https://haverproducts.com/charts-of-the-week/
Written by Andy Cates

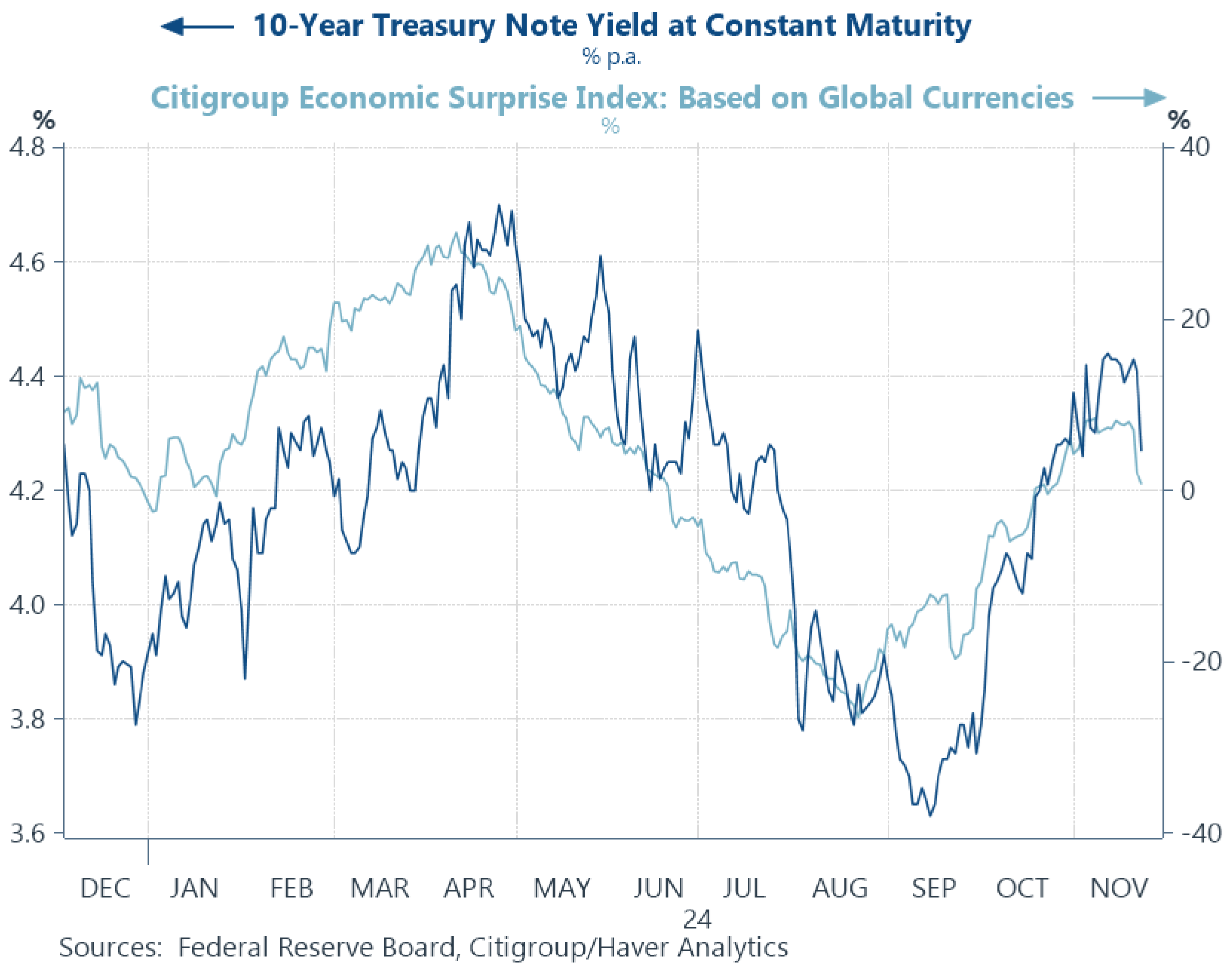
Treading Water

A holiday-shortened trading week in the US, combined with persistent political uncertainties on both sides of the Atlantic, have kept financial markets relatively subdued in recent days. Latest data releases have generally supported the prevailing view that US economic growth will remain resilient in the near term, although this strength could come at a cost for the global economy (charts 1 and 2). The Fed's approach to calibrating monetary policy in this environment remains a key area of debate, particularly given the significant role of global factors—such as capital flows—in shaping financial stability (chart 3). Europe, meanwhile, finds itself at the eye of the storm, with political gridlock in Germany and France compounding concerns about the region's economic outlook. In