

15 September 2023

# Charts of the Week

A HAVER ANALYTICS commentary and podcast

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15<sup>TH</sup> SEPTEMBER, 2023

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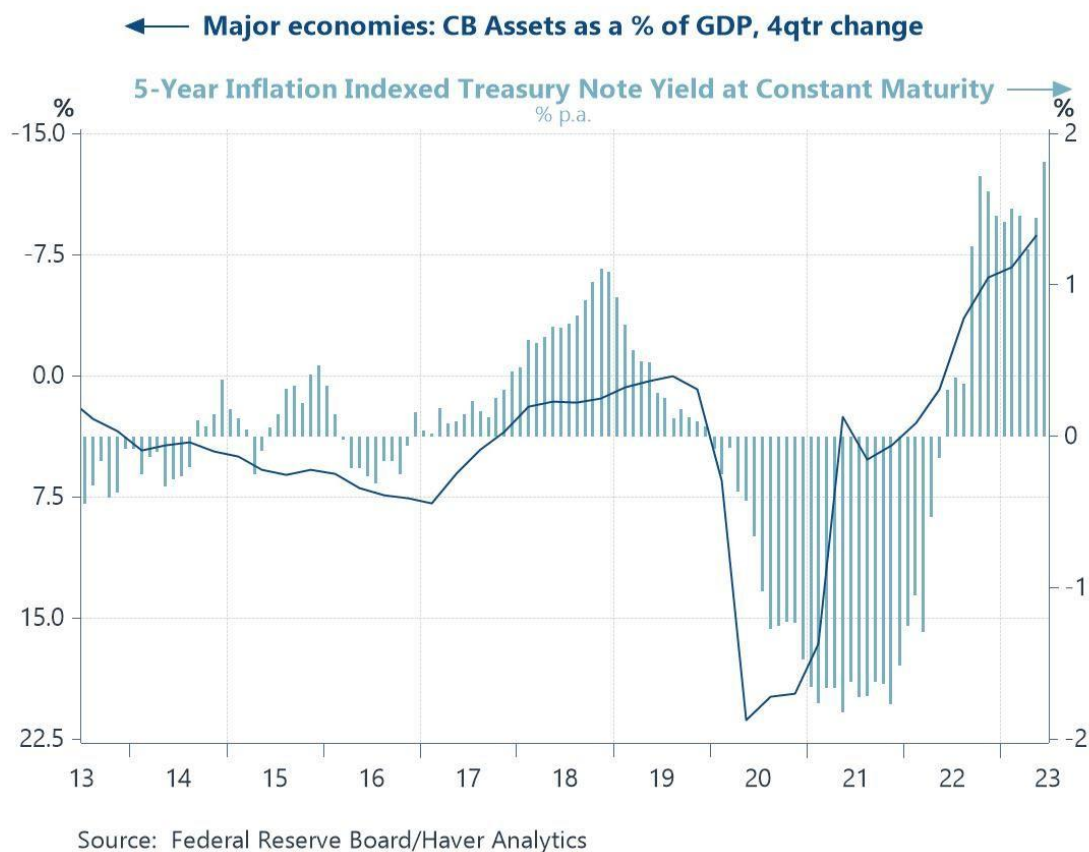
## Summary

Following this week's policy decision from the ECB, investors will likely remain focused on central banks in the coming days with the Fed, the BoJ and the BoE all due to meet next week. With that in mind, we look at some of the key considerations for these policymakers in our charts this week. To kick off we look at the impact of tighter monetary policy – and quantitative tightening policies in particular – on longer-term real yields in the United States (chart 1). We turn next to some perspectives on the global growth and inflation consensus for 2024 from our latest Blue Chip survey of economic forecasters (in charts 1 and 2). Given its significance for the world economy, China's slowdown and the impact on its major trading partners is then given some airtime (in chart 4). For the BoE more specifically, we look next at the evidence that's been accumulating to suggest the UK labour market is feeling some strain (chart 5). Finally, and with much discussion doing the rounds about the potential impact of a new currency for the so-called group of BRICS economies, we look at the still-high weight of the US dollar in the reserve holdings of the world's central banks (in chart 6).

