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Charts of the Week: Following the leader

A HAVER ANALYTICS® podcast and publication

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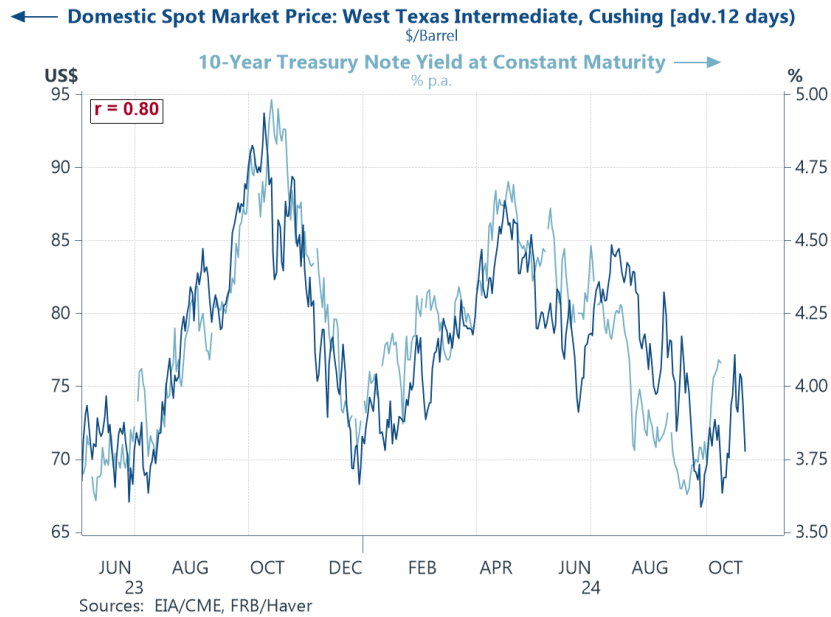
Following the leader

A soft landing narrative has continued to shape sentiment in financial markets over recent days, supported by several factors. These include upbeat corporate earnings news, a sharp drop in oil prices (see chart 1), and weaker-than-expected inflation data (chart 2). However, concerns about global growth persist, particularly given the underwhelming economic data that's been emerging from China (chart 3). While the monetary policy initiatives announced in late September were met with enthusiasm from investors (chart 4), subsequent fiscal policy measures have clearly fallen short of expectations. Back to a more positive note, the latest euro area bank lending survey suggests that the ECB's recent easing efforts, including this week's 25bps rate cut, are starting to reap some benefits (chart 5). Meanwhile, ongoing optimism around the role of AI technology has also contributed to a soft landing narrative, despite the absence of clear productivity gains thus far (chart 6).

Oil prices and yields

Concerns about the global growth outlook, spurred by cuts from the International Energy Agency to their forecasts for demand, have driven oil prices sharply lower over the past few days. Fears about supply disruptions stemming from geopolitical instability in the Middle East have additionally faded, at least for now. Since oil prices have been a key driver of the market's inflation expectations, as evidenced in chart 1 below, this has been significant in buoying risk appetite in broader financial markets as well.

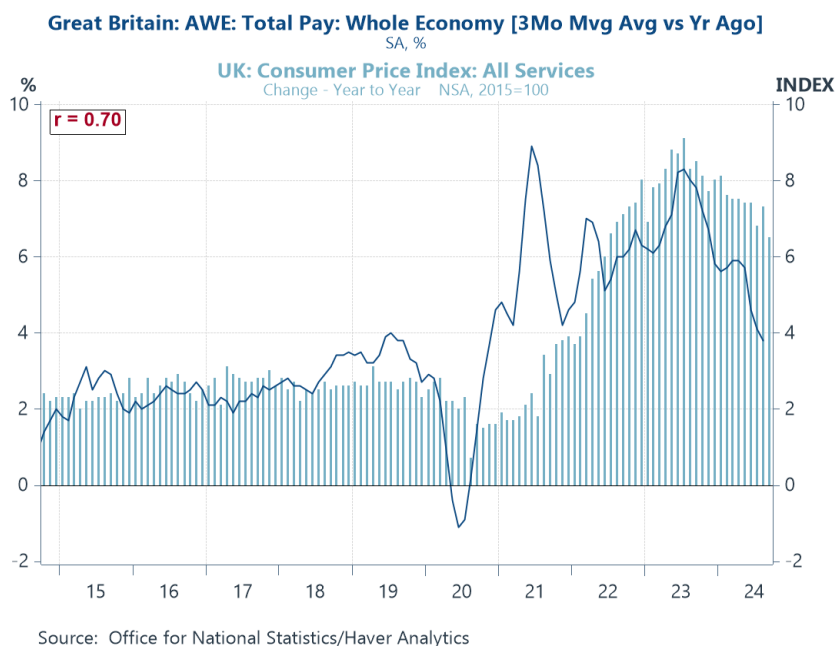
Chart 1: Oil prices have continued to lead US Treasury yields