the UK, recent budgetary measures that raised the corporate tax burden have further clouded the picture, sparking worries about their impact on business sentiment and investment. These dynamics risk stalling much-needed structural reforms across Europe, potentially exacerbating global imbalances and widening growth disparities with the US (chart 4). Elsewhere, fears over China's economic outlook and the trajectory of broader emerging markets have intensified amid speculation over shifts in US trade policy (chart 5). At the same time, climate change and the energy transition remain high on the agenda, with the possibility of significant policy changes in the US adding to the uncertainty (chart 6).

The Trump Trade versus global growth surprises

Expectations of policies aimed at boosting US growth, including proposed tax cuts and deregulation, have fuelled the so-called "Trump trade" in recent weeks. One clear manifestation of this has been the rise in US Treasury yields, driven by investors' heightened expectations for stronger domestic growth and higher inflation in the months ahead. Interestingly, these trades have unfolded alongside positive surprises in US and broader global growth data, further reinforcing market sentiment. However, as chart 1 below illustrates, the tide may have begun to shift. Recent global data releases have broadly disappointed expectations, primarily due to weaker-than-anticipated survey data from Europe. This has raised questions about the sustainability of a bullish outlook for global growth. Notably, the pullback in US Treasury yields coincides with these weaker global data points—a reflection perhaps of investors recalibrating their optimism toward the world economy.

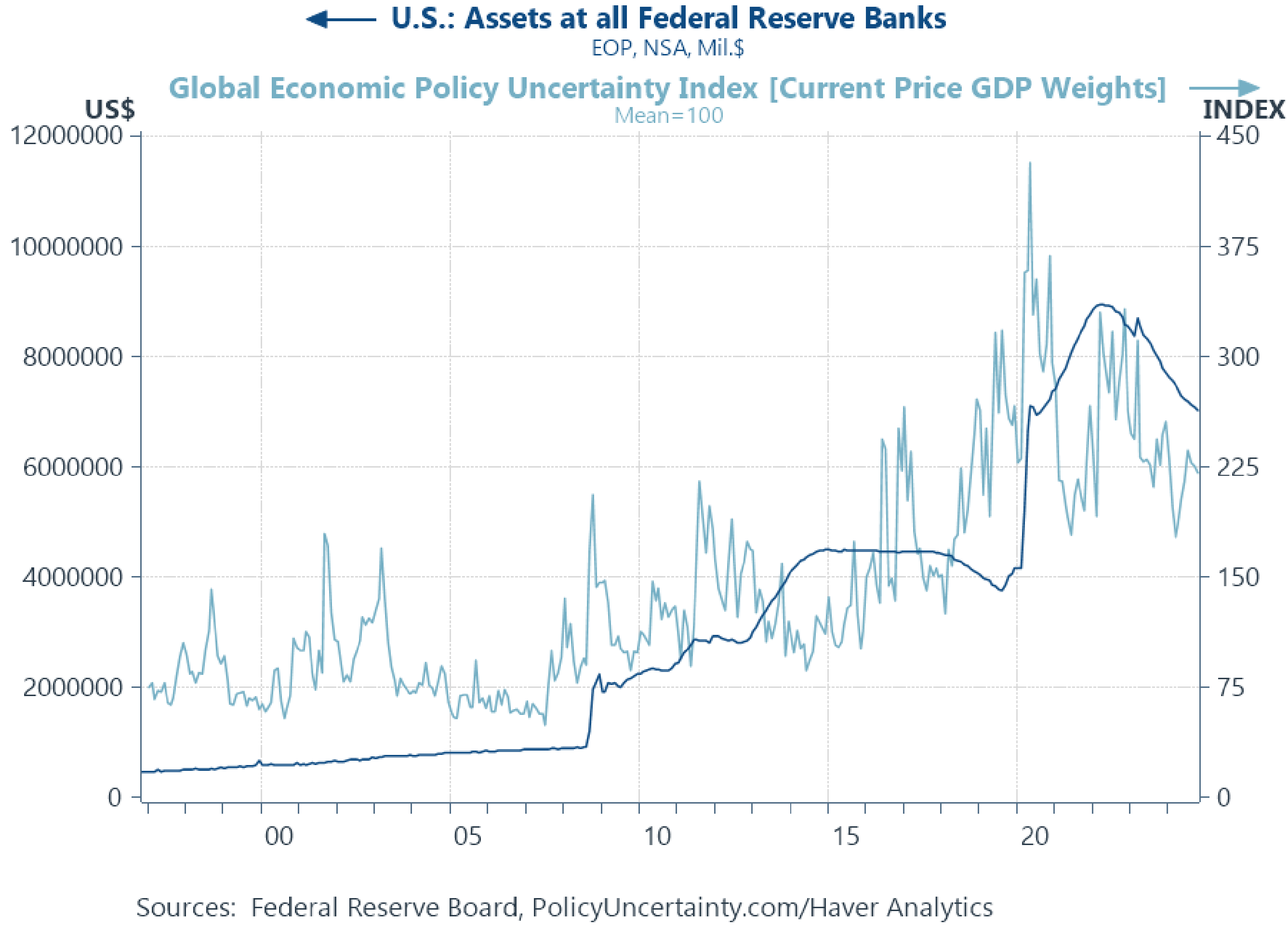
Chart 1: US Treasury yields versus global growth surprises



