

November 25, 2024

Weekly Investment Insights



After last week's disappointing Eurozone economic data, another ECB rate cut in December is high on the wish list for Europe, with investors increasing the probability of a 50 basis point cut. The euro fell to its lowest level in two years on the weak PMI report and bets that the ECB will have to accelerate its monetary easing.

In the US, major stock indexes ended last week in the green, despite ongoing uncertainty of what policies will actually come in place in January when Donald Trump takes office for the second time.

Gold got shinier last week as tensions rose in Russia and Ukraine and investors once again turned to the safe-haven asset. European gas prices rose amid colder weather and increased demand.

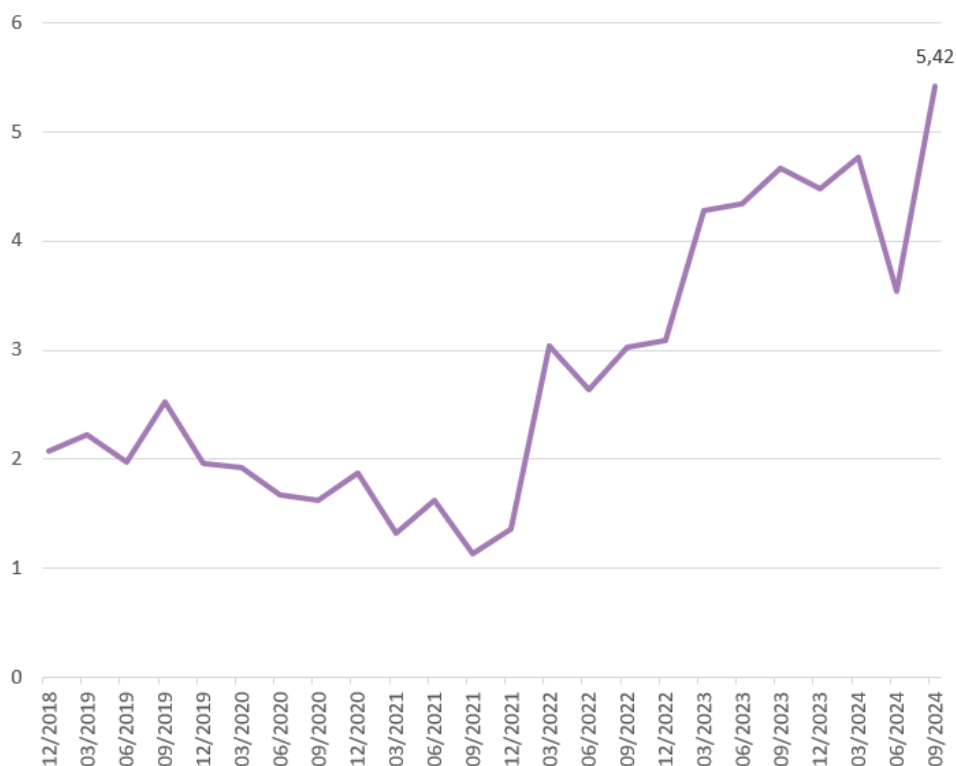
WEEKLY ROUNDUP

Eurozone negotiated wage growth surged in Q3 but consumer confidence softened

Negotiated wage growth in the Eurozone **rose** from 3.54% to **5.42%** in the third quarter, the biggest increase since 1993. Despite a struggling economy, the **rise was largely driven by Germany**, where negotiated pay rose by 8.8% year-on-year.

However, the surge in negotiated wage growth is not expected to be a continuing trend, with the **ECB forecasting a slowdown in wage growth** in 2025 and 2026. Indeed, the strong release did little to support the Euro, suggesting that **traders don't believe** the data will have a **significant impact on the ECB's rate cut path**. Governing Council member Yannis Sournaras has argued for a cut at every meeting from now until the ECB reaches the neutral rate which estimates place around 2%.

