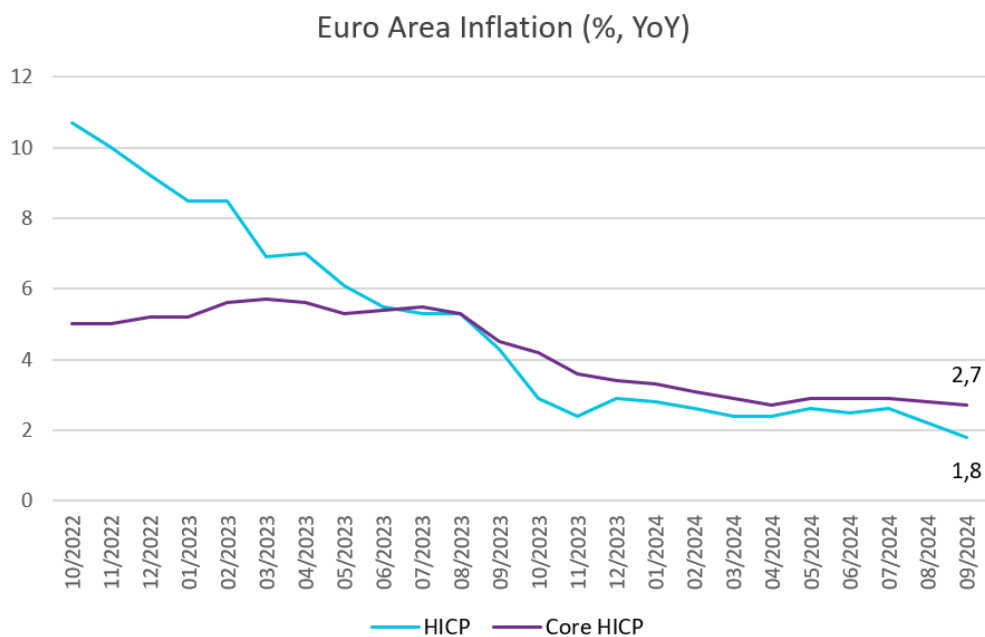
Source: Bloomberg, BIL

Eurozone inflation dips below ECB target of 2% for the first time in three years, falling to 1.8%

Annual inflation in the Eurozone cooled to 1.8% in September, down from 2.2% in August, according to flash estimates. This marks the softest increase in consumer prices in more than three years.

Energy prices continued to fall sharply by 6%. Inflation began to slow for services, to 4% from 4.1%, but continued to pick up slightly for food, alcohol, and tobacco. Although a slightly slower inflation for services is positive, the rate of 4% remains relatively high.

The core rate — which excludes the more volatile components of energy, food, alcohol and tobacco — eased to 2.7%.



Source: Bloomberg, BIL

The lower inflation rate reflects easing price pressure across the Eurozone, with **the inflation rate in several of the largest economies dropping below 2%**. By region, harmonized inflation was **1.7% in Spain, 1.5% in France, 0.8% in Italy and 1.8% in Germany**. Energy inflation remains a key downward driver for several of the main economies. **In Germany, the drop below the ECB target is encouraging, however, the high price increases in the services sector continue to be a concern.**

The slowing inflation **paves the way for additional rate cuts by the ECB** and investors increased their bets on a potential rate cut in October upon the release of the latest inflation figure. However, there are still several releases that could have an influence in the ECB's pathway ahead of their October meeting.

The ECB has said that it expects inflation to bounce back temporarily at the end of this year, as earlier falls in energy prices are no longer reflected in the Eurostat statistics.

EU presses ahead with tariffs on Chinese EVs

On Friday, **EU member states agreed to levy tariffs on imports of Chinese electric vehicles**. They will back a European Commission proposal for anti-subsidy tariffs of **up to 35.3%**, in addition to the existing 10%, despite concerns from Germany and Hungary. **China has threatened tariffs on EU brandy imports and opened investigations into EU dairy products and pork.**

Eurozone unemployment stable, but manufacturing job cuts on the rise

The **unemployment rate in the Eurozone held steady at 6.4%** in August, unchanged from the month before. Among Eurozone's biggest economies, the unemployment rate stood at 11.3% in Spain, 7.5% in France, 6.2% in Italy, and 3.5% in Germany. The ECB expects unemployment to remain stable through 2026. Instead, **attention is focused on the increasing number of manufacturing jobs cut.**

The Eurozone composite employment PMI fell to 49.3 in September, its lowest level since November 2020. **Employment in services is rising**, but the rate of increase is slowing. **In manufacturing, the number of jobs being cut is the highest in more than a decade.** The malaise in the manufacturing sector is having a clear impact, with Germany particularly affected. Uncertainty about the future of the industry is making companies much more cautious about staffing levels.

Lower interest rates start to bear fruit: First rise in Eurozone house prices in more than a year

House prices in the Eurozone rose by 1.3% in the second quarter compared with a year earlier, **a small sign of a gradual recovery** in the housing market. However, in some of the housing markets prices are still falling. The largest falls were registered in Luxembourg, Finland and France, whilst the highest increases were in Poland, Bulgaria and Lithuania.

Lower interest rates have certainly helped, with mortgage applications starting to rise. In addition, **lower inflation and higher real wages** could continue to boost the recovery of the housing market.

ECONOMIC CALENDAR FOR THE WEEK AHEAD

Monday – **Germany Factory Orders** (August). UK Halifax House Price Index (September). **Eurozone Retail Sales** (August).

Tuesday – **Germany Industrial Production** (August). **US Balance of Trade** (August).

Wednesday – **Germany Balance of Trade** (August).

Thursday – **US Inflation rate** (September), **Jobless Claims**.

Friday – **UK Industrial & Manufacturing Production** (August), **Balance of Trade** (August). **Switzerland Consumer Confidence** (September). **US PPI** (September), **Michigan Consumer Sentiment** (Prel, October).

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