中銀國際 BOC INTERNATIONAL
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# Investment Bulletin

## September 2023

## Content

# Global Economy

**US**

US economy remained on solid ground but was losing some momentum. Consumer prices rose moderately in July, with core inflation slowed further. Consumer picture was mixed. Retail sales readings were better than expected but consumer sentiment moved sideways with a small decline. Although nonfarm payroll growth was below estimates, strong wage gains and decreased unemployment rate pointed to continued tightness in the labor market. Against such a macro backdrop, the Fed will proceed based on the totality of further data at upcoming meetings.

**Europe**

Eurozone inflation remained stable in August at 5.3%. The number suggested further interest rate hikes may be necessary in September. President of the ECB Christine Lagarde said the ECB is seeking to develop more forward-looking approaches to its policy to manage the uncertainty. Still, she reiterated her support for the ECB's 2% inflation target. With respect to economic sentiment, the latest consumer confidence index came in at -16.0 in August from -15.1 the previous month. Latest Eurozone Manufacturing PMI rose to 43.7 in August, up from 42.7 in the previous month.

**UK**

In UK, growth concerns lingered, with the composite PMI dropping for the fourth consecutive month to 47.8 in August, amid significant deterioration of manufacturing and services sector activities. Meanwhile, consumer spending also softened with retail sales (exclude auto fuel) declined by 1.4% in July. Headline inflation rate dropped from 7.9% to 6.8% in July, but core inflation rate remained high at 6.9%. Looking ahead, labor market condition and consumer confidence should be the important indicators to gauge the health of domestic economy.

**Japan**

Japan's economy expanded at a much faster pace than forecast in the second quarter, the increase in exports offset weaker business investment and private consumption. However, July export retreated as overseas demand weakened especially China, signaling headwinds to persistent recovery. BoJ Governor Ueda reiterated that price growth has remained slower than the Bank's goal, implying easy monetary policy would likely continue in the near term. Meanwhile, despite the release of treated wastewater from the crippled Fukushima nuclear plant attracted criticism and import ban of seafood from neighboring countries, impact to domestic economy might be limited.

**Asia**

Latest economic data showed sustained downward pressure on Asian economy. Global growth weakness continued to weigh on the export trajectory for the region, despite some green shoots with regards to a bottoming of tech exports in selective economies. The overhang of slowing economic recovery and deflation risks led to scaling back of China's GDP expectations, which resulted in weakness in the CNY and other regional currencies. The moderating trend for inflation continued despite some short-term fluctuations in inflation prints. Against such macro backdrop, regional central banks largely stayed on hold with the exception of the PBOC lowering policy rates aiming at boosting sentiment and further reducing funding costs.

**Australia**

In Australia, labour market showed some signs of softening and consumer sentiment was dampened by higher rates. The number of employed persons fell unexpectedly and jobless rate ticked higher in July suggesting that job market moderated after the RBA raised interest rates to curb inflation since May 2022. Retail sales rose 2.1% yoy in July, the lowest since August 2021. The rebound of sales after a sharp fall in previous month was mainly due to additional spending at catering and takeaway food outlets linked to the Women's World Cup and school holidays. Consumer confidence index weakened again in August as sentiment was squeezed by higher interest rates and living costs. Even though trade balance remained steady in June, the widening of trade surplus was mainly due to a larger decline in imports. Demand for imported retail and capital goods deteriorated substantially as rising inflation and housing costs hit consumer spending. Looking ahead, labour market condition and consumer sentiment should be monitored closely to assess the strength of economy.

**Hong Kong**

Hong Kong's GDP growth unexpectedly slowed in the second quarter, as the ongoing improvement in domestic consumption was offset by the weak exports. Hong Kong June retail sales rose on a month-over-month basis, thanks to the recovery of inbound tourism and positive consumer sentiment. Labour market continued to improve for the three months ended July, and the unemployment rate remained at a low level. Hong Kong interbank rate dropped markedly in August. Hong Kong property market continues under pressure as reflected in yet another failed government land tender. Official home price index extended declines in July, while rental index saw a mild increase. During the month, Hong Kong Government set up a task force to promote stock market liquidity and strengthen the development of its capital market.