## Quantitative tightening and real yields

Although there has been ample discussion about the impact of higher policy rates on longer-term real (inflation-adjusted) yields of late, arguably insufficient attention has been paid to the role of balance sheet policies. As chart 1 below suggests, the accumulation of financial securities on those balance sheets when central banks were enacting quantitative easing programmes– until recently – has helped to hold US real yields at very subdued (and often negative) levels through much of the past decade. Other factors (e.g. excess global savings) were admittedly also important. Still, with quantitative easing programmes now reversing and morphing into quantitative tightening campaigns it is hardly a surprise that real yields have climbed over the last few months, as evidenced in chart 1 below.

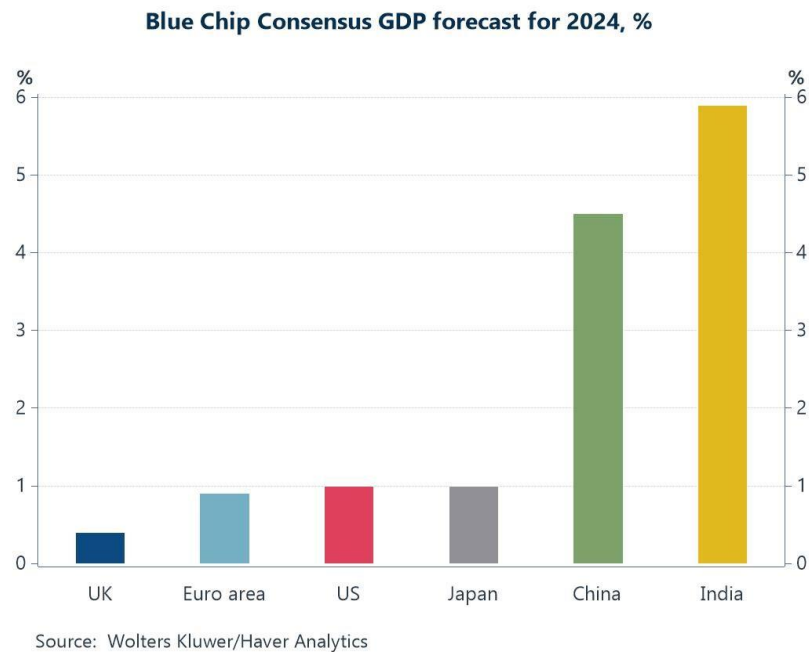
Chart 1: Changes in central banks’ balance sheets and US 5-year real yields



## The global growth consensus for 2024

The latest September Blue Chip survey of economic forecasters suggests that soft landing scenarios for the world economy have remained the mainstream consensus view. Although economic growth in many of the major advanced economies (the US, Europe and Japan) is expected to be very subdued next year, outright contractions in output are expected to be avoided (although the UK comes close). China’s projected growth rate, for the record, was marked down to 4.5% for 2024 (from 4.7% in the August survey). India, however, is expected to grow by 5.9% next year, a forecast that’s been little changed over the last 9 months (chart 2).

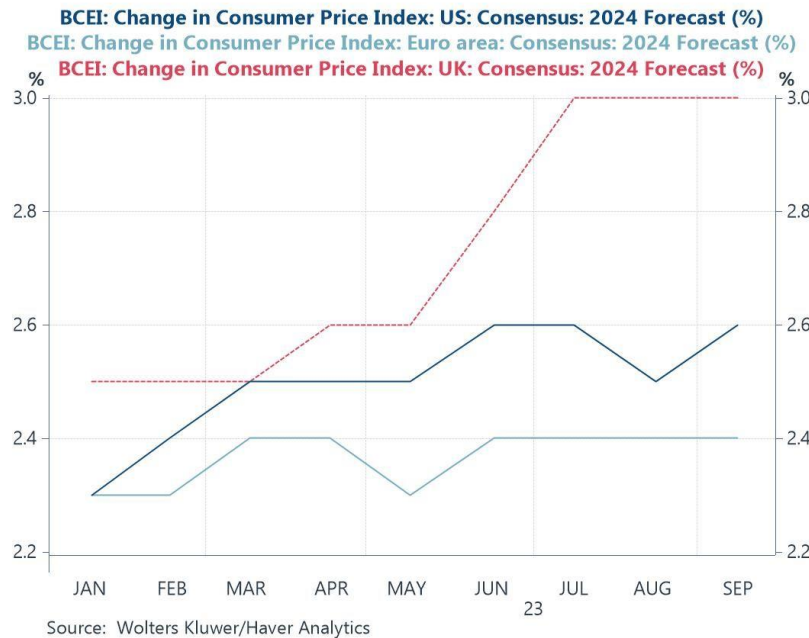
Chart 2: Consensus GDP forecasts for 2024 from September’s Blue Chip survey



The inflation consensus for 2024

The inflation consensus for next year is arguably more concerning for central banks. As chart 3 below suggests consensus CPI forecasts have been little-changed in recent months in the US and Europe and on the whole are higher than when these forecasts were pulled together for the first time last January (and particularly for the UK). That lack of progress in pulling these year-ahead inflation expectations back to more target-friendly levels will not have gone unnoticed and could keep monetary policy tighter for longer in the period ahead.

