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Charts of the Week

A HAVER ANALYTICS® commentary and podcast

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Policy Surprises Versus Data Surprises

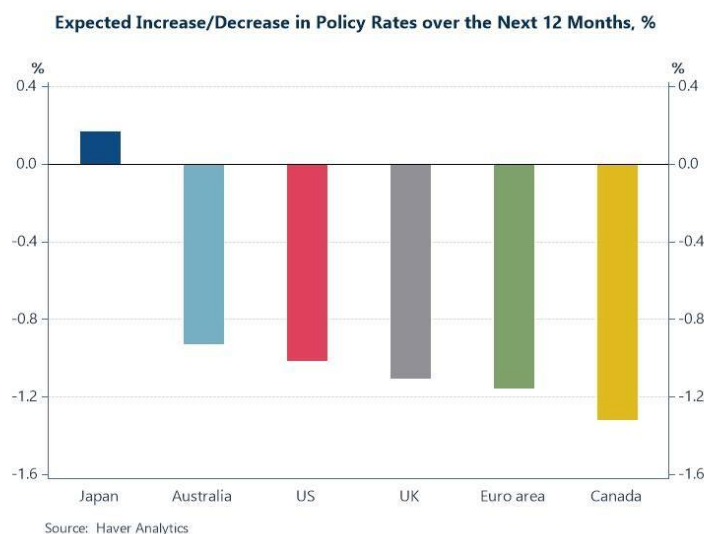
Lingering concerns about the US Fed's inclination to lower interest rates in coming months have continued to unsettle financial markets over the past few days. That said, comments from Fed Chair Powell after this week's FOMC meeting have calmed some of those nerves. In our charts this week we delve into the latest Blue Chip consensus on policy rates across the world's major economies (chart 1). We also compare market expectations for US policy rates, inferred from 2-year Treasury yields, with a trend toward more negative US data surprises in recent days (chart 2). In addition we contrast that more negative US growth trend with the relative resilience of the euro area dataflow and some recent downward pressure on the EUR/USD exchange rate (chart 3). Turning to Asia, we assess Japan's economy with a focus on some recent disappointing retail sales data (chart 4), and provide insights into China's economic activity through aircraft movements at Beijing Airport (chart 5). Finally, and with a nod to climate change and its impact, we look at reduced water levels on the Panama Canal and how these contrast with above-average land and sea temperatures over the past few years (chart 6).

Consensus interest rate forecasts

Despite heightened concerns about the potential for lower US interest rates in the coming months, recent forecasts still show a broad consensus that an easing cycle will unfold in the period ahead across most major economies. The latest Blue Chip Financial Forecasts survey, for instance, indicates that policy rate reductions of approximately 100 basis points are anticipated from the Fed over the next 12 months.

Additionally, the European Central Bank and the Bank of England are expected to implement cumulative cuts of 166 and 111 basis points, respectively, during the same timeframe. In contrast, Japan is expected to see further rate hikes, specifically an increase of 17 basis points over the year ahead.

Chart 1: Blue Chip Financial Forecasts: Expected change in policy rates over the next 12 months



US data surprises and 2 year bond yields

The anxiety in financial markets about the Fed's scope to lower interest rates can be largely traced to the US economy's resilience – and its tight labour market in particular – together with sticky inflation. The former, however, namely economic resilience, has arguably been challenged in recent days by some, though by no means all, US data releases. These include, for example, a weaker-than expected consumer confidence report and ISM survey of manufacturing. Citigroup's US growth surprise index has, against that backdrop, turned sharply lower.