UK inflation

There was good news on the UK inflation front this week too thanks to a slew of weaker-than-expected data for wages and prices. For example, private sector regular pay growth rose by just 0.2% m/m August, its lowest monthly growth rate for seven months. The September data for both headline and core CPI inflation additionally dropped quite sharply, partly thanks to a big drop in service sector inflation (see chart 2). The Bank of England will almost certainly take comfort in these numbers, given concerns about how a tight labour market had previously been stoking wage inflation and fuelling price pressures in the service sector.

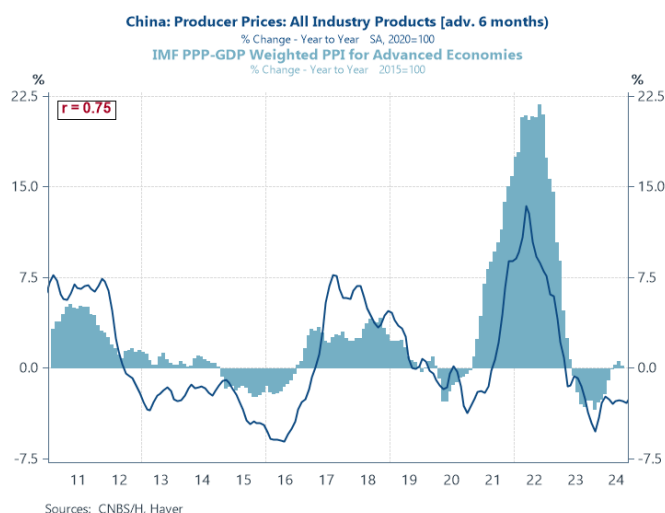
Chart 2: UK wage pressures typically leads service sector CPI inflation



China's PPI inflation

Recent data from China also revealed that inflation outcomes for September were lower than expected, with PPI inflation sliding further into deflationary territory, specifically dropping to -2.8% y/y from -1.8% in the previous month. This intensifying pace of deflation might magnify concerns about excess capacity in China's economy, which could potentially spill over into global markets as China seeks to export this surplus. Notably, China's PPI has historically led global PPI trends, amplifying worries that this deflationary pressure might influence global inflation dynamics in the near future (chart 3).

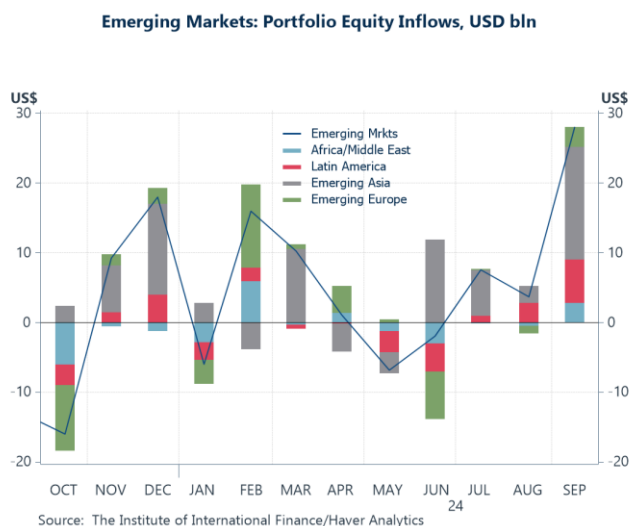
Chart 3: China's PPI inflation typically leads global PPI inflation



EM portfolio flows

Recent policy initiatives from China designed to shore up its economy initially generated much enthusiasm from investors. This can be seen in chart 4 below showing a surge in portfolio inflows to emerging markets, and to Asia in particular, in September. The specific spark for this was the introduction of a range of monetary stimulus measures on September 24th which included lower interest rates and cuts in reserve requirement ratios. However, that initial euphoria has since dissipated as the announcement of a number of fiscal policies designed to address local government debt risks and property market instability, have not met expectations

