

## Is the U.K. the Newest Leading Indicator?

### WATCH LIST

Date		Period	Consensus		Previous
<b>U.S.</b>					
Mon 11/22	Existing Home Sales	Oct	6.20 M	▼	6.29 M
Tue 11/23	Markit Manufacturing PMI (Preliminary Estimate)	Nov	58.7	▲	58.4
Tue 11/23	Markit Services PMI (Preliminary Estimate)	Nov	59.0	▲	58.7
Wed 11/24	GDP, Annualized (Second Estimate)	3Q21	2.2% Q/Q	▲	2.0% Q/Q
Wed 11/24	Personal Spending	Oct	0.9% M/M	▲	0.6% M/M
Wed 11/24	Personal Income	Oct	0.4% M/M	▲	-1.0% M/M
Wed 11/24	Core PCE Deflator	Oct	4.1% Y/Y	▲	3.6% Y/Y
Wed 11/24	New Home Sales	Oct	808 K	▲	800K
Wed 11/24	FOMC Meeting Minutes	Nov	--		--
Thu 11/25	Markets Closed for Thanksgiving		--		--
<b>Europe</b>					
Mon 11/22	EZ Consumer Confidence (Advance Estimate)	Nov	-5.2	▼	-4.8
Tue 11/23	EZ Markit Manufacturing PMI (Preliminary Estimate)	Nov	57.5	▼	58.3
Tue 11/23	EZ Markit Services PMI (Preliminary Estimate)	Nov	54.1	▼	54.6
Tue 11/23	U.K. Markit Manufacturing PMI (Preliminary Estimate)	Nov	57.4	▼	57.8
Tue 11/23	U.K. Markit Services PMI (Preliminary Estimate)	Nov	58.2	▼	59.1
<b>Asia Pacific</b>					
Mon 11/22	PBOC Meeting	Nov	--		--
Mon 11/22	South Korea Exports, 20 Days	Nov			36.1% Y/Y
Tue 11/23	Jibun Bank Japan Mfg. PMI (Preliminary Estimate)	Nov			53.2
Tue 11/23	Jibun Bank Japan Services PMI (Preliminary Estimate)	Nov			50.7

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

#### U.S.

- **The core Personal Consumption Expenditure (PCE) deflator**—the Fed’s preferred inflation measure—should rise in October as price pressures get worse before they get better. Meanwhile, markets await President Biden’s Fed nomination.
- **Flash PMIs** for November should show the Q4 rebound and impacts from early holiday shopping.

#### Europe

- We will watch **the November euro area consumer confidence** indicator, which has wavered around all-time highs for three months.
- **Euro area and U.K. PMIs** will indicate whether supply-side constraints and inflation are starting to weigh on production. They haven’t so far.

#### Asia Pacific

- **Japan PMIs for November** will show the expected normalization in activity for Q4 and whether supply shortages remain an issue for production.
- **The PBOC meeting** will show how much additional stimulus, such as a reserve requirement ratio (RRR) cut, can be implemented; only targeted measures have been emphasized so far.

#### What This Week Means For Markets

An upside surprise in U.K. inflation and solid labor market improvements reinforced markets pricing a 10-15 bps rate hike by the BoE at its December meeting. Meanwhile, energy prices eased with the announcement that China will release oil reserves and could provide some downside pressure to still-elevated market inflation expectations, especially with breakeven yields in the U.S. close to 2021 highs. A positive beat in U.S. retail sales and strong corporate earnings also supported a climb in equities; combined with the bipartisan infrastructure package, this supports our baseline outlook for increased Q4 growth. Please see our [Monthly Macro Dashboard](#).

## IN REVIEW

### U.K. Data Point Toward an Imminent BoE Hike

Annual U.K. inflation surprised to the upside, rising 4.2% Y/Y in October 2021, above the market forecast of 3.9% and September levels of 3.1%; a 12% jump in utility bills and higher fuel prices helped drive the increase. Upward contribution also came from used car prices, hospitality, and food and beverages.

