1 October 2021

THE WEEK AHEAD

China Props Up Its Roof, With Cash

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 10/5	Trade Balance	Aug	-$70.0 B	▲	-$70.1 B
Tue 10/5	ISM Services Index	Sep	60.0	▼	61.7
Wed 10/6	ADP Employment Change	Sep	450 K	▲	374 K
Thu 10/7	Consumer Credit	Aug	$18.250 B	▲	$17.004 B
Fri 10/8	Change in Nonfarm Payrolls	Sep	500 K	▲	235 K
Fri 10/8	Unemployment Rate	Sep	5.0%	▼	5.2%
Europe					
Mon 10/4	OPEC+ Meeting		--		--
Tue 10/5	EZ Producer Price Index	Aug			12.1% Y/Y
Wed 10/6	EZ Retail Sales	Aug	0.7% M/M	▲	-2.3% M/M
Wed 10/6	Germany Factory Orders	Aug	-1.5% M/M	▼	3.4% M/M
Thu 10/7	Germany Industrial Production	Aug	-0.1% M/M	▼	1.0% M/M
Asia Pacific					
Fri 10/8	Caixin China Services PMI	Sep	49.2	▲	46.7
10/1 - 10/7	National Day Golden Week (Markets Closed)		--		--

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- We will watch the **September employment report,** given the end of supplemental unemployment insurance benefits on September 6 and still-elevated COVID cases. While it may be too soon to see the full impact of expiring benefits, the pace of job gains is expected to pick up compared with August.
- **Debates over the debt ceiling and infrastructure packages** will be monitored closely. While there are many moving assumptions behind the target, the Treasury expects to reach the debt limit on October 18.

Europe

- **EZ retail sales for August** will hopefully shed more light on consumer health, after some volatile months contradicted very solid consumer confidence.
- **German industrial production and orders for August** will give more detail on the ongoing supply-side disruption there.
- **OPEC+ will meet October 4** as several members struggle to raise output, while importing nations pressure the group to increase production and put a lid on prices.

Asia Pacific

- **Markets in China will be closed October 1-7 to celebrate National Day Golden Week**. An important week for both tourism and real estate sales, the holiday will help indicate consumer sentiment on both the property sector and the pandemic.
- Skewed toward smaller firms, the **Caixin China Services PMI** should give an indication of whether the government's targeted support measures are having an effect.

What This Week Means For Markets

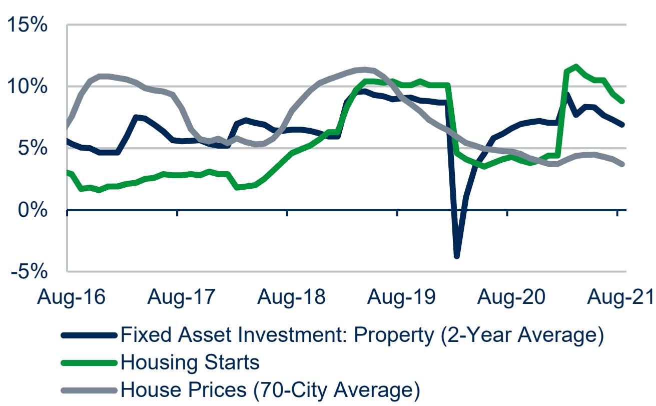
Despite the rally in energy prices, U.S. inflation expectations remain range bound, in line with our central scenario of transitory price pressures. Instead, driving the move higher in U.S. 10-year yields—which rose above 1.5%—were real yields and the term premium, reflecting technical factors and the perceived shift in U.S. monetary policy; as the Fed moves to taper, European policy remains broadly supportive. This divergence, and the rise in U.S. real yields, led the U.S. dollar higher. Elsewhere, Evergrande risks remain muted across EM. With authorities expected to keep cushioning the blow, a China-led slowdown of global growth should be minimal. Our central scenario of transitory price pressures and solid growth remains intact. Please see our Monthly Macro Dashboard.