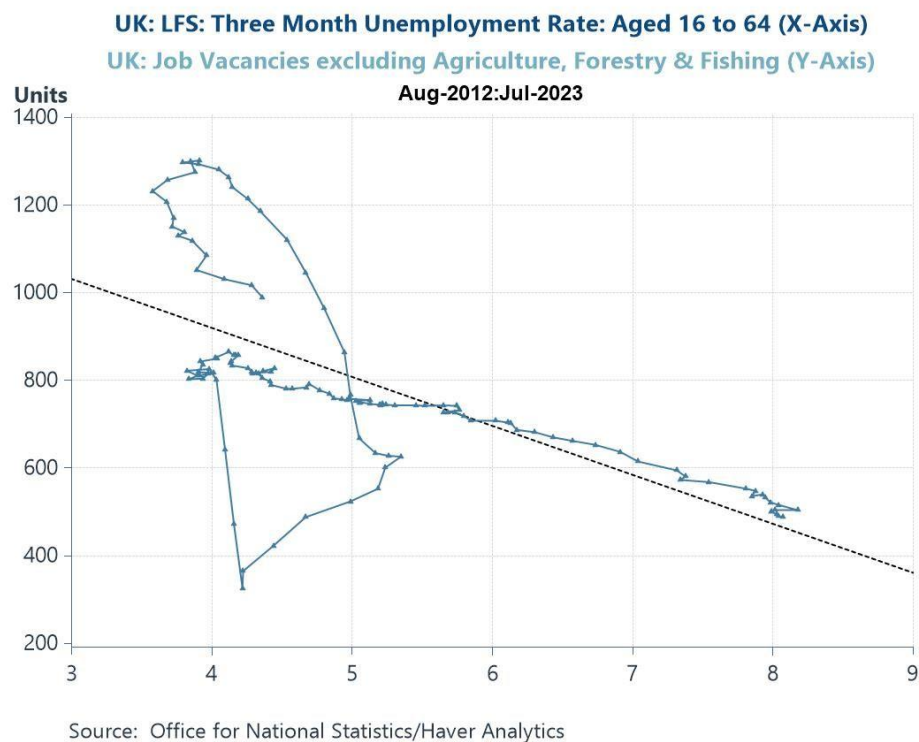
Chart 3: Consensus inflation forecasts for 2024 from September’s Blue Chip survey



## The UK labour market

This week’s labour market data from the UK were arguably more helpful for the BoE in its inflation-fighting campaign. The data specifically revealed that wage growth is slowing, that job vacancies are falling, and that employment is contracting. A so-called Beveridge curve analysis - in chart 4 below which shows the relationship between unemployment and vacancies - further suggests that the UK labour market is exhibiting less dysfunction and has taken a further step back toward pre-COVID behaviour.

Chart 4: A Beveridge curve relationship of the UK labour market (unemployment versus vacancies)