U.K. inflation is likely to remain more elevated than in the euro area, due to more severe labor shortages and supply disruptions caused by the compounded effects of Brexit and the pandemic. The U.K. labor market is recovering well, with unemployment declining to 4.3% in the three months leading to September, well below market expectations and only 0.3 percentage points above pre-pandemic levels. U.K. government data showed strong October payrolls, suggesting a smooth transition from furloughs.

Labor demand is recovering faster in the presence of shortages and strong inflationary pressures, reinforcing expectations of a 10-15bps hike by the BoE in December, as well as further hikes in 2022. Markets are already pricing in a 25bp hike by January, with 100% probability.

### Headwinds for China Remain, But Are Improving

Despite the improvement in domestic activity, headwinds from the Zero-COVID approach and property policy tightening present headwinds to a sustained recovery. October retail sales grew 4.9% Y/Y, above expectations, lifted by a strong Golden Week holiday. Retail sales are still below its pre-pandemic growth rate, as pandemic concerns remain a drag, particularly for the services industry, with restaurant sales also remaining tepid and growth in the services output index moderating further in the month.

**CHINA FIXED ASSET INVESTMENT Y/Y GROWTH**  
(TWO-YEAR AVERAGE)



Source: Bloomberg. As of November 17, 2021.

Meanwhile, industrial production showed a robust rebound, growing 3.5% Y/Y, above expectations, following policy interventions that led to the easing of power constraints and an increase in coal output. Finally, fixed asset investment came in slightly below expectations, growing 6.1% Y/Y amid weakness in the property sector. Manufacturing investment saw continued strength, and, given still-strong international demand and elevated industrial profits, should be supportive of private capex. Meanwhile, infrastructure investment has been hard-pressed to pick up despite increased government bond issuance.

### U.S. Inflation Isn't Ruining the Holiday Spirit

Stickier U.S. inflation pressures are weighing on consumer sentiment, but shoppers continue to spend. The University of Michigan consumer sentiment index for November fell to its lowest level in a decade, with declines in both current conditions and expectations. While the median expected inflation for the coming year rose from 4.8% to 4.9%, expectations for five years ahead held steady at 2.9%, signalling that consumers see worsening near-term pressures but they expect them to ease.

Despite frustration about elevated inflation, shoppers continue to spend at an impressive pace. Retail sales beat expectations, accelerating from 0.8% M/M to 1.7% M/M in October, amid an early start to the holiday shopping season. Gains were broad-based across sectors, and even adjusting for inflation, real retail sales were up over the month. The strong October spending data supports our baseline view for a pickup in Q4 growth.

### Japan Q3 GDP Facing the Brunt of Delta

Real Gross Domestic Product (GDP) contracted -0.8% Q/Q in Q3, a sharper drop than expected, amid a combination of the extended State of Emergency that lasted for most of the quarter, and semiconductor shortages, particularly in autos, which impacted consumption. Supply constraints were also felt in exports and capex, with the former declining for the first time in five quarters. GDP remains more than 2% below year-end 2019 levels, and the delayed recovery increases the risk of our Gravity Prevails scenario (see link on page 1). However, easing infections and a high vaccination rate, together with business and consumer sentiment surveys moving higher, bodes well for a revival of consumption, particularly in Q4. Additional stimulus spending is expected to total ¥56 trillion (10% of GDP), which includes cash distributions to households and should support the recovery into next year.

