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Charts of the Week

A Haver Analytics commentary and podcast



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Written by Andy Cates

Seeing Red and Green

Some inflation friendly economic data coupled with a dovish pivot from the ECB last week have seen a trend toward lower yields re-establish itself in bond markets in recent days. Some push back from the Fed this week against expectations that it could begin cutting policy rates as early as March, has threatened to reverse that downward trend again. Nevertheless, there was equally little pushback to the generic idea that the Fed will shortly pivot toward a looser monetary policy in coming months. And with the incoming data typically reinforcing soft landing narratives (see charts 1 and 2), equity markets have remained resilient. The case for a soft landing for the world economy was also reinforced this week by stronger-than-expected PMI readings in parts of Asia, and, in India in particular (see chart 3). That global semiconductor sales are rebounding has probably helped those economies that are exposed to that sector (chart 4). Still, downside risks abound. This week's PMI surveys, for example, also revealed that manufacturers' delivery times are lengthening again in many developed economies, no doubt, in part, because of the instability in the Middle East (chart 5). In a broader sense, policymakers could also face significant challenges in maintaining economic and financial stability in coming month if they continue to pursue quantitative tightening campaigns (see chart 6).

Data surprises

As noted, incoming data have reinforced soft landing narratives over the past few days. This can be seen in chart 1 showing the spread between the Citigroup G10 growth surprise index and the inflation surprise index. That spread has been climbing thanks to a raft of positive global growth surprises and negative inflation surprises. And, as the chart illustrates, that combination is typically greeted positively by equity investors.

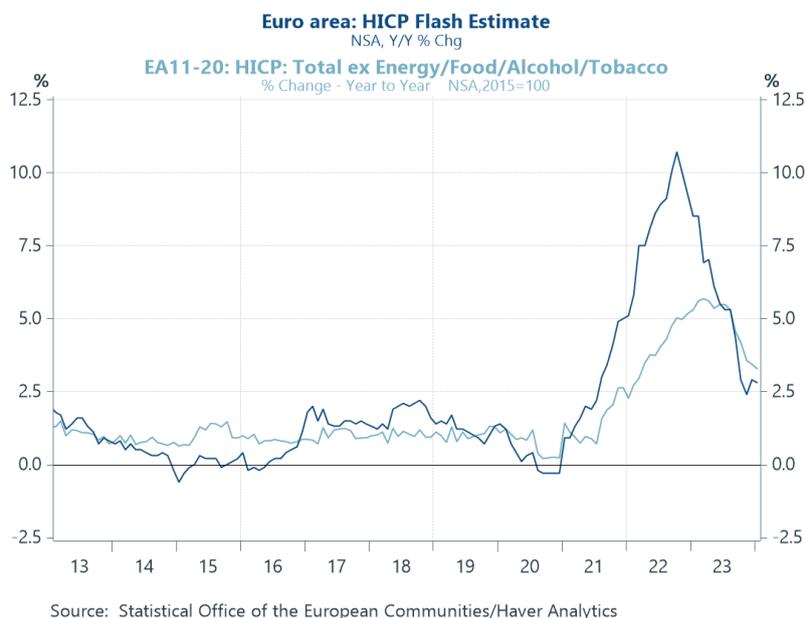
Chart 1: Growth and inflation surprises in the G10 versus global equity markets



Euro area inflation

This week's flash CPI data for the euro area were a little firmer than expected, although only marginally. The bigger point is that further progress was made toward attaining the ECB's 2% inflation target. Headline CPI inflation specifically dropped to 2.8% y/y in January from 2.9% y/y in December. And core CPI inflation also fell, to 3.3% from 3.4%.