Eurozone percentage change of negotiated wage growth (% YoY)

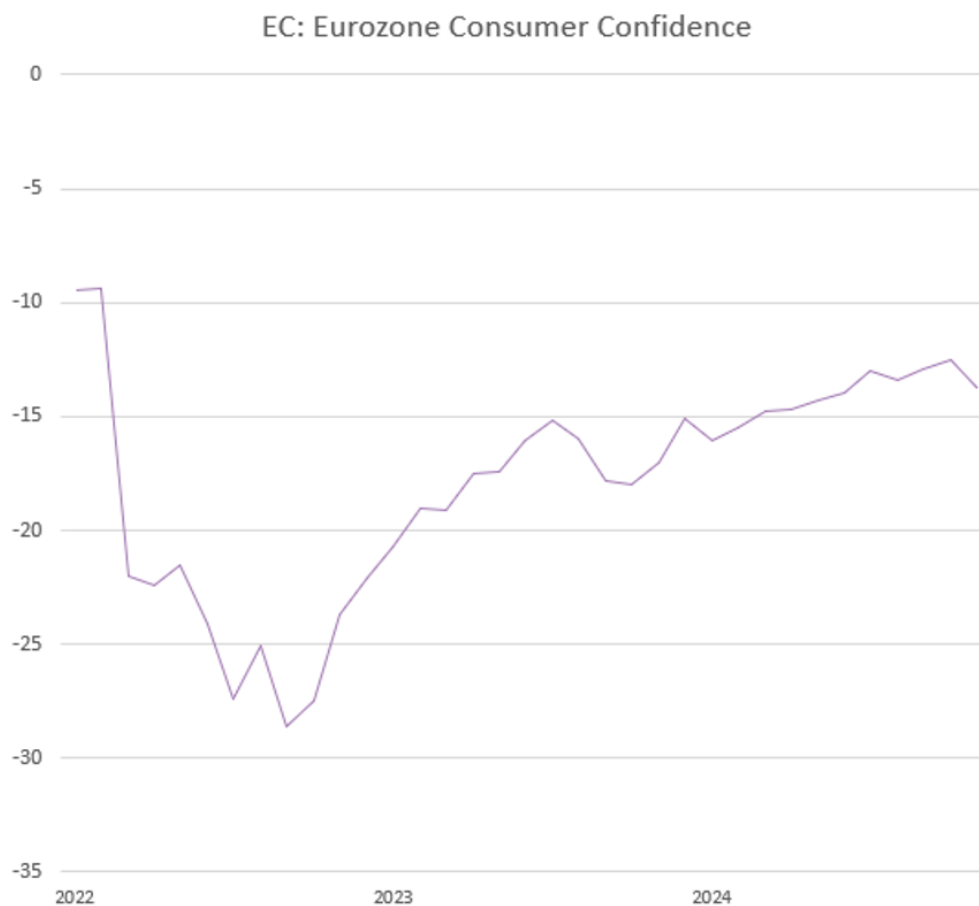


Source: Bloomberg, BIL

But rising wages are **not helping boost consumer confidence** in the face of political uncertainty (whether stemming from Trump's, France's budget situation or early elections in Germany).

Across the Eurozone, it **softened by 1.2 points** in November, to -13.7.

One month of data doesn't make a trend and it is yet to be seen if consumer confidence resumes its positive trend. For now, the increase in **negotiated wages should support consumption growth** over the holiday season.



Source: Bloomberg, BIL

European car industry continues to struggle despite slight uptick in new car registrations

Passenger car registrations in the EU rose by 1.1% year-on-year in October, the first increase in three months. At the national level, **Spain led the way** with a 7.2% increase, while **Germany recorded a rise** of 6%. In **France and Italy**, passenger car registrations fell by 11.1% and 9.1% respectively.

In the **first ten months of 2024**, total car registrations rose by 0.7% year-on-year, with the **market share** of new **battery electric cars falling** from 14% in the previous year to 13.2%. This decline is largely due to a **26.6% drop in Germany** after Berlin ended its EV subsidies in December last year.