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## 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	-4 bps	-2 bps
3 Month USD Libor	0.16%	0 bps	3 bps	3 bps	1 bps	-7 bps	-8 bps
3 Month Euribor	-0.57%	0 bps	-2 bps	-2 bps	-2 bps	-4 bps	-2 bps
3 Month U.S. T-Bill	0.05%	-1 bps	-1 bps	-2 bps	3 bps	-4 bps	-3 bps
2-Year U.S. Treasury	0.50%	1 bps	10 bps	29 bps	35 bps	33 bps	38 bps
10-Year U.S. Treasury	1.61%	5 bps	3 bps	35 bps	-3 bps	74 bps	69 bps
10-Year German Bund	-0.24%	2 bps	-7 bps	23 bps	-14 bps	32 bps	33 bps
10-Year U.K. Gilt	0.97%	9 bps	-12 bps	41 bps	10 bps	64 bps	77 bps
10-Year JGB	0.07%	1 bps	-1 bps	6 bps	0 bps	5 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.19%	N/A	-0.3%	0.0%	-1.3%	-2.7%	-2.7%
Barclays Capital U.S. TIPS	1.37%	N/A	0.0%	1.6%	2.3%	8.4%	6.2%
Barclays Capital U.S. Aggregate	1.73%	35	-0.3%	-0.2%	-1.1%	-1.3%	-1.9%
Barclays Capital Global Aggregate	1.28%	35	-0.9%	-0.8%	-2.6%	-3.1%	-4.9%
Barclays Capital U.S. ABS	0.94%	38	0.0%	-0.2%	-0.6%	0.1%	-0.2%
Barclays Capital U.S. MBS	1.96%	27	-0.1%	-0.2%	-0.7%	-0.9%	-1.1%
Barclays Capital U.S. Corporate Investment Grade	2.31%	91	-0.7%	-0.2%	-1.2%	0.0%	-1.6%
BAML Euro Corporate Investment Grade	0.43%	99	-0.5%	-0.1%	-1.5%	-0.4%	-0.7%
Barclays Capital U.S. Corporate High Yield	4.36%	296	-0.5%	0.1%	0.7%	7.3%	4.4%
BAML European Currency High Yield Non-Financial	2.96%	336	-0.2%	0.3%	-0.3%	5.2%	3.3%
CS U.S. Leveraged Loans	5.07%	434	0.0%	0.3%	1.4%	7.1%	5.2%
JPM CEMBI Broad Diversified	4.56%	302	-0.1%	-0.1%	-0.9%	3.3%	0.9%
JPM EMBI Global Diversified	5.24%	356	-1.1%	-0.3%	-1.7%	0.5%	-1.8%
JPM GBI-EM Global Diversified	5.68%	N/A	-1.3%	-2.5%	-3.5%	-4.8%	-8.3%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,688.67	1.23%	0.9%	5.0%	5.8%	31.8%	26.4%
Euro STOXX 600 (Local)	489.95	3.06%	1.3%	4.4%	3.4%	26.0%	22.8%
U.K. FTSE 100 (Local)	7,291.20	3.39%	-0.7%	0.8%	1.5%	14.5%	12.9%
Japan Nikkei 225 (Local)	29,688.33	1.61%	2.0%	2.1%	8.3%	14.1%	8.2%
China Shanghai Composite (Local)	3,537.37	2.05%	1.3%	-1.0%	2.6%	5.9%	1.9%
MSCI AC World (Local)	756.35	1.75%	1.0%	3.8%	5.5%	27.1%	21.5%
MSCI Emerging Markets (Local)	1,286.87	2.39%	1.2%	0.5%	2.9%	10.6%	3.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	572.28	-1.2%	-3.3%	11.0%	9.9%	54.7%	39.8%
WTI Crude (\$/bbl)	78.36	-3.5%	-4.9%	17.8%	18.3%	90.0%	62.1%
Copper (\$/lb)	4.27	-1.3%	-9.7%	1.7%	-9.5%	33.7%	21.6%
Gold (\$/oz)	1,864.90	0.3%	5.2%	4.2%	0.6%	-1.3%	-1.2%
U.S. Dollar Index	95.83	1.0%	2.0%	2.9%	6.3%	3.7%	6.6%
Euro (USD/EUR)	1.13	-1.8%	-2.6%	-3.5%	-6.9%	-4.8%	-7.6%
British Pound (USD/GBP)	1.35	-0.1%	-2.2%	-2.0%	-4.6%	1.5%	-1.5%
Japanese Yen (Yen/USD)	114.55	0.6%	0.4%	4.5%	4.9%	9.9%	10.9%
Chinese Yuan (CNY/USD)	6.38	-0.2%	-0.7%	-1.5%	-0.9%	-2.7%	-2.4%

Source: FactSet and Bloomberg. As of November 17, 2021.

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