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BONHÔTE

Inflation picks up pace

Equity indices ended the week pointing in different directions amid the recent upturn in bond yields and inflation stats.

Yields at the 10-year mark swung upwards over the week with US paper changing hands at 4.17% and the Bund at 2.62%. The issuance of a 30-year Treasury bond didn't attract much demand. Blame that on America's gaping budget deficit, which in July clocked in at twice the level expected, resulting in a USD 1.4 trillion hole in the nation's finances.

The main event last week was the much-anticipated inflation data from the US, which surprised the market on two counts.

According to Thursday's Consumer Price Index (CPI), inflation rose to 3.2% on a 12-month basis in July, up from 3% in June on the back of housing prices. However, this was below the forecast of 3.3%. Month-on-month inflation was stable at +0.2%.

US CPI short of estimates

The positive signal stemmed from core inflation (excluding food and energy), which slowed to 4.7% year-on-year from 4.8% in the previous month.

US producer prices (PPI) for final demand rose 0.3% month-on-month and 0.8% year-on-year in July, beating the forecast (0.7%) as a result of services costs, which continued to edge upwards (+0.5%). The PPI excluding food, energy and trade services was up 2.7% on a 12-month basis, above the forecast of 2.5%.

Even so, the above figures are unlikely to change the outlook for the Fed's next meeting, when it is expected to leave policy rates unchanged.

Initial jobless claims rose by 21,000 to a four-week high of 248,000, against expectations of 230,000. This welcome increase shows that there is some slack in the labour market, including in wages, which is another reason why the Fed is likely to stay its hand in September.

Disappointing macroeconomic data out of China

China's data were once again disappointing. Both imports (-12.4%) and exports (-14.5%) fell much faster than expected in July, threatening the prospective recovery in a domestic economy weighed down by sluggish consumption and a property crisis. In addition, China slipped into deflation in July, with the CPI down -0.3% year-on-year. The producer price index contracted for the tenth consecutive month in July, falling by -4.4%.

Against this backdrop, the S&P 500 lost 0.31% over the week while the tech-heavy Nasdaq – which is more exposed to the rate outlook – fell 1.90%. The Stoxx 600 Europe was flat at -0.02%.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.88	0.96	11'081.63	4'321.33	15'832.17	7'340.19	7'524.16	4'464.05	13'644.85	32'473.65	997.72
Trend	→	→	→	↓	↓	→	↓	↓	↓	↓	↓
YTD	-5.20%	-3.07%	3.28%	13.91%	13.71%	13.38%	0.97%	16.27%	30.37%	24.45%	4.32%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The outlook on the SMI this week is unchanged, with weak readings on momentum indicators and a trading-range in place between 10950 and 11300.

Contact

Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University

Pierre-François Donzé
M. Sc. in Economics

Karine Patron
MScF Université de Neuchâtel

David Zahnd
MScAPEC Université de Neuchâtel

Bertrand Lemattre
MScF Sciences Po Paris

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch