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Charts of the Week

A HAVER ANALYTICS® commentary and podcast

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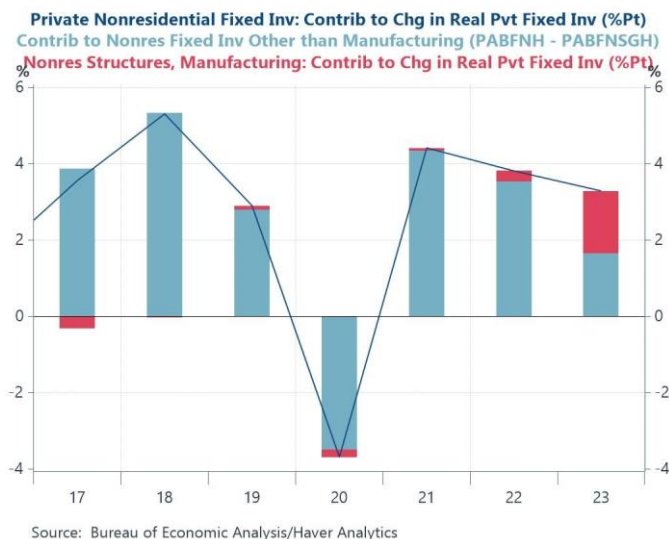
The equity market rally that kicked off in late October has recently taken a breather. Nonetheless, an abundance of optimistic narratives continue to support the rally's rationale and prospects for an extension in the near term. This week's charts provide some insights into some of these narratives. They include, for example, a renaissance in US manufacturing investment (chart 1), optimism about AI and its impact on the semiconductor sector, (chart 2), positive global growth surprises (chart 3), and receding inflationary pressures (chart 4). A more favourable backdrop for equities is another factor that has supported Japan's stock market in recent weeks (chart 5). Finally, recent rallies in other assets, including cryptocurrencies and gold, hint at robust financial market liquidity potentially driving these gains as well (chart 6).

US manufacturing investment

The unexpected resilience of the US economy in the face of much tighter domestic monetary policy has been a key factor driving equity markets to new highs in recent months. There are several reasons for this resilience but some key pieces of US legislation arguably played a pivotal role. With their focus on re-building infrastructure, advancing clean energy initiatives, and expanding the domestic semiconductor

industry, this legislation helped shore up private sector investment across various manufacturing sectors, including semiconductors, clean energy components, electric vehicles, and batteries. Manufacturing investment accordingly contributed heavily to the broader resilience of aggregate business investment in the US economy last year (see chart 1 below).

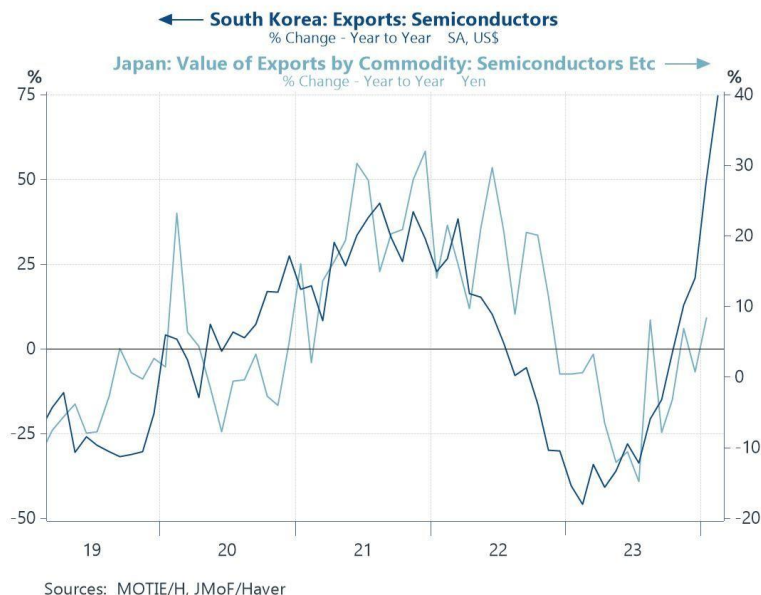
Chart 1: The contribution of manufacturing investment to US business investment growth



Semiconductor trade

The semiconductor sector has more generally seen a renaissance in recent months, spurred in part by optimism about the benefits from harnessing AI. Semiconductor exports in South Korea, for instance, jumped by nearly 75%/y/y in February (see chart 2). Japan's semiconductor exports, in the meantime, advanced by 8.4%/y/y in January. These developments have been underpinned by increased global demand for high-performance semiconductors, in particular, which are a key component of AI infrastructure.