IN REVIEW

China Faces Delicate Property Balancing Act

The Evergrande saga continues, including a missed $83.5 million coupon payment on its offshore bonds on September 23. The event has so far been a culmination of broad-based tightening weighing on the property sector since last year. Its cumulative effect, together with the high level uncertainty, has led to a closing of most funding channels to developers, including depressing sales activity, housing price growth, and property investment. Outside risks to the financial system—which so far seem manageable given limited exposure of banks to the property sector—contagion risks could also spread to consumer sentiment and social stability, as residential property represents 60% of household assets. A sharp deceleration in residential property and related sectors (which accounts for 15% of GDP) could amplify downside risks to growth, particularly as industrial production and exports continue to moderate. Exacerbating the slowdown is ongoing shortages in electricity supply, triggered by carbon-reduction initiatives.

CHINA PROPERTY SECTOR DATA (Y/Y GROWTH)



Source: Bloomberg. As of August 31, 2021.

Authorities have responded only in measured ways, via ongoing liquidity injections and targeted easing, such as increasing lending to small- and medium-sized enterprises. Prospects of another reserve requirement ratio (RRR) cut are growing. However, authorities will likely focus on stabilizing growth, rather than abandoning regulatory crackdowns or implementing massive stimulus.

Japan's Leadership Race Departs From Status Quo

Fumio Kishida, former foreign minister, was chosen as the leader of the Liberal Democratic Party, all but assuring he will succeed Yoshihide Suga as prime minister. Kishida is an unlikely departure from the status quo; that said, his policy agenda has attached importance on redistribution policies to narrow the income gap. He also pledged a stimulus package worth more than ¥30 trillion (6% of GDP) before year-end, including targeted cash payments to low-income households.

Markets Celebrate German Election's Likely Centrist Coalition

European Union stock markets were on the rise September 27 as centrist politics emerged as the clear winner. The arithmetic of parliamentary seats rules out two market-unfriendly outcomes: a left-leaning coalition and a right-leaning one.

Either outcome would have introduced uncertainty on German (and thus EU) fiscal, monetary, and foreign policy. Both the left- and right-leaning coalition parties would have had to discuss stopping any reform to the set of fiscal rules governing the EU (the Stability and Growth Pact), giving the EU parliament a greater say on ECB policy—and even Germany leaving NATO. While it is unlikely these proposals would have been pursued by the future government, the discussions would have added lots of uncertainty.

The most likely coalitions will instead comprise parties that agree on substantial, additional public investment to finance the Green transition, an increase in carbon prices, and some relaxation in the implementation of EU fiscal rules. So, whatever coalitions emerge after negotiations, they should only bring expected and growth-positive policy shifts.

Delta Weighs on U.S. Consumer Confidence

U.S. consumer confidence fell for the third-consecutive month in September, weighed down by elevated COVID cases. The Conference Board Consumer Confidence Index fell from 115.2 to 109.3—the lowest level since February 2021—as the present situation and expectations components took a step back. This is in line with our downward revision of 2021 U.S. GDP growth, as elevated COVID cases and protracted supply constraints are expected to weigh on Q3 consumer spending. However, looking ahead, COVID cases turning lower should support an increase in consumer confidence, particularly as the labor market recovers.

Report details showed that consumers' income expectations for the next six months fell in September, as did their buying intentions for big-ticket items such as autos, homes, and major appliances. This provides further support for our baseline view of transitory price pressures and lack of a wage-price spiral.

KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.05%	0 bps	0 bps	0 bps	4 bps	-2 bps	-2 bps
3 Month USD Libor	0.13%	0 bps	1 bps	-1 bps	-7 bps	-9 bps	-11 bps
3 Month Euribor	-0.54%	0 bps	1 bps	0 bps	-1 bps	-5 bps	0 bps
3 Month U.S. T-Bill	0.04%	1 bps	-2 bps	-1 bps	2 bps	-5 bps	-4 bps
2-Year U.S. Treasury	0.29%	6 bps	7 bps	3 bps	15 bps	18 bps	17 bps
10-Year U.S. Treasury	1.54%	21 bps	23 bps	6 bps	-17 bps	90 bps	62 bps
10-Year German Bund	-0.22%	11 bps	19 bps	-5 bps	10 bps	32 bps	36 bps
10-Year U.K. Gilt	0.88%	18 bps	29 bps	14 bps	10 bps	68 bps	68 bps
10-Year JGB	0.07%	4 bps	5 bps	1 bps	-1 bps	4 bps	5 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.02%	N/A	-1.4%	-1.1%	0.2%	-3.6%	-2.5%
Barclays Capital U.S. TIPS	1.19%	N/A	-0.8%	-1.0%	1.9%	4.9%	3.4%
Barclays Capital U.S. Aggregate	1.57%	33	-1.1%	-0.9%	0.1%	-1.1%	-1.6%
Barclays Capital Global Aggregate	1.16%	33	-1.5%	-1.7%	-0.9%	-0.9%	-4.0%
Barclays Capital U.S. ABS	0.62%	29	-0.1%	-0.1%	0.1%	0.6%	0.2%
Barclays Capital U.S. MBS	1.85%	28	-0.4%	-0.5%	0.0%	-0.5%	-0.8%
Barclays Capital U.S. Corporate Investment Grade	2.12%	83	-1.6%	-0.9%	0.2%	1.6%	-1.2%
BAML Euro Corporate Investment Grade	0.31%	83	-0.4%	-0.7%	0.2%	1.6%	-0.3%
Barclays Capital U.S. Corporate High Yield	3.97%	281	-0.3%	0.3%	1.0%	11.7%	4.6%
BAML European Currency High Yield Non-Financial	2.70%	309	-0.4%	0.0%	0.7%	9.5%	3.6%
CS U.S. Leveraged Loans	4.79%	439	2.6%	0.7%	1.1%	8.4%	4.6%
CS Western European Leveraged Loans Non-USD	4.17%	406*	2.1%	0.4%	1.0%	7.8%	4.0%
JPM CEMBI Broad Diversified	4.41%	300	-0.6%	-0.6%	0.2%	6.0%	1.5%
JPM EMBI Global Diversified	5.12%	355	-1.6%	-1.6%	-0.6%	4.5%	-1.3%
JPM GBI-EM Global Diversified	5.26%	N/A	-1.7%	-2.4%	-3.1%	3.3%	-6.4%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,359.46	1.31%	-0.8%	-3.2%	1.9%	32.7%	17.3%
Euro STOXX 600 (Local)	455.03	2.72%	-1.8%	-3.7%	-0.3%	25.9%	14.0%
U.K. FTSE 100 (Local)	7,108.16	3.44%	0.3%	-0.6%	0.3%	20.5%	10.0%
Japan Nikkei 225 (Local)	29,544.29	1.51%	-0.3%	6.9%	2.5%	25.5%	7.7%
China Shanghai Composite (Local)	3,536.29	2.06%	-2.5%	0.4%	-1.0%	9.7%	1.8%
MSCI AC World (Local)	713.99	1.80%	-0.9%	-2.5%	0.4%	29.3%	14.1%
MSCI Emerging Markets (Local)	1,251.28	2.40%	-0.3%	-0.8%	-6.7%	18.2%	0.8%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	554.51	2.8%	4.8%	4.6%	16.8%	60.8%	35.4%
WTI Crude ($/bbl)	74.83	3.4%	8.7%	2.3%	21.7%	91.7%	54.8%
Copper ($/lb)	4.20	-1.2%	-2.7%	-1.8%	3.9%	40.8%	19.5%
Gold ($/oz)	1,737.15	-2.0%	-3.4%	-1.0%	1.8%	-7.8%	-8.0%
U.S. Dollar Index	94.34	0.9%	1.8%	2.5%	1.5%	0.5%	4.9%
Euro (USD/EUR)	1.16	-1.0%	-1.4%	-2.4%	-1.3%	-1.0%	-5.1%
British Pound (USD/GBP)	1.34	-1.6%	-2.3%	-3.0%	-2.5%	4.6%	-1.8%
Japanese Yen (Yen/USD)	111.91	2.1%	1.8%	1.3%	1.9%	5.9%	8.4%
Chinese Yuan (CNY/USD)	6.47	0.0%	-0.2%	0.2%	-1.4%	-5.2%	-1.1%

Source: FactSet and Bloomberg. As of September 22, 2021.

Note: *As of September 23, 2021.

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