The Fed’s balance sheet and global uncertainty

That retracement in yields serves as a reminder of the interconnected nature of global markets. While US growth remains a key driver of optimism, the broader international backdrop will continue to influence market dynamics and investor sentiment in the weeks ahead. Broadly-based supply-side factors - such as climate change, the energy transition, geopolitical tensions, and heightened trade protectionism - have left uncertainty about the global economic outlook at structurally high levels. This continues to have ramifications for global imbalances, for the demand for US financial assets (including US Treasuries) as well as for Fed’s stewardship of the global financial system.

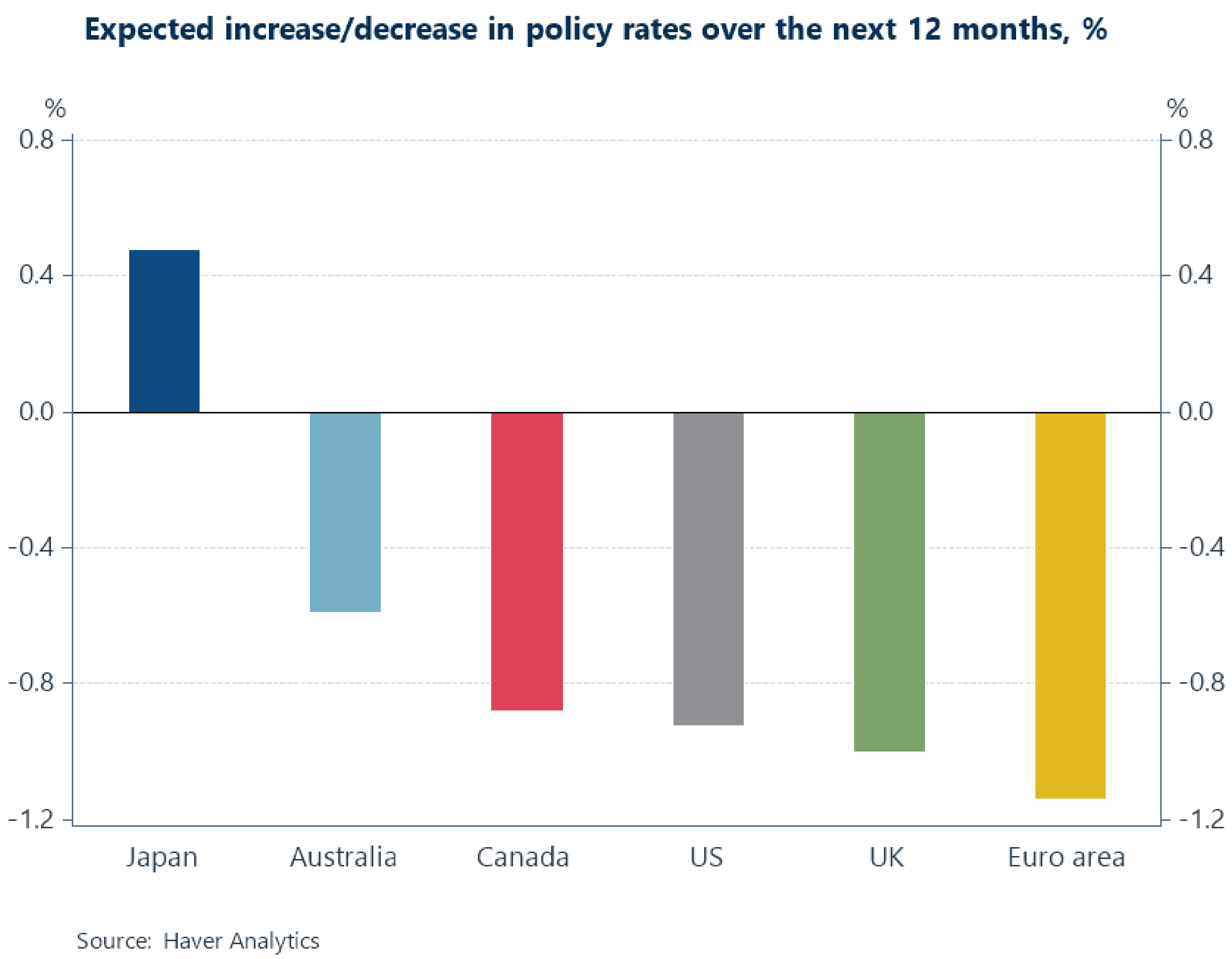
Chart 2: The Fed's balance sheet versus global economic uncertainty



The global monetary policy consensus

The December edition of the Blue Chip Financial Forecasts survey, published this week, echoed many of the observations above. The BCFF panel, for example, are expecting that the US election results will slow the pace of FFR cuts going forward. Forecasters are still fully expecting a 25bps cut at the December FOMC meeting but for 2025, the BCFF consensus now looks for 103bps of cuts versus 126bps of cuts in the November survey. This contrasts with Europe where 84% of the panel do not believe that likely US policy changes will slow the pace of policy rate reductions from the ECB in the year ahead. The consensus specifically now looks for 114 bps of ECB cuts over the next 12 months and 100 bps from the BoE.