Europe's difficulty in **making the transition to electric vehicles (EVs)** remains one of the **biggest challenges** facing the European automotive industry. Last week, Ford announced it would **cut**

4,000 jobs in Europe, about 14% of its European workforce, citing **weak demand for EVs** and **increased competition** from China.

In a further blow to Europe's EV transition last week, Swedish battery maker **Northvolt filed for Chapter 11 bankruptcy protection** in the US. Northvolt has been carrying a heavy weight on its shoulders as one of Europe's **most prominent battery makers** with the aim to wean carmakers off their dependence on China. But with **EV demand growing more slowly** than expected, Northvolt has **struggled to stay afloat**.

Business activity in Europe takes a hit while the US hits 31-month high

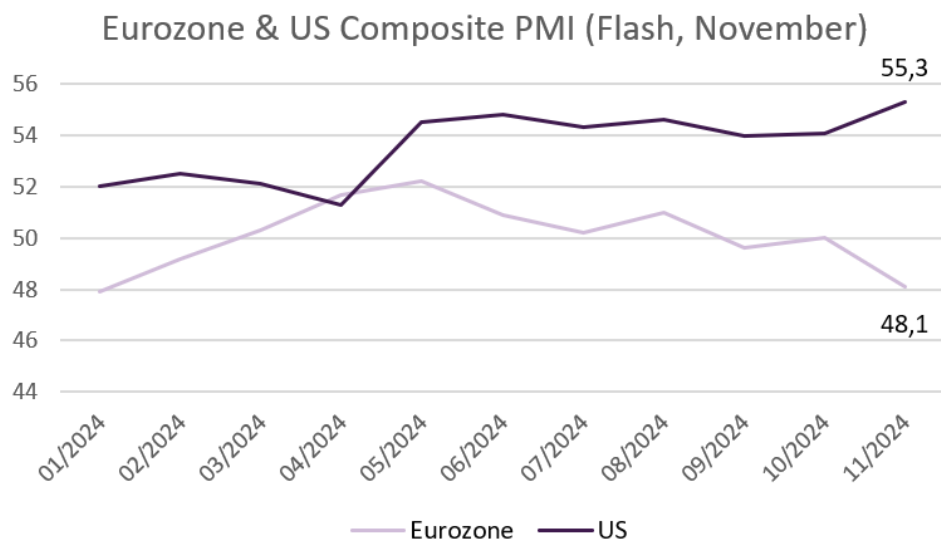
Eurozone manufacturing activity continued to contract in November, with the PMI falling to 45.2, down from 46 in October. The **services PMI fell to 49.2, below the growth threshold of 50** for the first time in nine months.

Looking at Europe's largest economies, the **downward economic spiral** continued in both **Germany and France**, where **business activity fell at the fastest pace** since the start of the year.

Germany's manufacturing sector continued to contract, although the PMI edged up slightly to 43.2 from 43 in October. While the rate of decline in factory output has slowed in recent months, it remains historically low. Germany's **services sector also fell** below 50, to 49.4 in November, amid weak demand and rising inflationary pressures. In further disappointing news, the **German economy grew less than previously estimated in Q3**, the statistics office reported on Friday.

The **weakness in economic activity** will further **strengthen the case for the ECB to cut interest rates** by another 25bp in December.

The **US economy is showing robust growth**, with the composite PMI reaching a **31-month high** of 55.3 in November. The **services sector drove** the composite PMI higher, rising to 57 from 55 in October. The prospect of **lower interest rates** and Donald Trump's **pro-business agenda** have helped to **boost optimism** and, in turn, business activity. Although the manufacturing sector remains below 50, it rose slightly to 48.8 from 48.5 in October.