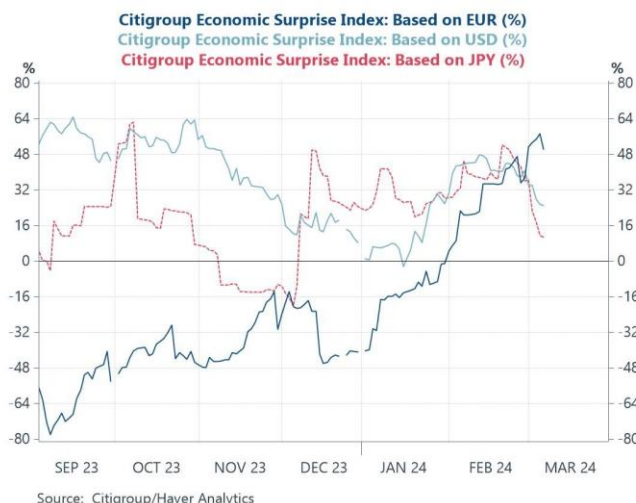
Chart 2: Semiconductor exports in South Korea and Japan



Growth surprises

Broader optimism about the global growth outlook has additionally buoyed financial market sentiment. Incoming data from the euro area, for example, have surprised consensus forecasts on the upside far more frequently in recent weeks. That contrasts with much of last year when incoming data had surprised consensus expectations on the downside.

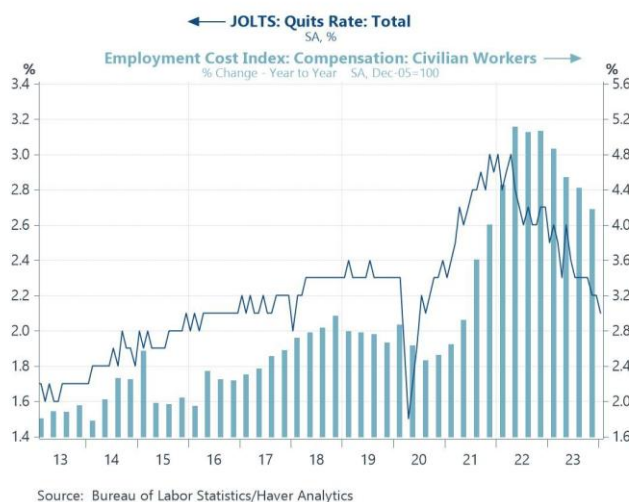
Chart 3: Citigroup's economic surprise index for the euro area, Japan and the US



The US labour market

One of the more striking features of those observations above is that equity markets appear to be now more driven by growth expectations, not inflation (or interest rate) expectations. The past few weeks, for example, have seen firmer-than-expected US inflation data and reduced optimism about the scope for a swift pivot from the Fed (and other central banks) toward looser monetary policy. That being said, inflation – and its fundamental drivers – are arguably still heading the right way. This week's JOLTS report, for instance, suggested fewer job vacancies and reduced quit rates in the US labour market in January. And that supports the idea, in turn, that wage (and broader) inflation pressures ought to ease in the immediate months ahead (see chart 4).

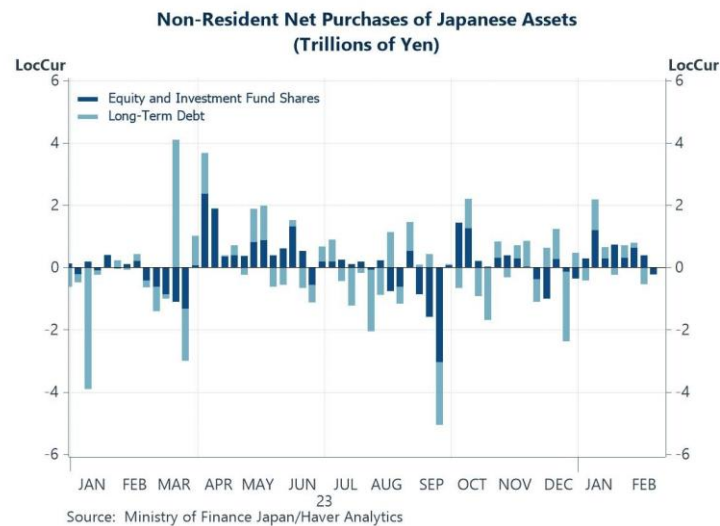
Chart 4: US labour market quit rate versus labour compensation growth



Japan's foreign investor flows

Japan has seen the best performing major stock market so far this year. And one reason for this is that foreign investors have been largely supportive of Japanese equities, with net inflows of about JPY 3.6 trillion (see chart 4). The attractiveness of Japanese equities to overseas investors has likely been boosted by currency effects, as a weakening yen made the market attractive. Other reasons, however, concern corporate sector reforms, the market's exposure to technology, and reasonable valuations.