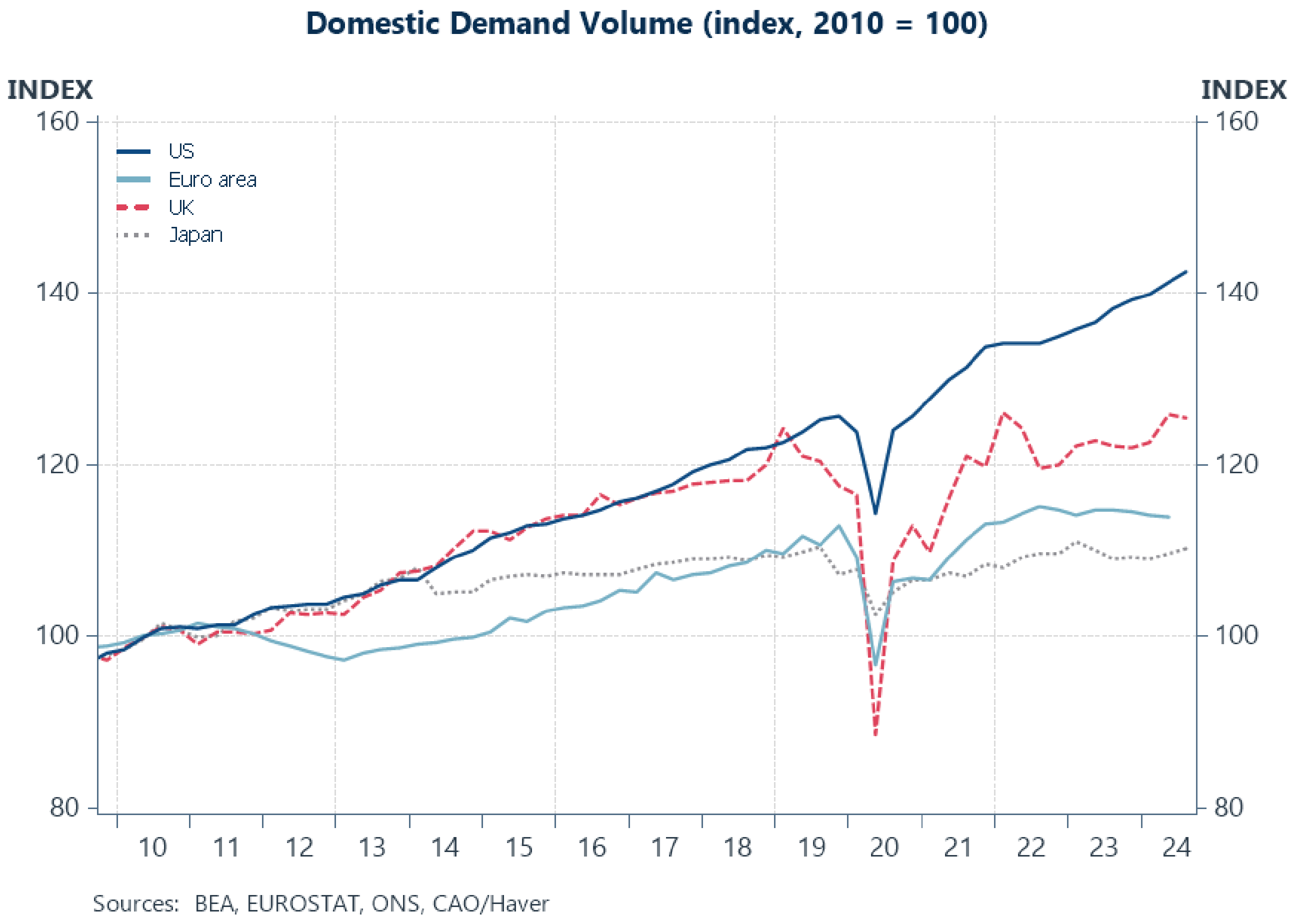
Chart 3: Blue Chip Financial Forecasts: Expected changes in policy rates over the next 12 months



Relative demand matters

The scope for easing from the ECB relative to the Fed lies in part in lingering structural fault lines that bedevil the outlook for Europe's economies. Chart 4 below chart underscores the longer-term divergence in domestic demand dynamics between the US and other major economies, including Japan. To put some numbers on this, domestic demand volume in 2024 Q3 in the US was 42% higher than its level in 2010. That stands in contrast with the UK where domestic demand was only 25% higher than its 2010 level. And it stands in even starker contrast with the euro area and Japan where domestic demand was respectively only 14% higher (in Q2) and 10% higher (in Q3). This underscores the structural differences between the US and other major economies and concerns, among other factors, institutional flexibility, financing flexibility, demographics and broader productivity potential.

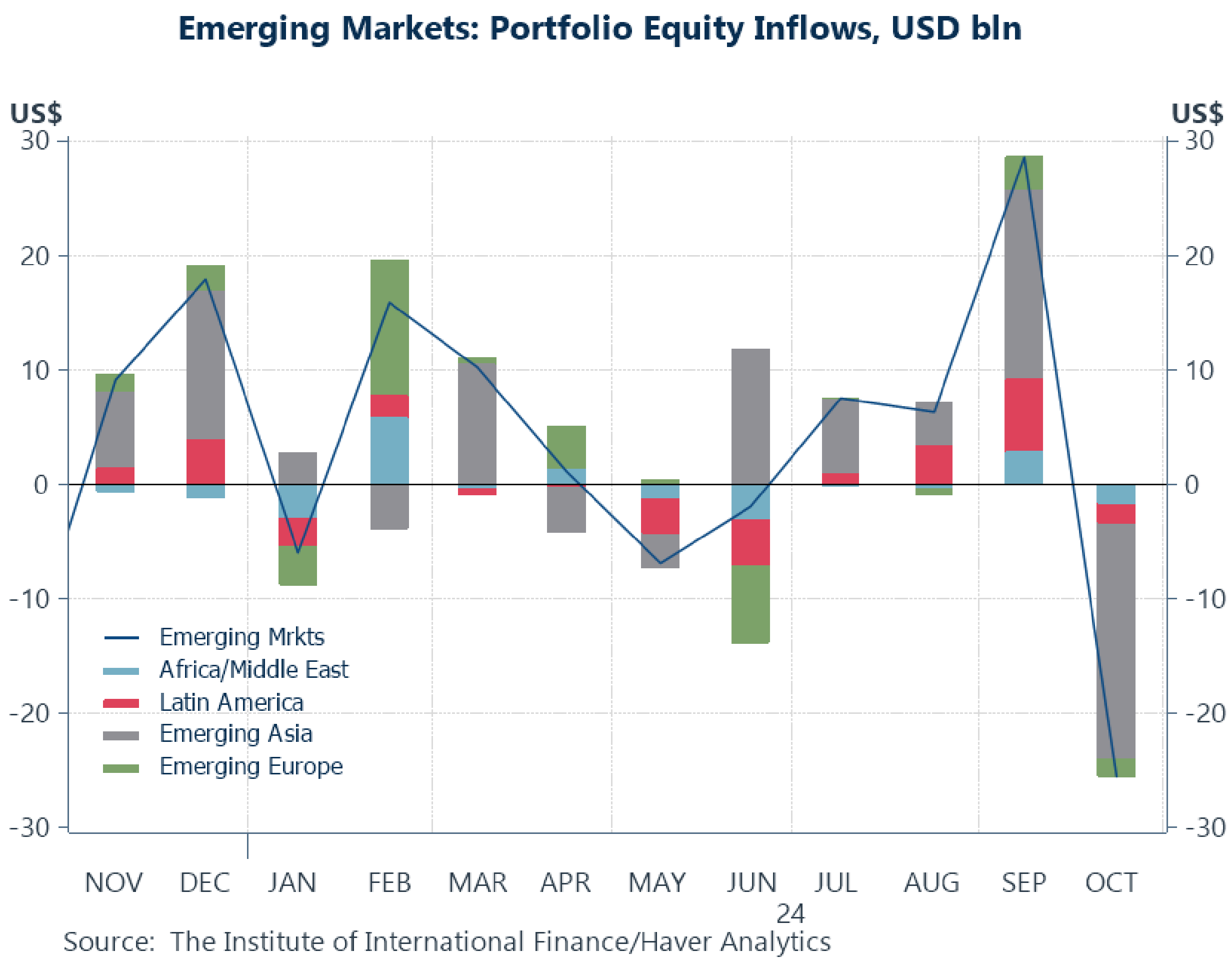
Chart 4: Domestic demand levels in the US, euro area, UK and Japan



EM portfolio flows

As for China, concerns about the economic outlook have also intensified of late largely thanks to the specific trade policy intentions of a new US administration. Chart 5 below underscores the continued sensitivity of emerging markets more generally to global macroeconomic and geopolitical developments. Having been buoyed by news of policy stimulus from China in September, emerging markets saw an exodus of equity capital in October. Disappointments about the scale and scope of that stimulus coupled with heightened uncertainty about US trade policy were probably the key reasons for this.

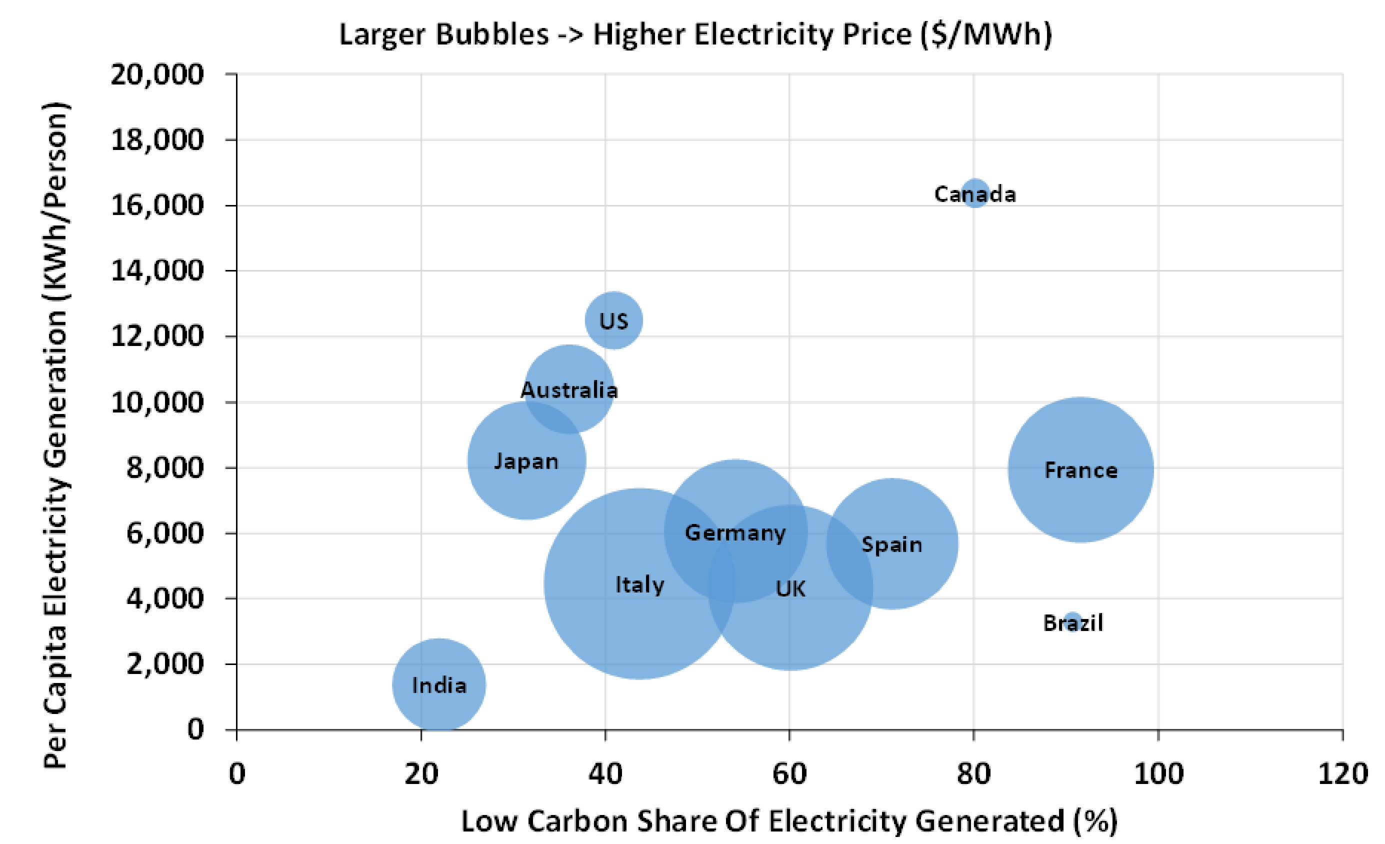
Chart 5: Emerging Market portfoio equity inflows



The global energy transition

Finally we turn this week to broader structural challenges from climate change and the energy transition. Chart 6 below provides a snapshot of the relationship between electricity generation, its carbon intensity, and the price of electricity across countries. The x-axis represents the share of low-carbon electricity generated, while the y-axis measures per capita electricity generation. Bubble sizes denote the relative cost of electricity, with larger bubbles indicating higher electricity prices. Canada stand outs with high per capita electricity generation and a large share of low-carbon electricity (nearly 100%), yet with electricity prices that remain relatively low. This is likely due to the abundance of hydropower, a low-cost, low-carbon energy source. Germany, France, Italy and the UK, in the meantime, while achieving significant shares of low-carbon electricity generation, exhibit some of the largest bubble sizes, reflecting high electricity prices. Germany's reliance on renewable energy subsidies and grid costs contribute to these elevated prices. At the lower end, India combines low per capita electricity generation and a small share of low-carbon energy, indicative of a fossil fuel-reliant grid. Electricity prices here remain low likely reflecting limited access to energy-intensive infrastructure.

