



5 July 2024

Charts of the Week:

Political melodies and macroeconomic harmonies

A publication and podcast by HAVER ANALYTICS*

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Written by [Andy Cates](#)

Political Melodies and Macroeconomic Harmonies

Please note: We will not be publishing 'Charts of the Week' and our accompanying podcast next week.

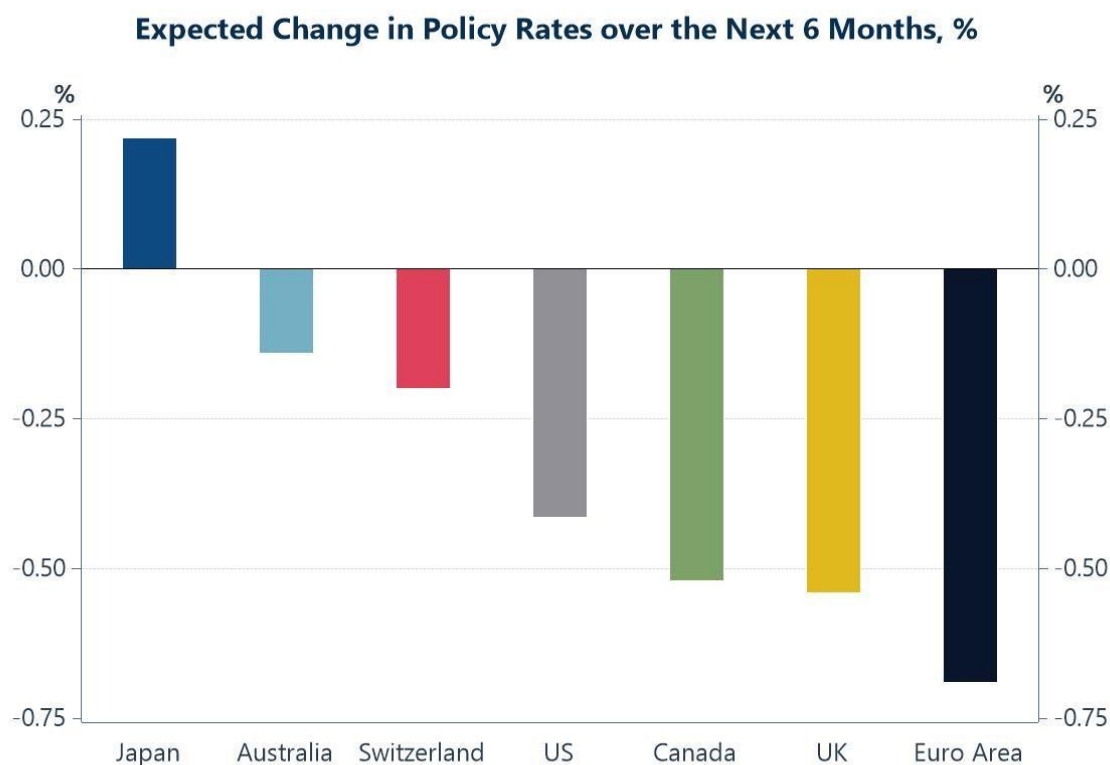
A soft landing scenario for the world economy, driven by moderating global growth, and aided by disinflationary pressures, has remained the base case in financial markets in recent weeks. A recent – and prospective – loosening of monetary policy by the world's major central banks has also been reinforcing the view that a severe economic downturn can be avoided (see chart 1). Writing ahead of the non-farm payroll report on Friday, this week's dataflow from the US and the euro area offered some mixed messages. The US labour market, for example, still appears to be quite tight judging by May's data for job vacancies and turnover (chart 2) while June's ISM surveys suggest the economic activity more generally could now be slowing much more sharply. Service sector inflation in the euro area, in the meantime, still appears to be quite sticky, judging by June's flash CPI data, and possibly because regional labour markets also remain relatively tight (chart 3). On a brighter note, latest data from South Korea have reinforced the idea that global demand for new AI infrastructure is still solid (chart 4). Japan's exporters have also been in vogue in recent times, partly thanks to a weak yen (chart 5). Finally, and just after the UK election, but ahead of the second round of the French election this weekend, financial markets have also been dancing to

political melodies in recent days. However, a lack of domestic macroeconomic harmony, and much uncertainty about how politicians will respond, remain key sources of downside risk in the period ahead (see chart 6).

