

The Recovery Can Still Rely on Europe's Support

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 9/20	NAHB Housing Market Index	Sep	73	▼	75
Tue 9/21	Building Permits	Aug	1593 K	▼	1635 K
Tue 9/21	Housing Starts	Aug	1540 K	▲	1534 K
Wed 9/22	Existing Home Sales	Aug	5.81 M	▼	5.99 M
Wed 9/22	FOMC Monetary Policy Meeting	Sep	0.0% - 0.25%	—	0.0% - 0.25%
Thu 9/23	Markit Manufacturing PMI (Preliminary Estimate)	Sep	60.0	▼	61.1
Thu 9/23	Markit Services PMI (Preliminary Estimate)	Sep			55.1
Fri 9/24	New Home Sales	Aug	714 K	▲	708 K
Europe					
Tue 9/21	OECD Interim Economic Outlook		--		--
Thu 9/23	Bank of England Bank Rate	Sep	0.1%	—	0.1%
Thu 9/23	EZ Markit Manufacturing PMI (Preliminary Estimate)	Sep	60.3	▼	61.4
Thu 9/23	EZ Markit Services PMI (Preliminary Estimate)	Sep	59.0	—	59.0
Thu 9/23	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Sep			60.3
Thu 9/23	U.K. Markit Services PMI (Preliminary Estimate)	Sep			55.0
Asia Pacific					
9/20-9/21	China and Japan Markets Closed		--		--
Wed 9/22	Hong Kong Markets Closed		--		--
Wed 9/22	PBOC Monetary Policy Meeting	Sep	--		--
Wed 9/22	BOJ Policy Rate	Sep			-0.1%
Fri 9/24	Japan Consumer Price Index	Aug	-0.4% Y/Y	▼	-0.3% Y/Y
Fri 9/24	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Sep			52.7
Fri 9/24	Jibun Bank Japan Services PMI (Preliminary Estimate)	Sep			42.9

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- The taper announcement is not expected at **Wednesday's FOMC meeting**, though it likely remains on track to begin by year-end. Updated projections and the first 2024 dot will indicate the pace of tightening being considered.
- We will watch **September PMIs** to gauge the impacts from supply constraints and Delta.

Europe

- **Markit flash PMIs** for September will complete Q3 high-frequency activity data. Small declines are expected and would signal a Q3 GDP print north of 7% annualized.
- The **BoE meeting** will show how it manages unusually strong inflation, driven by Brexit-related labor shortages, surging energy prices, and COVID disruptions.

Asia Pacific

- The **BOJ** will likely maintain the status quo while focus will be on the **Jibun/Markit flash PMIs** for the services industry, particularly as new cases have declined since mid-August.
- The **PBOC** is expected to refrain from any broad-based easing, but the prospect of another reserve requirement ratio cut is rising.

What This Week Means For Markets

While uncertainty around COVID and tapering are maintaining the risk-off sentiment, the U.S. 10-year yield jumped immediately after the stronger-than-expected U.S. retail sales print. In China, concerns about an Evergrande collapse and continued regulatory crackdowns weighed heavily on Chinese risk assets. In Japan, optimism about further fiscal spending from the post-Suga administration boosted equities. PMIs next week will likely show if we can expect further upside in the reopening trade or whether the cycle has moved to a slowdown stage, implying a moderation of returns for risk assets. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
EU Finance Ministers in no Mood for Austerity

EU finance ministers launched discussions on the future of the Stability and Growth Pact (SGP) at the ECOFIN meeting September 10 and 11, reviewing rules aimed at ensuring fiscal restraint in the EU. The SGP was suspended when COVID hit in order to avoid a repeat of 2009, when rules limited governments' ability to spend and sustain the economy amid a sharp global recession. Crucial for the future of European fiscal policy, EU finance ministers seem intent on avoiding reinstating these rules too early, as premature action would hurt the recovery. Europe may never have her Hamiltonian moment with the setting of permanent fiscal transfers, but she should also avoid a rerun of 2009—already a major improvement.