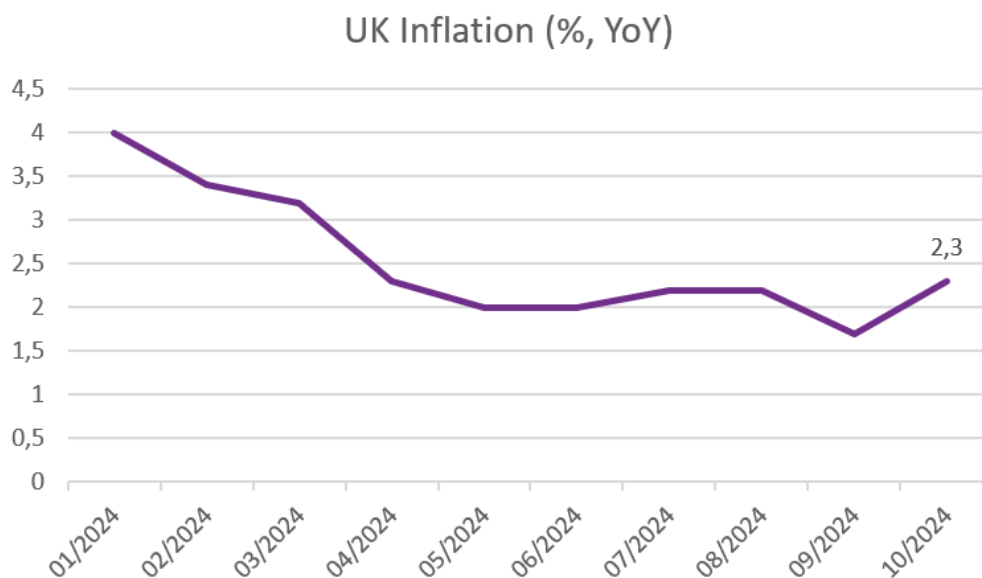


Source: Bloomberg, BIL

UK Inflation rises and retail sales slump

Consumer prices in the UK jumped to a six-month high of 2.3% in October, up from 1.7% in September. The rise puts inflation above the Bank of England's (BoE) 2% target and shows that underlying price growth is gaining momentum. BoE Governor Andrew Bailey has repeatedly stated that the battle against inflation is not yet won and that the BoE "can't cut interest rates too quickly or by too much." This latest inflation print underscores the BoE's more cautious stance.

The increase in inflation was pushed up almost entirely by the rise in the Office of Gas and Electricity Markets (Ofgem) energy price cap in October, pushing up prices for both electricity and gas. Core inflation, which excludes volatile categories such as food and energy, also edged up to 3.3% in October from a three-month low of 3.2% in September.



Source: Bloomberg, BIL

The BoE have said that the **new government's budget will add to inflation** in 2025, and **Donald Trump's threat of tariffs** is also **likely to have an impact**. The Pound strengthened against the US Dollar following the release of the inflation data, before giving back most of the gains.

Retail sales surprised on the downside last week, with volumes falling by 0.7% in October compared with the previous month. This was the **sharpest fall in four months** and was largely attributed to **economic uncertainty ahead of the budget** announcement at the end of October. However, this trend is not expected to continue. The GfK **consumer confidence index improved for the first time in three months**, rising by 3 points in November. The rise in confidence follows the **removal of uncertainty** ahead of the autumn budget and the US presidential election, **lower interest rates** and **rising wages**. The improved confidence is **expected to lead to a pick-up in retail sales** over the next few months with Black Friday sales and holiday shopping.

Economic calendar for the week ahead

Monday – Germany Ifo Business Climate (November).

Tuesday – US Conference Board Consumer Confidence (November), New Home Sales (October).

Wednesday – Germany GfK Consumer Confidence (December), Switzerland Economic Sentiment (November), US GDP Growth Rate (2nd estimate, Q3), Jobless Claims.

Thursday – Eurozone M3 Money Supply (October), **Economic Sentiment** (November), Consumer Confidence (Final, November).

Friday – Japan Unemployment Rate (October), Consumer Confidence (November), Germany & Switzerland Retail Sales (October), Switzerland GDP Growth Rate (Q3), **Eurozone Inflation Rate** (Flash, November).

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