**China**

In China, July activity data broadly missed market expectations. Industrial production growth slowed to 3.7% in July (vs 4.4% in June), driven by falling export growth and growth slowdown in electric machinery, equipment and automobiles sectors. Retail sales growth declined to 2.5% yoy in July (vs 3.1% yoy in June), mainly led by online goods sales due to unfavorable base effects. Services Industry Output Index fell to 5.7% yoy in July (vs 6.8% yoy in June). Fixed asset investment growth slowed to 1.2% yoy in July (vs 3.4% yoy in June), mainly due to slower infrastructure and property investment growth on the back of challenging weather conditions, slow government bond issuance and still-tight funding conditions for private developers. Property-related activity remained depressed in July. Growth in floor space under construction edged down to -6.8% yoy in July (vs -6.6% in June), while new home starts growth remained sluggish at -25.9% yoy in July (vs. -30.2% yoy in June). The NBS manufacturing PMI rose to 49.7 in August (vs 49.3 in July) driven by the output and new orders sub-index. The NBS non-manufacturing PMI declined to 51.0 in August (vs 51.5 in July), with the service PMI slowing and the construction PMI improving.

# Bond

**US**

U.S. Treasury market weakened in August. Bond yields surged, led by the longer maturities, as data strength of late underscored the economy's resilience and boosted hopes of a soft-landing. For instance, the latest ISM and PMI data suggested that services activity held up well, even as the manufacturing sector continued to contract. Consumer confidence retreated in July from its two-year high, just as retail sales grew significantly more than expected. Labor market remained tight, with the unemployment rate declining, despite nonfarm payrolls gaining fewer than expected in July. Meanwhile, moderating inflation fueled expectations that the Federal Reserve (Fed) would not have to raise interest rates much further to bring inflation back towards its 2% target. At his Jackson Hole speech, Fed Chair Powell reiterated the central bank's focus on fighting inflation, albeit refraining from providing clear forward guidance on future policy setting. To close the month, yield on the 10-year benchmark U.S. Treasury note increased by 15 basis points to 4.11%. Meanwhile, bond yields in the front-end were little changed, resulting in a less inverted yield curve.

**Europe**

Growth outlook in the Eurozone stayed soft, with the composite PMI dropping for the fourth consecutive month to 47.0 in August, amid weaker manufacturing and servicing sectors. Meanwhile, core inflation eased from 5.5% to 5.3% in August, despite sticky headline number at 5.3% amid higher energy costs. Growth uncertainty alongside eased core inflation prompted bond yields to fall. Yield on the 2-year benchmark German Bunds dropped by 6 basis points to 2.97%, while that of the 10-year tenor fell by 3 basis points to 2.46%. Meanwhile, Italian government bonds underperformed, with the 10-year yield ending the month higher by 2 basis points to 4.12%. On policy front, the European Central Bank (ECB) raised its benchmark deposit rate by another 25 basis points to 3.75% in July, whilst signaling a data-dependent approach towards future policy setting.

**UK**

The U.K. gilts market posted losses in August. July headline and core inflation coming in high at 6.8% and 6.9% respectively fueled expectations over more rate hikes by the Bank of England (BoE) down the road. This came despite the lingering growth concerns, as sentiment in the manufacturing and services sector weakened for the fourth consecutive month in August. Overall, bond yields rose led by the front-end, as markets repriced central bank policy path ahead. Yield on the 2-year benchmark U.K. gilts increased by 17 basis points to 5.14%, while that of the 10-year tenor rose by 5 basis points to 4.36%, resulting in a more inverted yield curve.

**Japan**

Japanese Government Bond (JGB) yields continued to rise in August. Again, the long-end sector was the major driver of bond yield increases, after the Bank of Japan (BoJ) announced a more flexible approach towards the Yield Curve Control (YCC) policy in July, allowing yield of the 10-year JGB to rise up to 1%, versus the previous limit at 0.5%. Yield on the 30-year benchmark JGB increased by another 16 basis points to close the month at 1.68%. Meanwhile, bond yields in the front-end were little changed, with the negative interest-rate policy being solidly in place, as BoJ officials led by Governor Ueda reiterated that more time was needed before turning towards tightening policy, given the lack of conviction for achieving the central bank’s 2% inflation target in a stable manner.