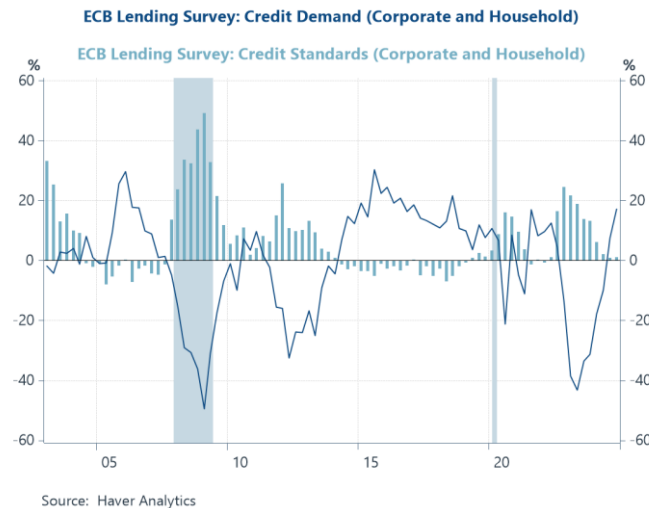
Chart 4: EM portfolio equity inflows have picked up sharply



Banking conditions in the euro area

On a brighter note the latest ECB bank lending survey suggested that the wheels of credit in the euro area may now be turning more quickly. The latest survey, for example, revealed that euro area banks reported unchanged credit standards for loans to companies in Q3. That follows more than two years of successive tightening. Banks also reported a further net easing of credit standards for loans to households for house purchases. In the meantime net demand for loans by companies increased moderately in Q3 while demand for housing loans rebounded strongly.

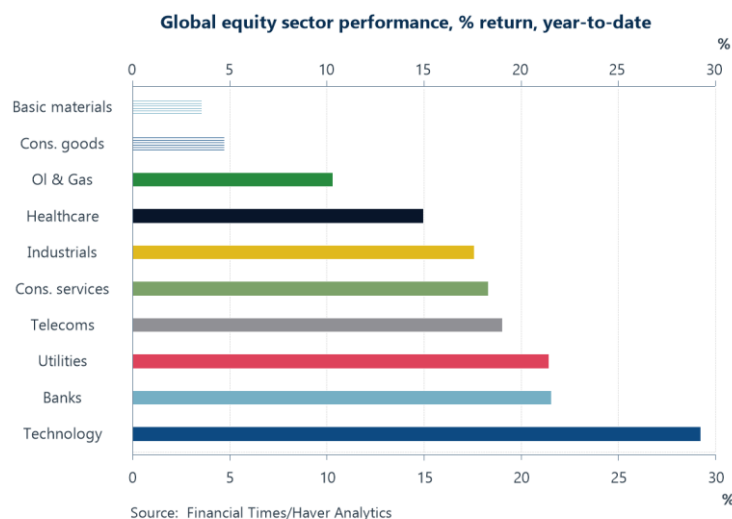
Chart 5: Easier credit standards and firmer credit demand in the euro area



Global equity sector performance

Global equity markets have had a good year so far in large part, as noted above, because the world economy appears to be on course for a soft landing and central banks have now begun to ease monetary policy. Structural factors, however, have also been influential, and most notably investor optimism about AI. As chart 6 below suggests, technology stocks have delivered the strongest returns so far in 2024. That's striking because the technology sector is often perceived to be cyclical. Yet defensive sectors, such as utilities and consumer services, have also performed relatively well so far this year while other cyclical sectors, such as basic materials and consumer goods, have under-performed.

Chart 6: The global technology sector has continued to shine



About the author



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

Andy 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: Oil prices have continued to lead US Treasury yields

Series 1: [PZTEXA@DAILY](#) [-12]

PZTEXA@DAILY [Domestic Spot Market Price: West Texas Intermediate, Cushing (\$/Barrel)]

Series 2: [FCM10@DAILY](#)

FCM10@DAILY [10-Year Treasury Note Yield at Constant Maturity (% p.a.)]