The policy rate consensus

The latest Blue Chip Financial Forecasts survey for July, released earlier this week, suggests a still-firm consensus that central banks will initiate – or extend - an easing cycle over the next 6 months. Specifically, latest forecasts suggest the BoC and the ECB will deliver at least two more cuts of 25bps. Meanwhile the Fed and the BoE are expected to initiate an easing cycle shortly and deliver respective cuts of around 40 to 50 bps over the next 6 months (chart 1).

Chart 1: Expected changes in policy rates over the next 6 months

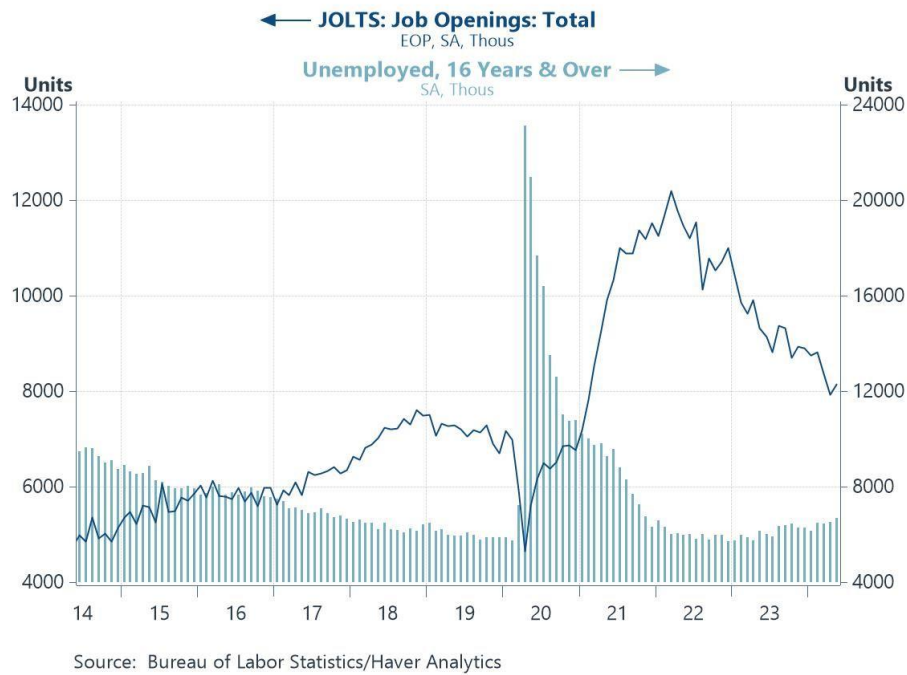


Source: Blue Chip Financial Forecasts/Haver Analytics

The US labour market

The accuracy of that forecast for the Fed will continue to hinge, in part, on the health of the US labour market. This week's data for job openings, however, suggest the labour market remains fairly tight. Job openings specifically jumped to 8.14 million in May, from a downwardly revised 7.91 million in April (chart 2).

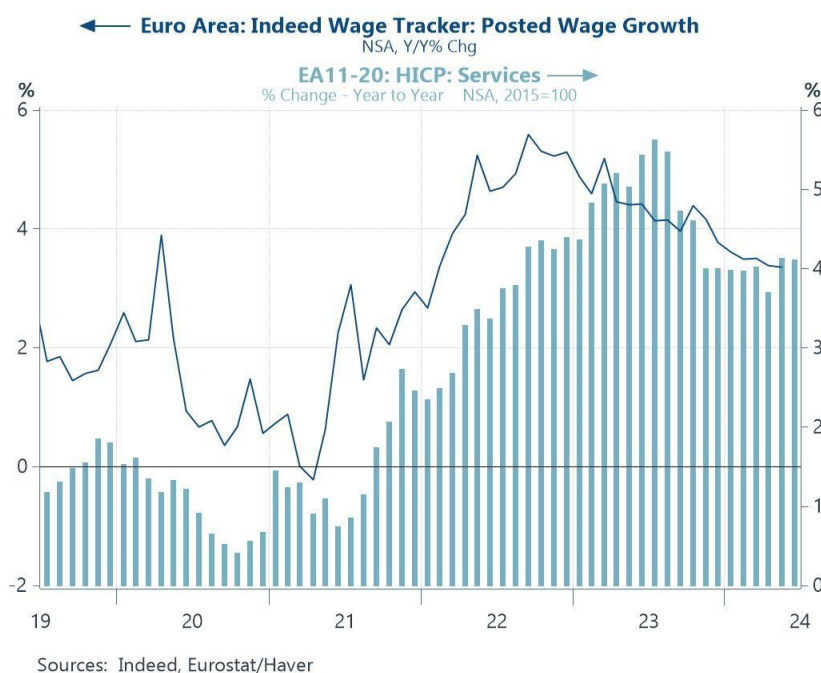
Chart 2: US job openings versus the unemployment rate