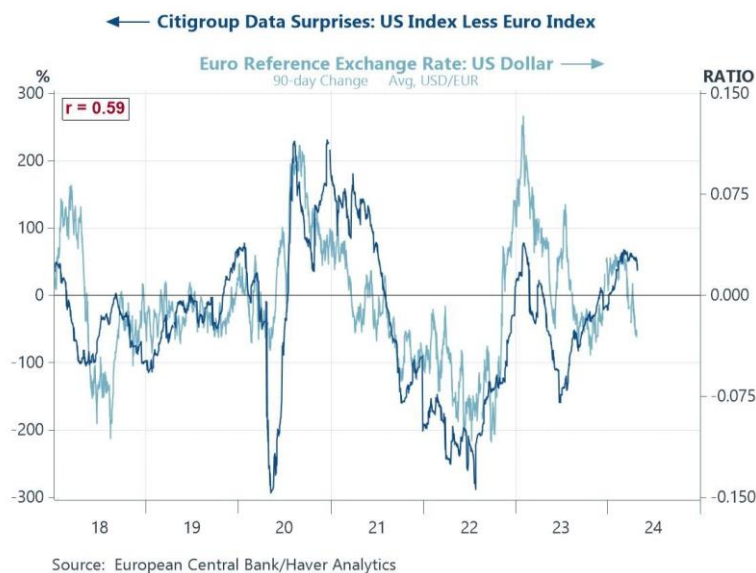
Chart 2: Citigroup US growth surprise index versus 2-year US Treasury yields



US and euro area data surprises versus the euro

A corresponding trend has also unfolded in the FX market. While US data have been a little more disappointing this contrasts with euro area data, which have been more resilient. Yet, thanks to still-firm US/Europe yield differentials, the US dollar has remained fairly resilient versus the euro (see chart 3).

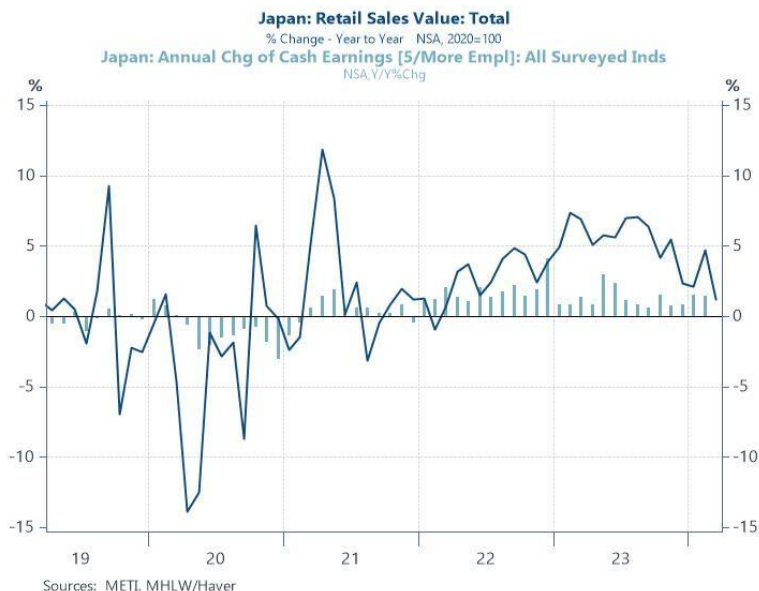
Chart 3: The euro versus relative euro area/US data surprises



Japan's economy

This week's disappointing retail sales data from Japan could call into question the scope for further policy rate hikes from the Bank of Japan (BoJ) in the coming months. Retail sales specifically slowed to 1.2% y/y in March from 4.7% in February. That slowdown, moreover, was broadly-based, with reduced sales activity seen across various product categories.

Chart 4: Industrial production and retail sales growth in Japan



Airport traffic in China

The latest monthly dataflow from China have been a little more upbeat but that was not the message from this week's official PMI surveys for April. Other less widely monitored data are also yielding sobering messages about the current economic environment. For instance, while aircraft movements at Beijing Airport have risen from their low points, they still remain well below pre-COVID pandemic levels (see chart 5). Similarly, specific data on cargo volumes and passenger traffic lead to the same conclusion.