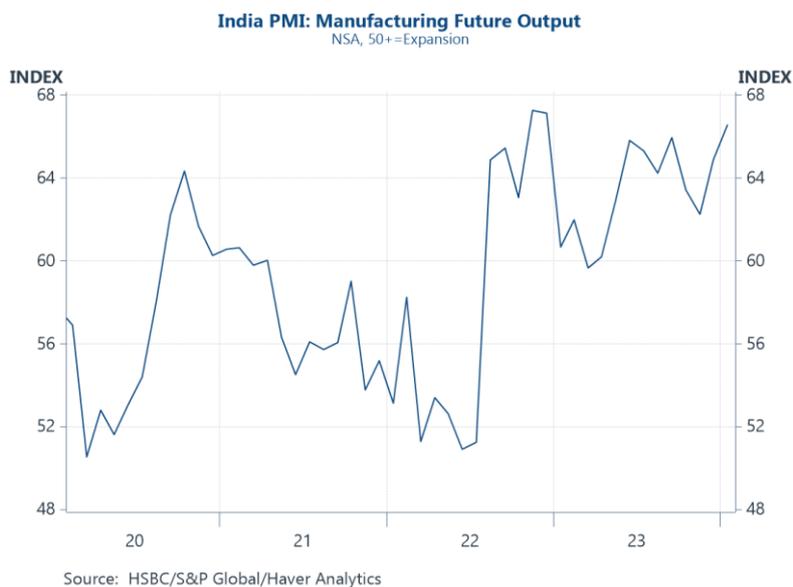
Chart 2: Euro area flash CPI inflation



The Indian economy

This week's PMI surveys revealed a broadly-based improvement in manufacturing activity in several major Asian (ex China) economies. As our next chart suggests, that might be, in part, because semiconductor sales have picked up pace. Another standout in the region from these surveys is the improvement that's being registered in India's economy. The future output index in the manufacturing survey, for example, climbed to a multi-month high in January and stands not too far shy of its record high.

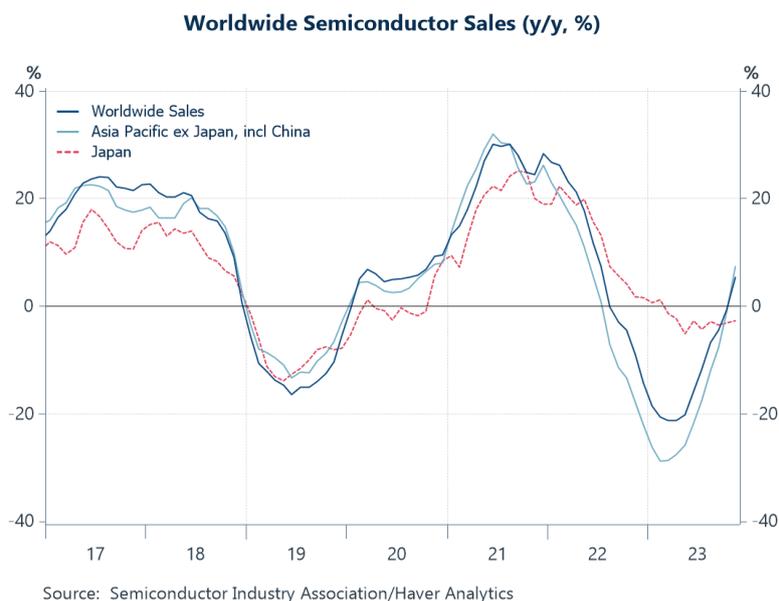
Chart 3: India's manufacturing PMI: future output index



Semiconductor sales

Semiconductor sales have certainly taken a turn for the better in recent weeks. The data specifically reveal that worldwide semiconductor sales climbed by 5.3% y/y in November. The increase was driven by growth of 7.4% in Asia (excluding Japan).