Euro area inflation

The accuracy of that aforementioned forecast for the ECB, meanwhile, will hinge, in part on the level of inflation in the service sector. And this week's flash CPI data revealed that services sector inflation was 4.1% in June, little-changed from where it stood in May, and arguably still a little high for the ECB's comfort. It is probably no coincidence that wage pressures, while slowing, have also remained firm according to the latest data from the hiring company Indeed (chart 3).

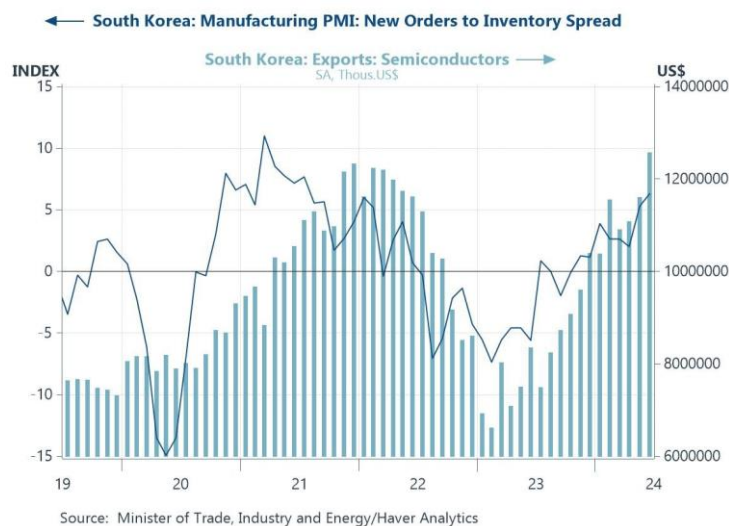
Chart 3: Euro area service sector inflation versus wage inflation



South Korea's trade

On a brighter note this week's trade data from South Korea revealed that global demand for AI infrastructure still appears to be strong. The value of semiconductor exports climbed to a record high in June to lie 50.5% higher than last year's level. Leading indicators embedded in its latest manufacturing PMI survey also suggest this strength could be sustained over the next month or two.

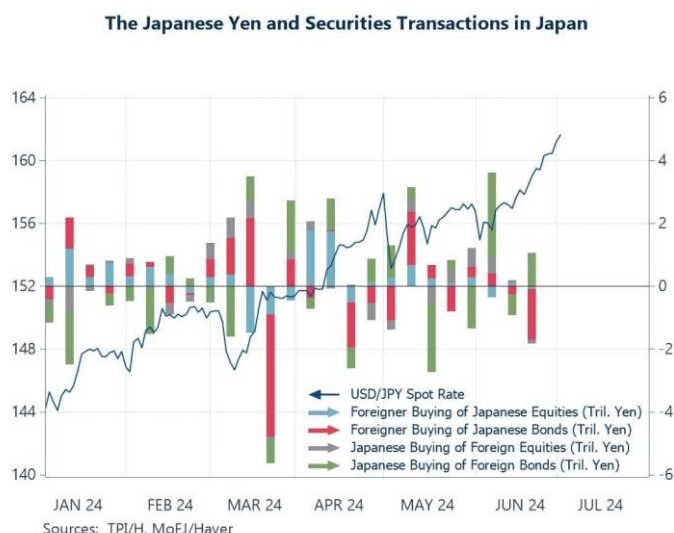
Chart 4: South Korea's exports of semiconductors versus the manufacturing PMI