**Australia**

Australian Government Bond (ACGB) market strengthened in August. The Reserve Bank of Australia (RBA) held the cash rate at 4.1% at its August meeting, claiming more time would be needed to assess the state and outlook for the economy. Meanwhile, headline inflation print once again surprised to the downside, with the year-on-year growth slowing to 4.9% in July, from 5.4% in the prior month. This, together with the early signs of easing in the labor market, where the unemployment rate rose to 3.7% while job-adds fell by 14,600 in July, reinforced views for an extended pause in policy. To close the month, yield on the 3-year ACGB dropped by 13 basis points to 3.73%, while that of the 10-year tenor fell by 3 basis points to 4.02%, resulting in a steepened yield curve.

**Hong Kong**

Hong Kong dollar (HKD) bond markets rebounded in August. Bond yields fell in contrast to the trend of its U.S. counterparts. Adding to bond strength was the lower interbank rates (known as HIBORs), where the 1-month tenor dropped by almost 160 basis points to 3.72%, amid eased liquidity condition in the system. Along with it, the 30-day average of Hong Kong Dollar Overnight Index (HONIA) fell sharply to trade 200 basis-point lower than its U.S. equivalent, the biggest discount since May. Wider yield differentials between the two markets weighed on the local currency, which depreciated towards the weaker side of the allowable trading band of 7.75-7.85/USD towards the end of month.

**China**

Offshore Renminbi (CNH) bond market performed steadily in August. Incoming data stayed weak, with Total Social Financing (TSF) and activity readings coming in weaker than expected. In face of the cyclical and structural growth challenges, the Chinese government stepped up its counter-cyclical easing efforts, by for instance cutting policy rates and easing housing market policies. With easing of fiscal and monetary policy as the backdrop, Markit iBoxx China Offshore Bond Index (investment grade overall) posted a mild gain of 0.2% in local currency terms for the month.

# Global Equities

**US**

US equities wobbled before finished in negative territory in August. Fitch downgraded US credit rating on concerns towards debt burden and fiscal challenges, causing treasury yields to reach higher that pressured equities prices. Although strong results from a major chipmaker helped investor sentiment, performances of most mega-cap technology stocks were soft this month. Investors stayed on sidelines as the Fed Chairman Powell held a balanced tone at Jackson Hole Symposium, reiterating the determination to bring down inflation and the readiness to raise rates further if appropriate. Looking ahead, the market direction would be driven by forthcoming economic data and the Fed's narratives.

**Europe**

Denmark equities added value while Sweden equities subtracted value among the European markets. Regarding sector-wise performance in HKD terms, investments in Energy added value while Consumer Discretionary detracted value during the period.

**UK**

UK equity market traded lower last month amid rising global bond yields and more credit events by Chinese developers. Basic Materials and Financials underperformed in August as weak economic data and more credit defaults in China adversely impacted risk sentiment. Meanwhile, Technology and Energy sectors outperformed due to solid earnings and higher oil prices. Going forward, sticky inflation and tightening monetary policy would be the key risk to UK equity market.

**Japan**

Japan equity market dropped in August. Concerns over US interest rates and the Chinese economy caused the biggest weekly decline since March. Core CPI continued to rise while JPY continued to weaken. However, recent earnings announcements were generally better than market expectation which was supported by demand overseas. Utilities sector outperformed the most while higher crude oil prices also led Energy names to outperform. Going forward, market volatility would likely persist amid lingering global uncertainties such as credit ratings downgrade for some US banks.

**Asia**

Asia equities retreated during the month due to a sharp reversal of China equities. Market optimism post the politburo meeting faded as macro headwinds for China equities persisted with weak macro data adding to the negative news flow around developers and wealth management products. The risk-off mode continued as investors digested hawkish signals from the Fed and further signs of stress in China, despite the PBOC's surprise policy rates cuts. Equities recouped some losses after the announcement of a slew of measures to support China's equity market. Looking ahead, while the confluence of risk-off factors may continue to drive fund outflows from Asia equities, the reporting season would have a significant bearing on near term market returns.