The [official discussion paper](#) frames the debate within these key questions: 1) is there sufficient flexibility under SGP to allow enough adjustment time to support growth? 2) is the flexible use of current fiscal framework enough to allow fiscal policy to support the recovery and restructure our economies and societies? If it's true that who frames the questions determines the answers, a return to short-sighted fiscal rules and premature synchronized austerity in the EU is out of question.

European Data Beat Expectations, for Good & Bad

EZ industrial production grew 1.5% in July, comfortably above the 0.6% consensus, and shows signs of stabilizing around 7% Y/Y, considerably faster than pre-COVID. As the first hard data for Q3 activity, the print bodes well for GDP, which should grow around 7-8% annualized in the quarter, bringing EZ 2021 GDP growth close to 6%, our above-consensus call. For the third time in four months, U.K. inflation also surprised notably on the upside (3.2% vs. 2.9% consensus), on the back of a generalized acceleration in prices aggravated by labor and supply side disruptions from Brexit and COVID. This puts the BoE in a tight spot, having to manage a still-recovering economy from one of the biggest drops seen in Europe, as well as surging inflation. No policy change is expected at next week's meeting, but the debate between temporary and persistent inflation theorists will likely heat up. Meeting minutes in two weeks should be telling.

Stronger U.S. Spending & Cooling Price Pressures

In the U.S., August brought stronger-than-expected spending and cooling inflation, adding support for our central scenario. Retail sales rose 0.7% M/M in August, above consensus for a 0.7% decline. While the July data was revised lower, sales show that consumers continue to spend even as COVID cases rise.

Sectors that benefited during the pandemic, such as nonstore and furniture and home furnishings, rose in August, while sales at restaurants and bars were unchanged; this suggests Delta's spread is impacting spending patterns, even as overall spending remains strong. Back-to-school shopping and excess savings should support spending in September.



Source: *Haver*. As of September 16, 2021.

U.S. inflation eased in August, as the headline CPI moderated from 5.4% Y/Y in July to 5.3% in August and the core index cooled from 4.3% Y/Y to 4% Y/Y. Easing in reopening categories such as airfares and used car prices drove the moderation. As COVID concerns fade again, there could be some volatility in reopening sectors, but pressures continue to appear transitory.

Delta's Spread Takes a Toll on China Consumption

August retail sales in China slowed notably—decelerating 2.5% Y/Y (from 8.5% prior)—while service output also took a hit, growing only 4.8% Y/Y (from 7.8% prior); the Delta variant's spread and containment measures likely weighed on economic activity. Production and investment were less affected but softer than expected. Industrial production in August slowed to 5.3% Y/Y (from 6.4% prior), weighed down by chip shortages for auto production and carbon-reduction initiatives in energy-intensive industries. While fixed asset investment also moderated to 8.9% (from 10.3% prior), manufacturing and private investment continue seeing upward momentum, with the government bond issuance increase yet to translate to infrastructure investment.