Japan's capital flows

The Japanese yen has continued to weaken in recent months, despite the Bank of Japan's (BoJ) shift away from its negative interest rate policy in March. The yen's depreciation has been particularly noticeable against the US dollar, with USD/JPY having climbed above the 160 level last week. One significant factor contributing to the yen's ongoing weakness is the persistent yield differentials favouring other currencies over the yen, diminishing its attractiveness from a yield standpoint. Although the BoJ initiated some policy tightening in March, it stopped short of signaling a complete normalization of its monetary stance. However, recent indications suggest that another tightening may be imminent. Possibly in response to this, foreign investors have lately executed their largest net divestment from Japanese bonds in months, likely in anticipation of an imminent rate hike.

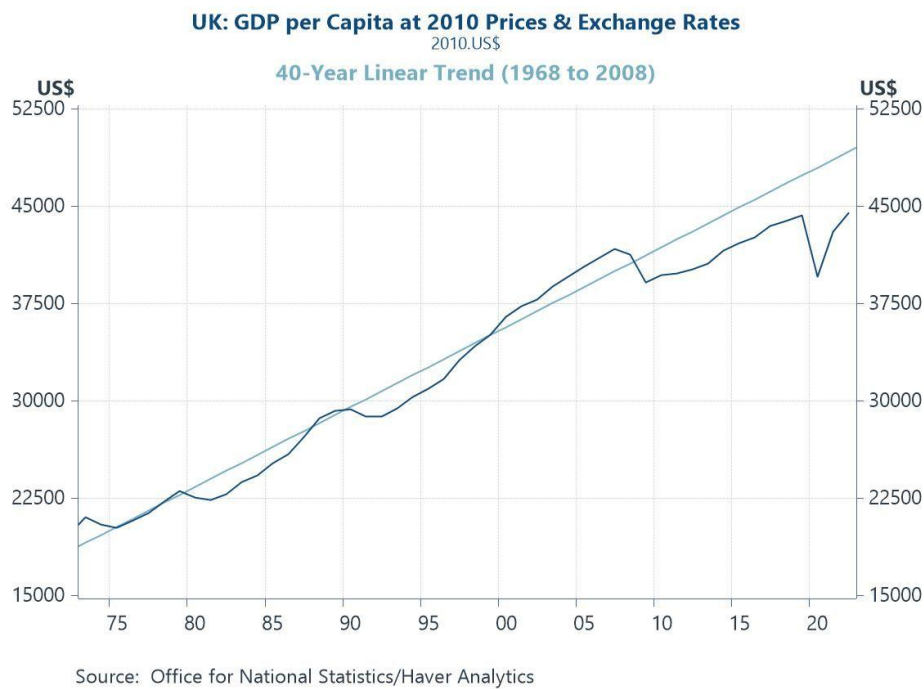
Chart 5: The yen and Japan's capital flows



The UK economy

Economic instability has been an actively discussed topic during the current election campaign in the UK and a much-vaunted target for policy in its aftermath. Some context to this is illustrated in chart 6 below showing real per capital GDP levels in the UK. The period following the global financial crisis in 2008 has certainly been earmarked by a weak, sub-par growth performance, compared with the prior 40-year trend (chart 6).

Chart 6: UK real GDP per capita versus its long-term trend



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: Expected changes in policy rates over the next 6 months

Series 1: [AAYV@BLUECFIN](#) - [N158RTAR@G10](#)

[AAYV@BLUECFIN](#) [BCFF: Japan: Policy-Rate Balance Rate 6-Mo Forecast: Consensus (%)]

[N158RTAR@G10](#) [Japan: Bank of Japan Policy Rate (EOP, %)]

Series 2: [AAZH@BLUECFIN](#) - [N193RTAR@G10](#)

[AAZH@BLUECFIN](#) [BCFF: Australia: Official Cash Rate 6-Mo Forecast: Consensus (%)]