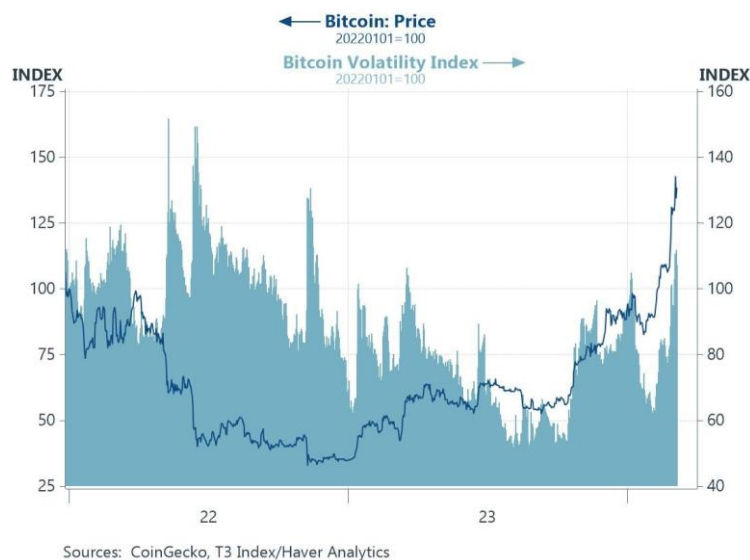
Chart 5: Non-resident purchases of Japanese assets



Cryptocurrencies

Another notable feature of the rally in equity markets in recent weeks has been broader rally in other financial assets, including cryptocurrencies such as Bitcoin (see chart 6). That can also be attributed to several factors that collectively contribute to its increasing price, including limited supply and more significant investment from institutional and retail investors. Still, the phenomenon of 'fear of missing out' (FOMO) among retail investors may have also played a significant role in the current rally, against an underlying backdrop where global financial conditions arguably remain relatively accommodative.

Chart 6: Bitcoin prices and Bitcoin volatility



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: The contribution of manufacturing investment to US business investment growth

Series 1: PABFNH@USNA [Pvt Nonres Fxd Inv: Contrib to Chg in Real Pvt Fxd Inv (%Pt)]

Series 2: (PABFNH@USNA - PABFNSGH@USNA) [Pvt Nonres Fxd Inv: Contrib to Chg in Real Pvt Fxd Inv (%Pt)]
[Nonres Structures, Manufacturing: Contrib to Chg in Real Pvt Fxd Inv (%Pt)]

Series 3: PABFNSGH@USNA [Nonres Structures, Manufacturing: Contrib to Chg in Real Pvt Fxd Inv (%Pt)]

Chart 2: Semiconductor exports in South Korea and Japan

Series 1: yyr%(H542IXSC@EMERGEPR) [South Korea: Exports: Semiconductors (SA, Thous.US\$)]

Series 2: yyr%(VEC703SV@JAPAN) [Japan: Value of Exports by Commodity: Semiconductors Etc (Mil.Yen)]

Chart 3: Citigroup's economic surprise index for the euro area, Japan and the US

Series 1: V023CSI@INTDAILY [Citigroup Economic Surprise Index: Based on EUR (%)]

Series 2: V111CSI@INTDAILY [Citigroup Economic Surprise Index: Based on USD (%)]

Series 3: V158CSI@INTDAILY [Citigroup Economic Surprise Index: Based on JPY (%)]

Chart 4: US labour market quit rate versus labour compensation growth

Series 1: LJQTPA@USECON [JOLTS: Quits Rate: Total (SA, %)]

Series 2: yyr%(LS@USECON) [Employment Cost Index: Compensation: Civilian Workers (SA, Dec-05=100)]

Chart 5: Non-resident purchases of Japanese assets

Series 1: F158ISN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Dom Eq & Inv Fund Shares(100 Mil.Yen)]

Series 2: F158IBN@INTWKLY [Japan: Foreigners' Net Purch/Sales of Domestic LT Debt Sec (100 Mil.Yen)]

Chart 6: Bitcoin prices and Bitcoin volatility

Series 1: index(CBTCUS@CRYPTO,20220101=100) [Bitcoin: Price (USD/BTC)]

Series 2: index(BTCVOL@CRYPTO,20220101=100) [Bitcoin Volatility Index (Index)]