**Australia**

Australian equity market declined last month as concerns about deteriorating China's economic outlook weighed on investors' sentiment. Mining sector was the biggest drag on equity market amid a batch of weak economic data out of China and fading optimism on massive stimulus from Chinese policymakers. Information Technology sector fell sharply during the month as investors locked in profit after a strong rally in the first seven months of 2023. Consumer non-cyclical industry also underperformed the broader market due to weaker-than-expected earnings results of major company. Going forward, growth prospect of China's economy would be the key risk to Australian equities.

**Hong Kong**

Hang Seng index tumbled in August, erasing the positive returns registered in July. The post-Politburo excitement was short-lived, as Country Garden's debt woes had renewed concerns related to the China housing market and its contagion effect to the economy. Policymakers have stepped up their easing measures, but more aggressive stimulus needed to stem the downward spiral. The Commerce & Industry Sub-index outperformed, as large-cap internet names reported solid quarterly earnings. The Properties sub-index underperformed, as China housing market woes persist as a drag.

**China**

In August, China equity market was lower due to weak macro data, still cautious corporate domestic earnings outlook, renewed property developer default risks and behind the curve policy implementation. CNY depreciated by 1.6% against USD. In the last week of August, market sentiment improved given an acceleration of policies announced to revive capital and property markets. China securities regulator introduced measures to revive capital market such as reduction of stamp duty and exchange levy, adjustment of paces for refinancing and IPO etc. Declining property sales had again led to financial distress of private property developers with Country Garden failing to meet coupon payments for offshore bonds. Tier 1 cities such as Guangzhou and Shenzhen relaxed definition of first time home buyers to facilitate housing upgrade demand. Chinese banks were provided regulatory guidelines to relax down payment ratio and lower interest rates on existing mortgage. PBOC cut 1-year loan prime rate by 10bp to 3.45% while left 5-year rate unchanged. The NBS manufacturing PMI rose to 49.7 in August (vs 49.3 in July) driven by the output and new orders sub-index. In August, mainland indices declined with Shanghai Composite, Shenzhen Composite and CSI 300 reported -5.2%, -5.9% and -6.2% loss respectively. Meanwhile, Hang Seng China Enterprise Index and Tech Index declined with -8.2% and -8.1% loss respectively. Sector wise, Energy, Health Care and Consumer Staples outperformed while Materials, Industrials and Consumer Discretionary underperformed.

# Currency

**USD**

The U.S. dollar (USD) strengthened against the major currencies in August, as data strength of late underscored the economy's resilience boosting soft landing hopes. Currencies, such as the Norwegian Korne ("NOK") and the Swedish Krona ("SEK"), which outperformed others in the prior month, were seen on the back foot against the greenback strength. Meanwhile, the Euro ("EUR") and the British Pound ("GBP"), amid high inflationary pressure, fared better than its G10 peers, albeit falling by 1.4% and 1.3% against the greenback, respectively. To close the month, the U.S. Dollar index (DXY) rose by 1.7% to 103.619.

**Euro**

The Euro (EUR) depreciated against the greenback in August. Continued deterioration in manufacturing and servicing sectors outlook, alongside more balanced expectation towards the European Central Bank's (ECB) policy against its global peers, were seen as the major drivers behind weaker EUR, which depreciated by 1.42% against the greenback to 1.0843 as of the end of August.

**Sterling**

British Pound (GBP) was on the back foot against the greenback strength in August. Lingering growth concerns, overshadowing the stickily high inflation dynamic, provided the backdrop for weaker GBP, which depreciated by 1.28% over the month to 1.2673 against USD.

**Yen**

Japanese Yen (JPY) weakened in August. Dovish rhetoric by officials led by Governor Ueda at the Bank of Japan (BoJ), alongside higher U.S. Treasury yields that widened rate differentials between Japan and the West, provided the backdrop for JPY depreciation, despite the surprised tweak to the Yield Curve Control (YCC) policy in July. The currency depreciated to 145.54/USD, posting a monthly loss of 2.2% against the greenback.

**RMB**

Chinese Renminbi strengthened slightly on a trade-weighted currency basis, with the CFETS RMB Index gaining 0.34% in August. However, the currency remained on the back foot against the greenback, amid looming concerns over the Chinese economy with worsened balance of payments and policy divergence against the West as the backdrop. Onshore Renminbi (CNY) and offshore Renminbi (CNH) posted a monthly loss of 1.6% and 1.7% against the greenback, respectively.

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