[N193RTAR@G10](#) [Australia: Official Cash Rate (EOP, %)]

Series 3: [AAZB@BLUECFIN](#) - [N146RTAR@G10](#)

[AAZB@BLUECFIN](#) [BCFF: Switzerland: SNB Policy Rate 6-Mo Forecast: Consensus (%)]

[N146RTAR@G10](#) [Switzerland: SNB Policy Rate (EOP, %)]

Series 4: [AAYP@BLUECFIN](#) - [N111RTAR@G10](#)

[AAYP@BLUECFIN](#) [BCFF: US: Fed Funds Target Rate 6-Mo Forecast: Consensus (%)]

[N111RTAR@G10](#) [U.S.: Federal Open Market Committee: Fed Funds Target Rate (EOP, %)]

Series 5: [AAZE@BLUECFIN](#) - [N156RTAR@G10](#)

[AAZE@BLUECFIN](#) [BCFF: Canada: O/N Money Mkt Financing Rate 6-Mo Forecast: Consensus (%)]

[N156RTAR@G10](#) [Canada: Overnight Money Market Financing Rate [Target] (EOP, %)]

Series 6: [AAYY@BLUECFIN](#) - [N112RTAR@G10](#)

[AAYY@BLUECFIN](#) [BCFF: UK: Official Bank Rate 6-Mo Forecast: Consensus (%)]

[N112RTAR@G10](#) [U.K.: Official Bank Rate (EOP, %)]

Series 7: [AAZK@BLUECFIN](#) - [N023RTAR@G10](#)

[AAZK@BLUECFIN](#) [BCFF: Euro area: Main Refinancing Rate 6-Mo Forecast: Consensus (%)]

[N023RTAR@G10](#) [EA 11-20: Main Refinancing Rate (EOP, %)]

Chart 2: US job openings versus the unemployment rate

Series 1: [LJJTLA@USECON](#)

[LJJTLA@USECON](#) [JOLTS: Job Openings: Total (EOP, SA, Thous)]

Series 2: [LTU@USECON](#)

[LTU@USECON](#) [Unemployed, 16 Years & Over (SA, Thous)]

Chart 3: Euro area service sector inflation versus wage inflation

Series 1: [I025YOY@EUDATA](#)

[I025YOY@EUDATA](#) [Euro Area: Indeed Wage Tracker: Posted Wage Growth (NSA, Y/Y% Chg)]

Series 2: [yrry%\(P023HS@EUDATA\)](#)

[P023HS@EUDATA](#) [EA11-20: HICP: Services (NSA, 2015=100)]

Chart 4: South Korea's exports of semiconductors versus the manufacturing PMI

Series 1: (S542MO@MKTPMI - S542MSF@MKTPMI)

S542MO@MKTPMI [Korea PMI: Manufacturing New Orders (SA, 50+=Expansion)]

S542MSF@MKTPMI [Korea PMI: Manufacturing Stocks of Finished Goods (SA, 50+=Expansion)]

Series 2: H542IXSC@EMERGEPR

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

Chart 5: The yen and Japan's capital flows

Series 1: XUSJPSB@INTDAILY

XUSJPSB@INTDAILY [JPY Per USD Spot Mid Exchange Rate at 7 AM ET (JPY/USD)]

Series 2: F158ISN@INTWKLY

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

Series 3: F158IBN@INTWKLY

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

Series 4: (-1 * F158OSN@INTWKLY)

-1
F158OSN@INTWKLY [Japan: Residents' Net Purch/Sales of For Eq & Inv Fund Shares(100 Mil.Yen)]

Series 5: (-1 * F158OBN@INTWKLY)

-1
F158OBN@INTWKLY [Japan: Residents' Net Purch/Sales of For LT Debt Securities(100 Mil.Yen)]

Chart 6: UK real GDP per capita versus its long-term trend

Series 1: A112GCPC@G10

A112GCPC@G10 [UK: GDP per Capita at 2010 Prices & Exchange Rates (2010.US\$)]

Series 2: TRDLN(A112GCPC,1968:2008,1968:2023)

A112GCPC@G10 [UK: GDP per Capita at 2010 Prices & Exchange Rates (2010.US\$)]

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