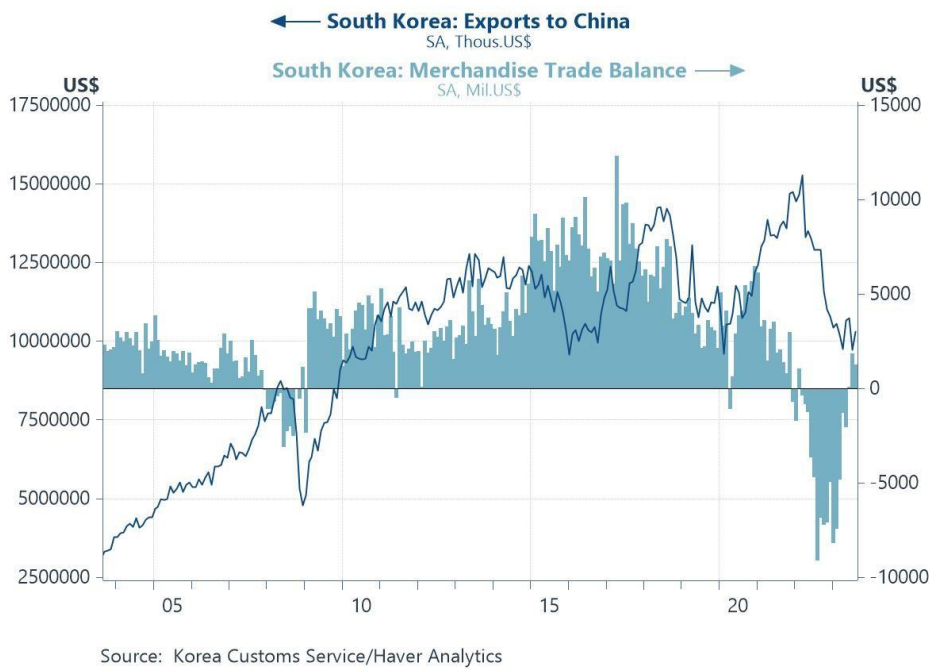


## The impact of a slowing China on South Korea

China’s slowdown and its impact on the world economy clearly remains a hot macro topic which is why this week’s trade data from South Korea will not have gone unnoticed. Exports to China declined by than 20% y/y in August which, in turn, was a key reason why total exports were down by 8.4%y/y. As chart 5 also reveals, the healthy surplus position that South Korea ran in its trade accounts for much of the past decade has more-or-less disappeared in more recent months, with China’s slowdown again a key factor that explains why.

Chart 5: South Korea: Slowing export growth to China and the trade balance

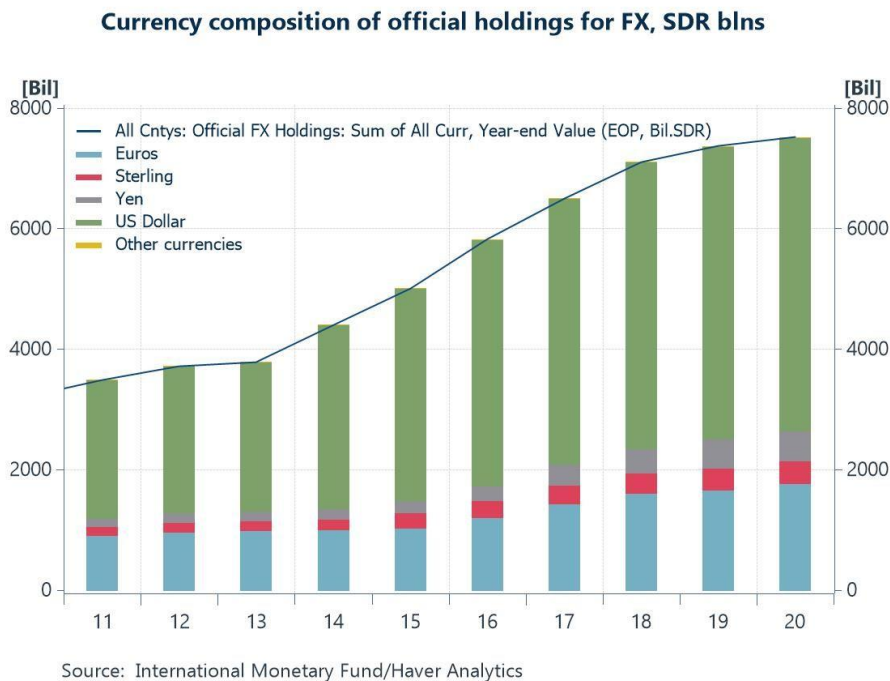




## The US dollar and FX reserves

The potential enlargement of the BRICS (Brazil, Russia, India, China, and South Africa) to encompass the likes of Iran and Saudi Arabia have raised questions about the role of the US dollar, not least because a new currency for those emerging economies is being contemplated at the same time. Notwithstanding the political challenges that the creation of a new currency would bring, it's worth bearing in mind that threats to the dollar's role in the global financial system are not new. And despite those threats the US dollar's status as the world's reserve currency of choice actually improved in the 10 years from 2010 to 2020 (see chart 6).

Chart 6: The currency composition of official holdings of foreign exchange



## *ABOUT THE AUTHOR*

Haver Analytics is pleased to bring [Andrew Cates's](#) commentaries on the state of the global economy to its clients.

Andy Cates has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

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