Trust must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of September 11, 2023

By Amundi Institute

The week at a glance

• Markets: Equity markets were sluggish on the week.

• United States: Initial jobless claims declined by 13k to 216k.

• Eurozone: In the third estimate of second quarter 23 GDP, Eurozone growth was revised lower to 0.1% quarter-on-quarter (was 0.3%).

KEY FIGURE

- 0.8%

Decline in German industrial production in July vs June.

Focus

The German economy still in the doldrums

German manufacturing output dipped by 0.8% in July versus June in seasonally adjusted figures, more than expected. Output was down by 2.25% on a last-12-month basis. Generally speaking, over the past several quarters, Germany has tended to underperform other Eurozone countries. In the first half of the year, GDP declined 0.1% in real terms in Germany, while expanding by 0.5% in France and 0.3% in Italy. This was partly due to the slowdown in the global industrial cycle, to which Germany is exposed in particular because of the nature of its economy. However, Germany also faces big structural challenges involving in particular the weight of its exports to China or broad shifts in the auto and energy sectors. A headline in the German press this week sounded the alert over the country's lack of competitiveness, regarding France as being in a more advantageous position. That said, in addressing these challenges, Germany does not lack resources, starting with its abundant fiscal resources.

Key Dates

12th Sept.
ZEW German Economic Sentiment for Sept.

13th Sept.
Eurozone Industrial Production (year-on-year)

14th Sept.
European Central Bank (ECB) meeting

20th Sept.
U.S. Federal Reserve's monetary policy meeting

Source: Amundi Institute

Our weekly analysis

While the U.S. continues to post strong employment figures, the Eurozone showed signs of economic weakness this week. Energy prices rose following the agreement by Saudi Arabia and Russia to extend their voluntary production cuts to the end of the year (1 and 0.3 million barrels per day respectively, originally due to expire at the end of September), which also surprised the markets. Against this backdrop, U.S. interest rates rose, dragging down European bonds with them. Equity markets corrected as bond yields rose. In addition, concerns about the Chinese economy pushed the yuan to a 16-year low against the dollar.

Indice	Performance			
Equity markets	09/08/23	1 W	1 M	YTD
S&P 500	4461	-1.2%	-0.9%	16.2%
Eurostoxx 50	4229	-1.3%	-1.4%	11.5%
CAC 40	7225	-1.0%	-0.6%	11.6%
Dax	15729	-0.7%	-0.3%	13.0%
Nikkei 225	32607	-0.3%	0.7%	25.0%
SMI	10965	-1.0%	-0.8%	2.2%
SPI	14458	-1.0%	-1.0%	5.3%
MSCI Emerging Markets (close -1D)	974	-1.2%	-3.0%	1.8%
Commodities - Volatility	09/08/23	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	90	2.0%	4.8%	5.2%
Gold ($/ounce)	1923	-0.9%	-0.1%	5.4%
VIX	14	1.2	-1.7	-7.4
FX markets	09/08/23	1 W	1 M	YTD
EUR/USD	1.072	-0.6%	-2.2%	0.1%
USD/JPY	148	0.9%	2.9%	12.6%
EUR/GBP	0.86	0.3%	-0.1%	-3.0%
EUR/CHF	0.89	0.8%	1.9%	-3.5%
USD/CHF	0.96	0.2%	-0.3%	-3.4%

Source: Bloomberg, Amundi Institute – September 8, 2023 – 15:00 pm
Past performance is not guarantee of future results.

