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BONHÔTE

Reassuring macro data

Overview

The prospect of an imminent ending of the ECB's restrictive monetary policy led to firmer equity markets in Europe last week. Macroeconomic data out of China was also reassuring.

In fixed income, the US 10-year yield edged above 4.3% while the German Bund remained northwards of 2.65%.

In the US, the consumer price index rose by 3.7% year-on-year in August, gaining by 0.5 points relative to July. The main reason for this inflation was the recent surge in oil prices. Excluding energy and food, the 12-month inflation rate was 4.3%, in line with forecasts. Meanwhile, the US Producer Price Index (PPI) rose by 0.7% month-on-month and 1.6% year-on-year.

Industrial production slowed in August to an increase of 0.4% after rising by 0.7% in July.

US consumer prices on the up

The US labour market has been relatively static. The number of jobless claims rose by 3,000 in the week starting 4 September to 220,000 versus 217,000 for the previous week.

This data is likely to encourage the Fed to hold off on raising rates when its policy decision is announced on Wednesday. But given the strength of the labour market and the slower-than-expected shift towards lower inflation, no change in its restrictive stance is expected, meaning that one last rate hike could occur between now and the end of the year .

In Europe, the ECB raised its key interest rates by 25 basis points to 4.50% and 4.75%. The Governing Council stated that the process of monetary tightening was nearing its end and reiterated its belief that the current level of interest rates was sufficiently restrictive to bring inflation back towards the 2% target.

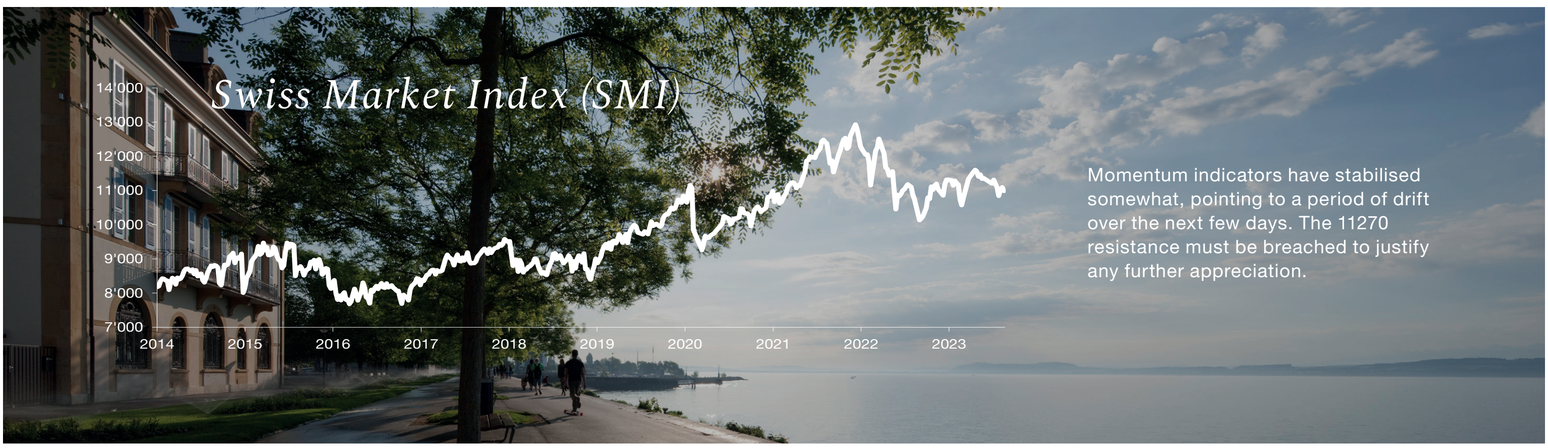
Eurozone inflation has picked up slightly, mainly due to higher energy and food prices. In contrast, core inflation has stabilised, adding weight to the idea that the ECB's monetary tightening is probably over.

Monetary tightening nearing an end in Europe

Industrial output in the currency bloc fell by far more than expected in July, hit by rising borrowing costs. It dropped by 1.1% month-on-month and 2.2% year-on-year.

The Chinese economy has bounced back, as testified to by the 4.5% rise in industrial production in August and the 4.6% recovery in retail sales.

The S&P 500 ended the week down by 0.16% while the tech-heavy Nasdaq dipped by 0.39%. The Stoxx 600 Europe index rose by 1.60%.



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	0.90	0.96	11'090.61	4'245.88	15'727.12	7'276.14	7'652.94	4'453.53	13'710.24	33'242.59	976.17
Trend	↑	→	→	→	→	→	↑	→	→	↑	→
YTD	-2.97%	-3.11%	3.37%	11.92%	12.95%	12.39%	2.70%	15.99%	30.99%	27.39%	2.07%

(values from the Friday preceding publication)

China – down but not out

After a long period afflicted by various woes and facing a slower-than-expected recovery, China is beginning to show signs of stability as the government steps up its support measures.

The Chinese economy regained some momentum in August, in tandem with the summer holiday season and the roll-out of stimulus packages boosting spending and industrial output. A single month's data is not enough to corroborate a sustainable recovery trajectory, but it does suggest that the slowdown may have bottomed out.

Although the government has increased support for the economy and moved to mitigate deflation in the property sector, this is still too little, too late. Further fiscal easing will be needed.

Just last week, the People's Bank of China reduced its liquidity reserve requirement for commercial banks by 25 basis points. By doing so, there is now more capital available for granting loans to businesses and households, which by rights ought to stimulate economic activity.

Despite these measures, obstacles are still present. Youth unemployment is continuing to rise. Beijing has stopped publishing statistics to protect the fragile morale of the younger generation. The property crisis continues to shake household confidence considering the debt mountains of developers and the plunge in property prices. Finally, relations with the US are becoming even more strained, with particular ramifications for the tech sector.

Even so, the Chinese market remains an opportunity for investors. The government is expected to continue rolling out fiscal and monetary measures as well as measures to prop up the property sector and relax regulations as it tries to quicken growth towards its 5% target. These prospects are for now drowning out the pessimism, and we are beginning to see renewed inflows of funds into the Chinese market. In addition, valuations are attractive and while short-term volatility is likely to persist, China remains a mainstay in the value chains of technology, renewable energy and strategic metals. Attractive opportunities are there for the taking.

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