

# Macro Monthly

Economics  
GLOBAL

## Reasons for rate cuts

- ◆ Markets have been spooked by some weaker US data, currency moves and tech earnings...
- ◆ ...but the macro weakness is more evident in mainland China and, in particular, Germany...
- ◆ ...as more central banks across the world start easing policy

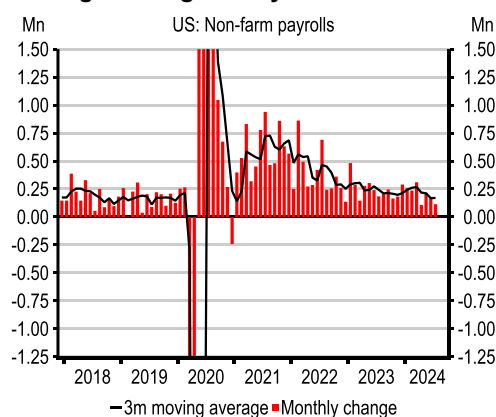
### Market concerns building over US data...

The rapid market moves in recent days have had many catalysts, from moves in relative pricing between the Federal Reserve (Fed) and the Bank of Japan to political uncertainty over the US election and earnings in the tech sector.

On top of that, a weaker ISM manufacturing and US labour market release (chart 1) appear to have spooked markets about something more concerning happening in the US economy. That said, **the bulk of other economic data for the US still look reasonably healthy**, with consumer spending data continuing to tick along after the upside surprise to growth in Q2 (chart 2).

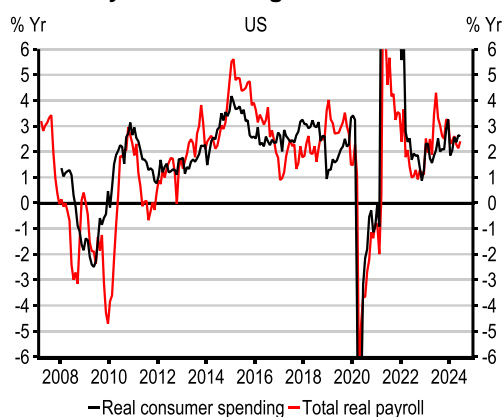
**Most US data is holding up reasonably well**

### 1. Non-farm payrolls data show a steady cooling in hiring activity...



Source: Macrobond

### 2. ...but US consumers keep spending, fuelled by real income gains



Source: Macrobond

### ...but some weaker data in mainland China...

On the other hand, we have seen a **period of weaker data in mainland China**, with a softer Q2 GDP print (4.7% vs. 5.3% in Q1) and tepid monthly data for June being met with a more aggressive monetary policy response. Whilst the property sector is still a drag, industrial data look broadly better, and some areas of consumer demand are holding up.

Germany is facing an industrial recession

**...and further bad news in Germany**

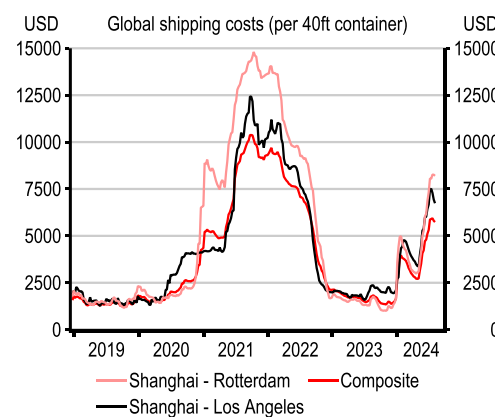
The real standout in the global data (for the wrong reasons) at the moment is Germany. Whilst most economies are seeing some sort of resilience in either consumer or industrial prints, **the German economy continues to face an industrial recession**, with GDP for Q2 seeing another sequential decline of -0.1% q-o-q.

The drop in inflation has slowed in many economies

**Inflation risks resurfacing?**

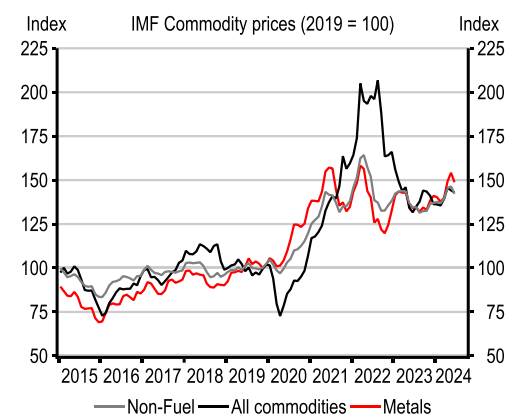
On the inflation front, a couple of months of good data in the US had opened the door **for the Fed to cut rates in September**, even before the market volatility. However, the move lower in some areas of services inflation, coupled with very negative core goods inflation is yet to be seen elsewhere in the developed world. Risks are still out there, from higher shipping costs and commodity prices (charts 3 and 4), as well as the threat of tariffs putting up goods prices.

**3. Shipping costs have picked up a lot**



Source: Macrobond

**4. Commodity prices are likely to remain elevated in 2024**



Source: Macrobond

The Fed is likely to start easing in September

**Homing in on cuts**

Despite the inflation challenges, the latest round of meetings showed that **more central banks are willing to pull the trigger and start their easing cycles**. Given the sharp moves in financial markets, pricing for the pace of easing has moved quickly, and the question now is whether it's a 25 or 50bp move to kick off the Fed's easing cycle in September.

**Key recent releases**

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
22 Jul	Mainland China	Policy rate (1-year LPR)	-	3.35%	3.45%	3.45%	↓
25 Jul	US	Real GDP (quarter, ann.)	Q2, flash	2.8%	2.0%	1.4%	↑
26 Jul	US	Core PCE inflation (year)	Jun	2.6%	2.5%	2.6%	↑
30 Jul	Eurozone	GDP (year)	Q2, flash	0.6%	0.5%	0.5%	↑
31 Jul	Japan	BoJ target rate-Upper bound	-	0.25%	0.1%	0.1%	↑
31 Jul	Eurozone	HICP (year)	Jul, flash	2.6%	2.5%	2.5%	↑
1 Aug	Mainland China	Caixin manufacturing PMI (Index)	Jul	49.8	51.5	51.8	↓
2 Aug	US	Nonfarm payrolls, monthly change (000s)	Jul	114	175	179	↓

Source: Bloomberg, HSBC

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus

**Key upcoming events**

Date	Market	Release	Period
14 Aug	UK	CPI	Jul
14 Aug	Eurozone	GDP	Q2
14 Aug	US	CPI	Jul
15 Aug	Mainland China	Retail Sales	Jul
15 Aug	UK	GDP	Jun, Q2
15 Aug	US	Retail Sales	Jul
16 Aug	UK	Retail Sales	Jul
20 Aug	Mainland China	People's Bank of China interest rate decision	Aug
22 Aug	EU / UK / US	PMIs	Aug
30 Aug	Eurozone	Inflation	Aug
30 Aug	US	Core PCE Price Index	Jul
31 Aug	Mainland China	NBS Manufacturing PMI	Aug
4 Sep	Mainland China	Caixin Services PMI	Aug
6 Sep	US	Non-Farm Payrolls	Aug

Source: Refinitiv Eikon, HSBC

# Disclosure appendix

## Additional disclosures

- 1 This report is dated as at 07 August 2024.
- 2 All market data included in this report are dated as at close 06 August 2024, unless a different date and/or a specific time of day is indicated in the report.
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