Indice	Performance			
Credit markets	09/08/23	1 W	1 M	YTD
Itraxx Main	+71 bp	+1 bp	-2 bp	-19 bp
Itraxx Crossover	+401 bp	+6 bp	-6 bp	-73 bp
Itraxx Financials Senior	+82 bp	+2 bp	-1 bp	-17 bp
Fixed Income markets	09/08/23	1 W	1 M	YTD
ESTER OIS	100.74	+7 bp	+32 bp	+200 bp
EONIA	3.65	-	-	+176 bp
Euribor 3M	3.80	+3 bp	+3 bp	+167 bp
Libor USD 3M	5.66	--	+3 bp	+89 bp
2Y yield (Germany)	3.07	+7 bp	+15 bp	+30 bp
10Y yield (Germany)	2.59	+4 bp	+13 bp	+2 bp
2Y yield (US)	4.93	+5 bp	+18 bp	+50 bp
10Y yield (US)	4.22	+4 bp	+20 bp	+34 bp
Eurozone Sovereigns 10Y spreads vs Germany	09/08/23	1 W	1 M	YTD
France	+53 bp	+1 bp	-	-1 bp
Austria	+59 bp	-1 bp	-1 bp	-4 bp
Netherlands	+34 bp	+1 bp	-	+1 bp
Finland	+55 bp	-2 bp	-2 bp	-2 bp
Belgium	+64 bp	+2 bp	-1 bp	-1 bp
Ireland	+40 bp	+2 bp	+1 bp	-16 bp
Portugal	+73 bp	--	-2 bp	-29 bp
Spain	+104 bp	+1 bp	-	-5 bp
Italy	+173 bp	+5 bp	+8 bp	-41 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	Equity markets were sluggish on the week. Stocks felt pressure from the bond market and high yields after a report showed stronger growth in U.S. services last month than economists expected. Moreover, yields remained sustained after a report on Thursday said fewer U.S. workers than expected applied for unemployment benefits last week.	We are sticking to our Underweight stance on the U.S.. Japan is a solid diversifier with a nice story, including improving domestic activity, exit from deflation, Chinese tourism, and improved corporate governance. In emerging markets we remain bullish for the year, having in mind a decoupling of growth vs developed markets and a good recovery in companies earnings in the first half of 2024.
Fixed Income	Stronger than expected data on the U.S. labor market (with an unexpected decline in U.S. initial jobless claims to 216k) and an upward revision to second quarter 2023 unit labor costs led to higher yields in the United States (+6bps to 4.25%). German bond yields rose by 7 basis points in the wake of U.S. yields to 2.61%.	Many market participants expect the European Central Bank (ECB) to raise key rates further at its meeting next week. This is not our forecast. With the weak economy, a turn in the path of underlying inflation, a probable end to the hiking cycle in the U.S. and fears over China's resilience, a majority of the ECB council members will probably vote in our view for unchanged key rates.
Credit	Credit markets consolidated somewhat last week, with limited mixed moves in risk premiums, as spreads tightened modestly in euro speculative grade bonds, while widening slightly in U.S. high yield, and remaining mostly stable in the investment grade space on both sides of the Atlantic. Credit default swap spreads proved to be more correlated to daily swings in other risky assets, but remained stable over the week.	Within risky assets, credit markets remained resilient to swings in bond yields and to equity implied volatility triggered by economic surprises, while recent central bank messages did not meaningfully change the picture on expected policy rates. We expect investment grade to continue being targeted by positive investment flows, as absolute yields on offer still offer attractive valuations and credit metrics still look sound on average.
Foreign Exchange	The U.S. dollar appreciated vs the euro on the weak, with solid U.S. data keeping the Federal Reserve in the spotlight and sustaining Treasury yields. On the other side, emerging currencies gave up ground vs the greenback, in particular the Chilean peso and Poland zloty. Moreover, China's onshore yuan slid to a 16-year low vs the U.S. dollar, under pressure from a property slump, weak consumer spending, and shrinking credit growth.	The U.S. dollar is going to lose momentum vs euro in the second half of 2023 but in the near future it could remain close to its current levels. We reduced our exposure to emerging markets. All in all, we remain slightly bullish on high-yielding currencies in Latin America, such as the Mexican peso and Brazilian real, as well as in Asia, including the Indian rupee.
Commodities	Commodities were down -0.8% (excluding agricultural and livestock) this week. Base metals underperformed, responding to higher inventories, signs of further economic weakening in EU, and amid mixed implications from Chinese Purchasing Managers' Index (PMI). Gold was slightly down, as the strong U.S. job report further supported the case of a delayed pivot, amid higher U.S. dollar and rates. Energy prices were up, following the extension of Saudi Arabia and Russian voluntary oil output cuts and with signs of inventory withdrawals. Natural gas prices also jumped on renewed prospects of strikes in Australia.	On September 4, Russia turned down Turkish mediation to re-instate the Black Sea Grain deal. This deal had been brokered in July 2022 by Turkey, interested in gaining international recognition and seeking to lower food prices amid rampant domestic inflation. Russia withdrew from this agreement in July 2023, concerned that grain exports were boosting Ukrainian revenues, while Russian exports of grains and fertilizers struggled to find outlets. As a result, volatility in agricultural prices is likely to stay elevated, even though they are still factoring a resolution.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	Initial jobless claims declined by 13k to 216k for the week ended 2 September, below the consensus and at their lowest level since February. Continuing claims also dropped by 40k to 1,679k in the week ended 26 August.	The decline in jobless claims to its lowest level since February suggests that, although the labour market probably has moved into a lower gear, it is still experiencing only limited layoffs in selected sectors. This is clearly producing the resilience in growth and consumption we are witnessing in the current quarter, but we still believe that, once this summer's stronger-than-expected activity passes, the deterioration in the labour market will be more pronounced, leading to a demand-driven shrinking in growth.
Eurozone	In the third estimate of second quarter 2023 GDP, Eurozone growth was revised lower to 0.1% quarter-on-quarter (was 0.3%), while first quarter 23 was revised slightly up to 0.1% (was 0%). Although a significant part of the revision was related to Ireland's contribution, growth remained weak even when computing GDP ex-Ireland.	Data keep highlighting weakness in domestic demand, in particular consumer spending, while the picture in fixed investment was mixed with weak construction spending offset by a rebound in non-construction investment. Further contraction in manufacturing output was balanced by mixed signs from the services sector, with leisure and information/communication still expanding against muted activity elsewhere. This remains in line with our projection of lackluster growth in the quarter ahead.
Japan	Nominal wage growth slowed to 1.3% year-on-year in July, down from 2.3% year-on-year in June. Real wage growth declined for the 16th straight month, by 2.5% year-on-year in July.	Despite the weak headlines, the composition of wage growth is quite healthy. Base wage growth accelerated to 1.9% year-on-year in July, up from 1.7% year-on-year in June. This confirms progress towards the Bank of Japan's sustainable 2% inflation target.
Emerging Market	The National Bank of Poland (NBP) surprised market by a 75bps cut while 25bps maximum were expected. According to the NBP, this decision has been motivated by some improvement in inflation dynamics that should be 6-7% year-on-year at the end of this year. Indeed, lower demand pressures than expected should accelerate the inflation path to target band.	Even though it has been denied by the Governor in the press conference, this big cut is likely partly due to coming elections. Further cuts are expected but zloty lost some ground after this decision. The magnitude of the easing cycle might be a bit constrained in case of further weakness in the currency.