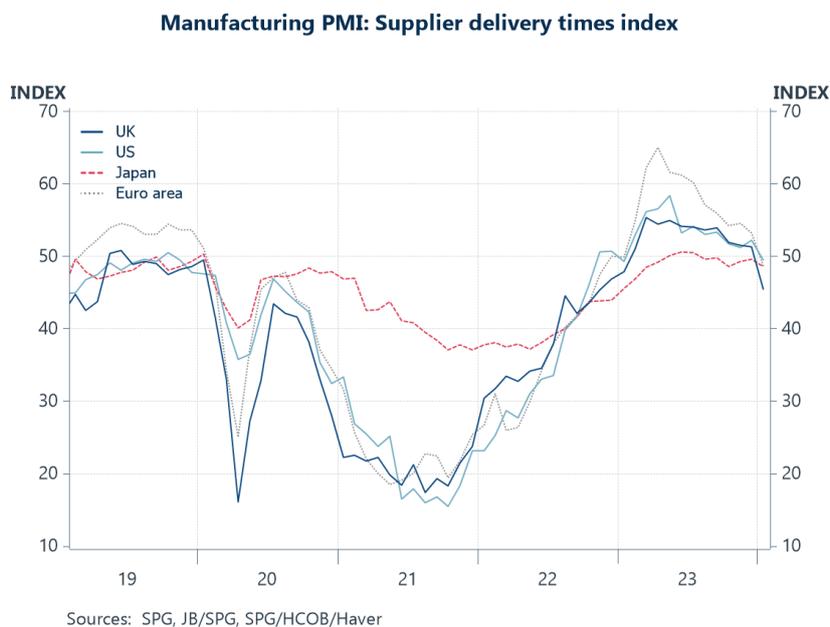
Chart 4: Global semiconductor sales



Supply chain bottlenecks

On a more downbeat note the recent disruption of Red Sea shipping routes is now generating some supply side instability. That at least was the message from January's PMI data which showed that manufacturers are reporting lengthening delivery times for the first time in several months. Still, some economies were more affected than others. The UK, for example, was worst hit, with lead times lengthening to a degree not seen since September 2022. But longer deliveries were also reported in the US, Euro area and Japan (chart 5).

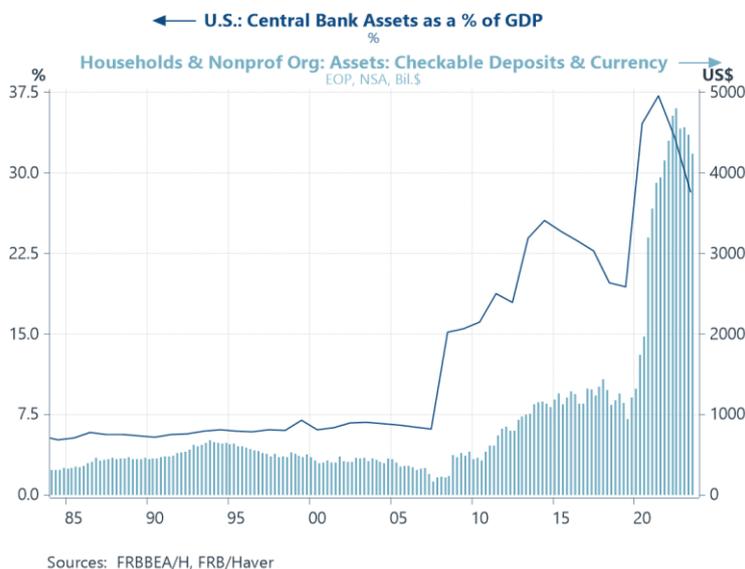
Chart 5: PMI surveys: Supplier delivery times in the US, Euro area and Japan



The Fed's balance sheet

One reason, aside from loose fiscal policy, for why the US economy has remained resilient in recent months concerns household balance sheets. These have remained surprisingly well-insulated from higher interest rates and tighter financial conditions. Although cash reserves are now dwindling they remain high relative to the norms of the past (see chart 6).

Chart 6: The Fed's balance sheet versus the US household sector's cash holdings



And this is offering another layer of protection against financial headwinds. Still, with the Fed likely to continue pursuing a quantitative tightening campaign (i.e. reducing the financial assets on its balance sheet) even as policy rates are lowered, some instability may emerge. It's of note here that some of this flush cash position reflects abundant liquidity in some of those pockets of the financial sector (e.g. hedge funds and private equity companies) which are included in these household sector accounts.

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.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

Data featured in this commentary:

Chart 1: Growth and inflation surprises in the G10 versus global equity markets

V110CSI@INTDAILY
S001DJW@INTDAILY

Chart 2: Euro area flash CPI inflation

P023HFY@EUDATA
P023HOEF@EUDATA

Chart 3: India's manufacturing PMI: future output index

N534MEX@MKTPMI

Chart 4: Global semiconductor sales

USNISCRT@GLSECTOR
USNISCRP@GLSECTOR
USNISCRJ@GLSECTOR

Chart 5: PMI surveys: Supplier delivery times in the US, Euro area and Japan

S112MD@MKTPMI
H111MMD@MKTPMI
H111MMD@MKTPMI
S158MD@MKTPMI
S023MD@MKTPMI

Chart 6: The Fed's balance sheet versus the US household sector's cash holdings

A111FAPG@G10