Chart 6: Carbon intensities, electricity generation and electricity prices compared



Source: Our World in Data, Energy Intelligence, Haver Analytics

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: 10 year Treasury Note Yield at Constant Maturity
Series 1: FCM10@DAILY
FCM10@DAILY [10-Year Treasury Note Yield at Constant Maturity (% p.a.)]
Series 2: V001CSI@INTDAILY
V001CSI@INTDAILY [Citigroup Economic Surprise Index: Based on Global Currencies (%)]

Chart 2: U.S.: Assets at all Federal Reserve Banks
Series 1: N111FOA@G10
N111FOA@G10 [U.S.: Assets at all Federal Reserve Banks (EOP, NSA, Mil.$)]
Series 2: N001VIUC@G10
N001VIUC@G10 [Global Economic Policy Uncertainty Index [Current Price GDP Weights] (Mean=100)]

Chart 3: Expected increase/decrease in policy rates over the next 12 months, %
Series 1: (AAYW@BLUECFIN - N158RTAR@G10)
AAYW@BLUECFIN [BCFF: Japan: Policy-Rate Balance Rate 12-Mo Forecast: Consensus (%)]
N158RTAR@G10 [Japan: Bank of Japan Policy Rate (EOP, %)]
Series 2: (AAZI@BLUECFIN - N193RTAR@G10)
AAZI@BLUECFIN [BCFF: Australia: Official Cash Rate 12-Mo Forecast: Consensus (%)]
N193RTAR@G10 [Australia: Official Cash Rate (EOP, %)]
Series 3: (AAZF@BLUECFIN - N156RTAR@G10)
AAZF@BLUECFIN [BCFF: Canada: O/N Money Mkt Financing Rate 12-Mo Forecast: Consensus (%)]
N156RTAR@G10 [Canada: Overnight Money Market Financing Rate [Target] (EOP, %)]
Series 4: (AAYQ@BLUECFIN - N111RTAR@G10)
AAYQ@BLUECFIN [BCFF: US: Fed Funds Target Rate 12-Mo Forecast: Consensus (%)]
N111RTAR@G10 [U.S.: Federal Open Market Committee: Fed Funds Target Rate (EOP, %)]
Series 5: (AAYZ@BLUECFIN - N112RTAR@G10)
AAYZ@BLUECFIN [BCFF: UK: Official Bank Rate 12-Mo Forecast: Consensus (%)]
N112RTAR@G10 [U.K.: Official Bank Rate (EOP, %)]
Series 6: (AAZL@BLUECFIN - N023RTA2@G10)
AAZL@BLUECFIN [BCFF: Euro area: Main Refinancing Rate 12-Mo Forecast: Consensus (%)]
N023RTA2@G10 [Euro Area 11-20: Main Refinancing Rate (EOP, %)]

Chart 4: Domestic Demand Volume (index, 2010=100)
Series 1: index(S111NDTC@G10,2010=100)
  S111NDTC@G10   [U.S.: Gross Domestic Purchases (SA, Bil.Chn.2017$)]
Series 2: index(S025NDTC@G10,2010=100)
  S025NDTC@G10   [EA 20: GDP: Total Domestic Demand (SWDA, Mil.Chn.2020.EUR)]
Series 3: index(S112NDTC@G10,2010=100)
  S112NDTC@G10   [UK: GDP: Total Domestic Demand (SA, Mil.Chained.2022.Pounds)]
Series 4: index(S158NDTC@G10,2010=100)
  S158NDTC@G10   [Japan: GDP: Total Domestic Demand (SA, Bil.Chn.2015.Yen)]

Chart 5: Emerging Markets: Portfolio Equity Inflows, USD bln
Series 1: M200EQTY@IIFDATA
  M200EQTY@IIFDATA   [Emerging Mrkts: Est Nonres Portfolio Eqty Inflows to Emerging Mrkts(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$)]

For more info on our data products please email sales@haver.com