Chart 2: UK wage pressures typically leads service sector CPI inflation

Series 1: [KAC3@UK](#)

KAC3@UK [Great Britain: AWE: Total Pay: Whole Economy [3Mo Mvg Avg vs Yr Ago] (SA, %)]

Series 2: [yrrr\(D7F5@UK\)](#)

D7F5@UK [UK: Consumer Price Index: All Services (NSA, 2015=100)]

Chart 3: China's PPI inflation typically leads global PPI inflation

Series 1: [yrrr%\(H924PP@EMERGEPR\)](#) [-6]

H924PP@EMERGEPR [China: Producer Prices: All Industry Products (SA, 2020=100)]

Series 2: [yrrr%\(N110PPPW@G10\)](#)

N110PPPW@G10 [IMF PPP-GDP Weighted PPI for Advanced Economies (2015=100)]

Chart 4: EM portfolio equity inflows have picked up sharply

Series 1: [M200EQTY@IIFDATA](#)

M200EQTY@IIFDATA [Emerging Mkts: Est Nonres Portfolio Eqty Inflows to Emerging Mkts(Bil.US\$)]

Series 2: [M405EQTY@IIFDATA](#)

M405EQTY@IIFDATA [Africa/Middle East: Est Nonres Portfolio Eqty Infl to Africa/Mid East (Bil.US\$)]

Series 3: [M205EQTY@IIFDATA](#)

M205EQTY@IIFDATA [Latin America: Est Non-Res Portfolio Eqty Inflows to Latin America (Bil.US\$)]

Series 4: [M505EQTY@IIFDATA](#)

M505EQTY@IIFDATA [Emerging Asia: Est Nonres Portfolio Eqty Inflows to Emerging Asia (Bil.US\$)]

Series 5: [M170EQTY@IIFDATA](#)

M170EQTY@IIFDATA [Emerging Europe: Est Nonres Portfolio Eqty Inflows to Emerging Europe (Bil.US\$)]

Chart 5: Easier credit standards and firmer credit demand in the euro area

Series 1: $((E025DCC@EUDATA + E025DCH@EUDATA) + E025DB@EUDATA) / 3$

E025DCC@EUDATA [EA: Chg in HH Demand for Cons Credit, Past 3M, (Wtd Net %)]

E025DCH@EUDATA [EA: Chg in HH Demand for Housing Loans, Past 3M, (Wtd Net %)]

E025DB@EUDATA [EA: Chg in Bus Loan Demand, Past 3M, Overall (Wtd Net %)]

3

Series 2: $((E025TB@EUDATA + E025TCC@EUDATA) + E025TCH@EUDATA) / 3$

E025TB@EUDATA [EA: Chg in Credit Stds for Bus Loans, Overall, Past 3M, (Wtd Net %)]

E025TCC@EUDATA [EA: Chg in Cr Stds, Past 3M, Apprv Cons Cr/Oth Ldg (Wtd Net %)]

E025TCH@EUDATA [EA: Chg in Cr Stds, Past 3M, Apprv House Purch Lns Net (Wtd Net %)]

3

Chart 6: The global technology sector has continued to shine

Series 1: $\text{diff}\%(S001TKR@INTWKLY,41)$

S001TKR@INTWKLY [FTSE All-World Technology Stock Price Index Total Return(AVG, Index)]

Series 2: $\text{diff}\%(S001FBR@INTWKLY,41)$

S001FBR@INTWKLY [FTSE All-World Banks Stock Price Index Total Return(AVG, Index)]

Series 3: $\text{diff}\%(S001ULR@INTWKLY,41)$

S001ULR@INTWKLY [FTSE All-World Utilities Stock Price Index Total Return(AVG, Index)]

Series 4: $\text{diff}\%(S001TER@INTWKLY,41)$

S001TER@INTWKLY [FTSE All-World Telecommunications Stock Price Index Total Return(AVG, Index)]

Series 5: $\text{diff}\%(S001VCR@INTWKLY,41)$

S001VCR@INTWKLY [FTSE All-World Consumer Services Stock Price Index Total Return(AVG, Index)]

Series 6: $\text{diff}\%(S001IDR@INTWKLY,41)$

S001IDR@INTWKLY [FTSE All-World Industrials Stock Price Index Total Return(AVG, Index)]

Series 7: $\text{diff}\%(S001HCR@INTWKLY,41)$

S001HCR@INTWKLY [FTSE All-World Healthcare Stock Price Index Total Return(AVG, Index)]

Series 8: $\text{diff}\%(S001OGR@INTWKLY,41)$

S001OGR@INTWKLY [FTSE All-World Oil & Gas Stock Price Index Total Return(AVG, Index)]

Series 9: $\text{diff}\%(S001GCR@INTWKLY,41)$

S001GCR@INTWKLY [FTSE All-World Consumer Goods Stock Price Index Total Return(AVG, Index)]

Series 10: $\text{diff}\%(S001BMR@INTWKLY,41)$

S001BMR@INTWKLY [FTSE All-World Basic Materials Stock Price Index Total Return(AVG, Index)]

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