The latest outbreak in the Fujian province could continue weighing on consumer activity, especially amid the Mid-Autumn Festival on September 21—China's second-most important cultural holiday and a driver of tourism and consumer spending. China shows no signs of abandoning its zero-COVID strategy, even with sporadic outbreaks seemingly the new normal.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.05%	0 bps	0 bps	4 bps	4 bps	-5 bps	-2 bps
3 Month USD Libor	0.12%	0 bps	0 bps	0 bps	-6 bps	-13 bps	-12 bps
3 Month Euribor	-0.54%	0 bps	1 bps	0 bps	-1 bps	-6 bps	0 bps
3 Month U.S. T-Bill	0.04%	0 bps	-1 bps	2 bps	1 bps	-7 bps	-4 bps
2-Year U.S. Treasury	0.21%	0 bps	0 bps	5 bps	7 bps	8 bps	10 bps
10-Year U.S. Treasury	1.31%	-3 bps	0 bps	-20 bps	-30 bps	63 bps	39 bps
10-Year German Bund	-0.32%	1 bps	15 bps	-8 bps	2 bps	17 bps	26 bps
10-Year U.K. Gilt	0.67%	4 bps	10 bps	-9 bps	-14 bps	46 bps	47 bps
10-Year JGB	0.03%	-1 bps	1 bps	0 bps	-7 bps	2 bps	1 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.87%	N/A	0.4%	0.3%	1.7%	-2.1%	-1.2%
Barclays Capital U.S. TIPS	1.01%	N/A	0.3%	0.7%	3.1%	6.5%	4.7%
Barclays Capital U.S. Aggregate	1.42%	35	0.4%	0.4%	1.5%	0.0%	-0.4%
Barclays Capital Global Aggregate	1.05%	33	0.4%	0.0%	0.2%	0.6%	-2.2%
Barclays Capital U.S. ABS	0.56%	30	0.0%	0.0%	0.2%	0.8%	0.4%
Barclays Capital U.S. MBS	1.69%	33	0.1%	0.2%	0.6%	0.1%	-0.2%
Barclays Capital U.S. Corporate Investment Grade	1.97%	86	0.7%	0.7%	2.3%	2.7%	0.3%
BAML Euro Corporate Investment Grade	0.25%	84	0.0%	-0.6%	0.5%	2.0%	0.1%
Barclays Capital U.S. Corporate High Yield	3.75%	277	0.3%	1.3%	1.9%	10.9%	5.0%
BAML European Currency High Yield Non-Financial	2.50%	295	0.3%	0.5%	1.0%	8.6%	4.1%
CS U.S. Leveraged Loans	4.75%	441	0.2%	0.7%	1.0%	7.6%	4.4%
CS Western European Leveraged Loans Non-USD	4.15%	406*	0.1%	0.5%	0.9%	7.3%	3.9%
JPM CEMBI Broad Diversified	4.20%	303	0.1%	0.6%	1.4%	6.0%	2.4%
JPM EMBI Global Diversified	4.80%	344	0.3%	1.3%	1.7%	4.3%	1.0%
JPM GBI-EM Global Diversified	5.10%	N/A	0.0%	0.8%	-1.8%	2.5%	-3.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,480.70	1.27%	-0.7%	0.4%	5.9%	33.7%	20.5%
Euro STOXX 600 (Local)	463.91	2.72%	-0.8%	-2.5%	1.1%	25.1%	16.3%
U.K. FTSE 100 (Local)	7,016.49	3.48%	-1.1%	-2.8%	-2.2%	14.9%	8.6%
Japan Nikkei 225 (Local)	30,511.71	1.44%	1.1%	9.1%	3.6%	30.1%	11.2%
China Shanghai Composite (Local)	3,656.22	1.95%	-0.5%	4.0%	2.8%	10.9%	5.3%
MSCI AC World (Local)	737.08	1.75%	-0.9%	0.3%	3.9%	30.1%	16.9%
MSCI Emerging Markets (Local)	1,288.68	2.27%	-1.9%	0.4%	-3.8%	16.6%	2.7%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	545.01	3.1%	3.9%	2.9%	10.8%	57.9%	33.1%
WTI Crude (\$/bbl)	72.61	4.7%	6.2%	0.8%	11.1%	89.6%	50.2%
Copper (\$/lb)	4.40	4.1%	0.4%	1.5%	6.2%	43.8%	25.3%
Gold (\$/oz)	1,796.95	0.6%	1.3%	-3.7%	4.3%	-7.8%	-4.8%
U.S. Dollar Index	92.55	-0.1%	0.0%	2.2%	0.8%	-0.5%	2.9%
Euro (USD/EUR)	1.18	0.1%	0.2%	-2.5%	-0.8%	-0.3%	-3.4%
British Pound (USD/GBP)	1.38	0.7%	-0.2%	-1.8%	-0.2%	7.6%	1.2%
Japanese Yen (Yen/USD)	109.30	-0.9%	-0.5%	-0.7%	0.2%	3.6%	5.9%
Chinese Yuan (CNY/USD)	6.44	-0.4%	-0.7%	0.5%	-1.0%	-5.0%	-1.6%

Source: FactSet and Bloomberg. As of September 15, 2021.

Note: *As of September 9, 2021.

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