



Weekly Market Commentary (week ending Nov 3) 07.11.2023

Last week, capital markets were solid, with the exception of energy prices, which fell. Government bonds rallied, with longer maturities outperforming; the 30-year US Treasury fell 30 basis points (bps) over the week.

Corporate credit spreads tightened, equities melted, especially in the US, and the US dollar depreciated against most currencies. A short-term relief rally - probably due to a dreadful October for investors - probably led to bearish positioning that stretched? Or are strong seasonal variations kicking in? November is historically a positive month for investors; as an indicator of seasonal variations, the S&P has generated positive returns in 9 of the last 10 years, with November's ten-year average being the highest calendar monthly average. Or is it the long-awaited price recovery following the monetary tightening cycle of the major central banks?

China's Purchasing Managers' Index data confirmed that further policy easing may be necessary. Although both the official index and the Caixin (PMI) composite index remained in expansionary territory, their manufacturing components contracted and the services components came in below expectations - with investors expecting a further 50 basis point cut in the reserve requirement ratio before the end of the year. In Europe, the European Central Bank's dovish pause of last week was confirmed by incoming data; third-quarter growth was revised down to -0.1% q-o-q and consumer prices fell more than expected, with overall consumer prices now rising by just 2.9% y-o-y, down from the peak of 10.7% y-o-y reached in October 2022. For the second month running, the Bank of England left its key rates unchanged at 5.25%. The Bank's Governor, Andrew Bailey, explained at the press conference that interest rates "will remain at their current level for an extended period". The overnight interest rate swap market now estimates that the next key rate adjustment will be a cut in July 2024.

However, the US had the biggest influence on the markets this week, as the Federal Open Market Committee kept interest rates unchanged, with Chairman Powell sounding optimistic at his policy adjustment press conference: "The slowdown gives us, I think, a better idea of what more we need to do, if we need to do more. The dovish angle coincided with a series of weaker employment data and weaker-than-expected ISM manufacturing and services indices.

With a few exceptions in emerging markets such as Turkey, Russia and perhaps the Philippines, the central bank policy tightening cycle appears to be over. Economists are likely to devote more energy to predicting the order in which the major central banks will blink and ease policy first.



The Bank of Japan (BOJ), which has kept its key rates unchanged at -0.1% throughout the global tightening cycle, is still not convinced that domestic inflation is sustainable and stable at 2%. At its meeting last week, the BOJ relaxed its policy of controlling the yield curve by removing the upper limit of 1% for 10-year JGBs. At the same time, the government, facing low approval ratings due to the rising cost of living, announced a US\$113 billion stimulus package to support low-income households (and the government's reputation). Could the BOJ finally be starting to tighten policy just as the other major central banks are easing? The Japanese yen, at multi-decade lows, should act as a safety valve if this happens. Or will Japanese rates remain at -0.1%, with the BOJ right to say that inflation in Japan is unsustainable at 2%?

Chart of the week: Yen over 2 decades



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