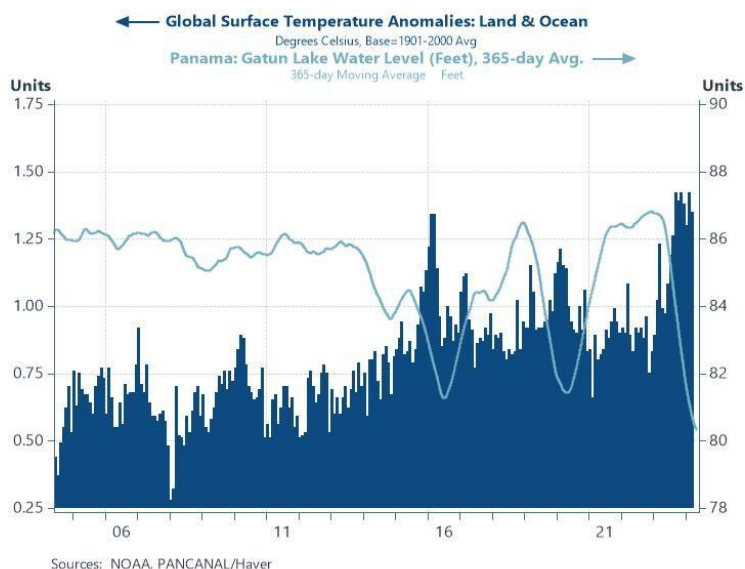
Chart 5: Beijing Airport Aircraft Movement, international and domestic



Global warming and water levels

Finally, on more structural matters, climate change continues to generate profound shifts in the economic landscape, influencing everything from agricultural productivity to energy markets and global supply chains. One manifestation of these shifts is low water levels in many areas and for example, in the Panama Canal. More specifically Gatun Lake has seen prolonged drought conditions, exacerbated by the El Niño phenomenon and broader climate change anomalies. The drought has resulted in lower-than-average rainfall and delayed rainy seasons, leading to reduced water availability not only for canal operations but also for over half of Panama's population relying on this water source. To that supply chain point above, the canal has also had to reduce the number of ships it can accommodate per day.

Chart 6: Water levels on Gatun Lake, Panama versus global temperature anomalies



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: Blue Chip Financial Forecasts: Expected change in policy rates over the next 12 months

*For a detailed breakdown of this chart please contact sales@haver.com

Chart 2: Citigroup US growth surprise index versus 2-year US Treasury yields

Series 1: [V111CSI@INTDAILY](#)

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

Series 2: [R111G2@INTDAILY](#)

R111G2@INTDAILY [U.S.: 2-Year Treasury Note Yield at Constant Maturity (% p.a.)]

Chart 3: The euro versus relative euro area/US data surprises

Series 1: ([V023CSI@INTDAILY](#) - [V023CIS@INTDAILY](#))

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

V023CIS@INTDAILY [Citigroup Inflation Surprise Index: Based on EUR (%)]

Series 2: [diff\(X023USB@INTDAILY,90\)](#)

X023USB@INTDAILY [Euro Reference Exchange Rate: US Dollar (Avg, USD/EUR)]

Chart 4: Industrial production and retail sales growth in Japan

Series 1: [yryr%\(JPSIR@JAPAN\)](#)

JPSIR@JAPAN [Japan: Retail Sales Value: Total (NSA, 2020=100)]

Series 2: [MEFAC@JAPAN](#)

MEFAC@JAPAN [Japan: Annual Chg of Cash Earnings [5/More Empl]: All Surveyed Inds(NSA,Y/Y%Chg)]

Chart 5: Beijing Airport Aircraft Movement, international and domestic

Series 1: [CNBJAI@TRANSPRT](#)

CNBJAI@TRANSPRT [China: Beijing Capital Intl Airport: Aircraft Movements: International (Number)]

Series 2: [CNBJAD@TRANSPRT](#)

CNBJAD@TRANSPRT [China: Beijing Capital Intl Airport: Aircraft Movements: Domestic (Number)]

Chart 6: Water levels on Gatun Lake, Panama versus global temperature anomalies

Series 1: [V001CAB@ESG](#)

V001CAB@ESG [Global Surface Temp Anomalies: Land & Ocean(Degrees Celsius, Base=1901-2000 Avg)]

Series 2: [movv\(PADWGT@TRANSPRT,365\)](#)

PADWGT@TRANSPRT [Panama: Gatun Lake Water Level (Feet)]