Flash boursier N° 722
9 October 2023

BONHÔTE

US equity markets bounce back

Overview

US equity markets bounced back last week, triggered by evident signals of an economic deceleration amid a vibrant jobs market. In stark contrast, European stocks encountered headwinds, beleaguered by the economically tense atmosphere.

In the bond market, yields experienced a modest ascent, with the US 10-year yield ticking up to 4.80% and the yield on the German Bund nudging back toward 2.90%.

Within the US, the manufacturing sector exhibited a more forceful resurgence than expected in September, emphatically recovering from an eleven-month contraction streak. The ISM manufacturing index perceptively lifted to 49.0 from 47.6 the preceding month, reflecting the US economy's robustness. Additionally, after a dip of 2.1% in July, industrial orders rebounded by 1.2% in August. Several FOMC members, in response to these indicators, intimated that the current era of elevated rates might sustain its course.

US manufacturing activity recovering

Concurrently, the labour market showed job vacancies swelling in August, escalating to 9.61 million and exemplifying enduring tensions. This state of affairs may potentially nudge the Fed towards maintaining interest rates at a restrictive level to mitigate job supply issues.

Nevertheless, the US private sector could only muster the creation of 89,000 new jobs in September – its most languid pace since January 2021 – as per the monthly ADP survey.

Initial jobless claims for the week beginning 25 September rose by less than anticipated, marking 207,000 against the projected 210,000.

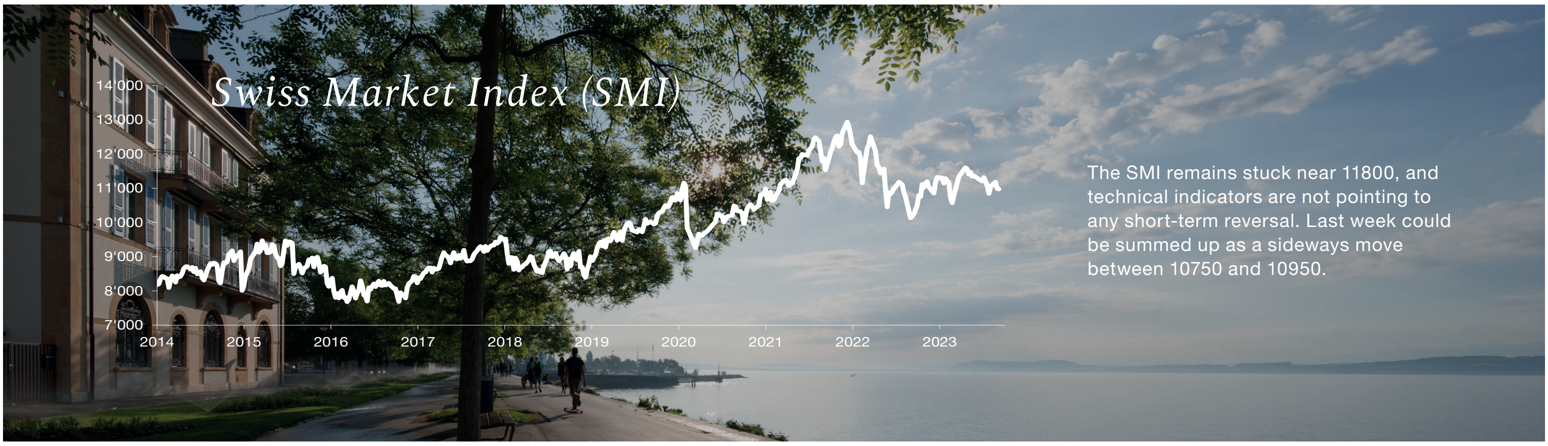
Conversely, the US economy generated a significant 336,000 non-farm jobs in September, comfortably surpassing market expectations of 150,000. However, a silver lining was found in the modest slowdown of average hourly earnings to +0.2% in September, correlating to a year-on-year growth of 4.2%, against average projections of +0.3% and +4.3% respectively. The unemployment rate saw a modest uptick, settling at 3.8% against a forecasted 3.7%.

In Europe, following a substantial 11.3% decline in July, German factory orders rebounded by 3.9% in August compared to the previous month in seasonally adjusted terms. Over a three-month period from June to August, these orders increased by 4.9% compared to the preceding three months.

Increase in German factory orders

The pervasive deceleration witnessed across the Eurozone economy, conjoined with expected moderations in inflation in upcoming months, might urge the ECB to truncate its monetary tightening process.

In the shadow of these developments, the S&P 500 index concluded the week with a modest 0.48% uptick, while the tech-focused Nasdaq index rebounded by 1.60%. The Stoxx 600 Europe index receded by 1.17%.



The SMI remains stuck near 11800, and technical indicators are not pointing to any short-term reversal. Last week could be summed up as a sideways move between 10750 and 10950.

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	0.91	0.96	10'837.59	4'144.43	15'229.77	7'060.15	7'494.58	4'308.50	13'431.34	30'994.67	937.34
Trend	→	→	↓	↓	↓	↓	↓	↓	→	↓	↓
YTD	-1.58%	-2.69%	1.01%	9.25%	9.38%	9.06%	0.57%	12.22%	28.33%	18.78%	-1.99%

(values from the Friday preceding publication)

Focus on oil's ascension in Q3 2023

Oil prices witnessed a spectacular surge during the third quarter of 2023, escalating by +30% between July's trough and September's close. Several factors played a pivotal role in this price elevation.

Initially, OPEC+ members announced a production cutback at their June meeting, under the impetus of Saudi Arabia and Russia, which have cut their output by close to 1.3 million barrels per day. This reduction was then ratified at the Monitoring Committee Meeting on 4 October and has been partially counterbalanced by production augmentations in non-bloc nations (US, Guyana, Brazil, Canada and Norway).

Demand has remained surprisingly steadfast, propelled by vigorous consumption trends in the US and other OECD countries, where overall consumption returned to growth in Q2 2023 following two quarters of contraction. Chinese demand also demonstrated unexpected resilience, despite the latent uncertainties surrounding its economic health. For 2023, global demand growth is poised to hit a historically prodigious level of 102.2 million barrels per day.

Reserves have also observed a marked decline, falling below the five-year average in June, a trend that seemingly persisted throughout July and August.

In forecast, OPEC is anticipated to retain its production cuts through to the conclusion of 2023, until the effects have fully permeated.

Although the surge in oil prices appears predominantly driven by demand, a projection above USD 100 per barrel does not seem sustainable for an extended period, with demand likely to temper as major economies decelerate.

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