July 31, 2020

The Week Ahead

Active is: Keeping an eye on capital markets

Greg Meier

Senior Economist
Director

@AllianzGI_VIEW

Heat wave

Economic engines are firing again as the world climbs out from a deep, pandemic-induced recession. Accumulating evidence indicates the worst of the downturn occurred in April or May and that, as countries reopened, activity rebounded. Importantly, not only has economic data improved, in many cases the numbers are coming in stronger-than-expected. In fact, the early stage of the global recovery is starting to look similar to the V-shape that formed in financial markets in March.

What's next? If markets are a guide, recent economic gains could slow. Since business reopening got underway in early June, the MSCI World Index has been range-bound, mostly moving sideways. At the same time, as consumers have returned to restaurants, hair salons, gyms and shopping malls, the pandemic has accelerated.

The viral resurgence has economic consequences. In recent weeks, restrictions have been reimposed in several European and Asian countries and 10 US states. Hopes for summer tourism have been dampened, as policymakers announce bans and quarantines on visitors from global hotspots.

It is critical to wrap perspective around what this means: targeted measures will hurt some companies and communities. But the overall economic impact should be less than it would be from renewed national lockdowns.

It is also important to keep in mind that economic growth is the intersection of supply and demand. Reopening brings the supply of goods and services back online. Demand – and consumer comfort about resuming activities – is the second half of the equation. From that standpoint, it is notable that a key consumer cohort – people over the age of 65 – are more likely to die from the virus and they spend a lot more money than their lower-risk under-25 peers.

This suggests that, leaving aside a potential vaccine or containment, the initial V-shaped

Publications

Why the coming months are critical to a decisive green transition

As the world battles the Covid-19 pandemic, responsible investors can help make the economic recovery sustainable and inclusive by engaging with the right stakeholders. A PRI working group has developed recommendations for a policy-engagement framework to help guide the investment community's actions. Here are highlights of the group's findings.

Ahead of the curve: Media, markets and investing in a better world

What effects does an ESG-related media report have on the capital markets? Read more about the latest analysis done by Dr Hans-Jörg Naumer & Prof Dr Burcin Yurtoglu

Who is going to pay? Public debt and the low / negative yield environment

Who is going to pay? That question is heard quite often in connection with the coronavirus-related fiscal packages. Quite rightly. Governments have adopted huge packages to stabilise their economies. While there is no shortage of suggestions for how the new public expenditure and old debt is to be funded, many people seem to be overlooking the fact that the current low or negative interest-rate environment is already making a major contribution to debt reduction. This article will analyse the impact of implicit interest rates, growth and inflation on debt ratios in Germany, France, Spain and Italy.

economic recovery may transition into a longer-tailed process of structural repair. And the longer it takes to contain the virus, the greater the risk of permanent job losses, business closures, shifts in consumer spending patterns and policy fatigue.

The Week Ahead

The burning question today is whether investors are still too pessimistic about **the economic recovery**, or if the soft high-frequency data released recently might portend a risk of disappointment. (See our Chart of the Week). We'll soon get answers.

The focus Monday will be manufacturing in the world's two largest economies: the US and China. In both cases, consensus estimates suggest that July was yet another month of **accelerating expansion**. Conditions in the US, in particular, are forecast to reach the strongest level since April 2019.

On Tuesday, attention will shift to Tokyo, **Japan**, where July core consumer inflation is expected to hold at 0.20% year-on-year. Tokyo data typically gets published before national statistics and provides insight on the country's direction.

Wednesday brings **euro area** retail sales. While consensus estimates point to a 15.8% month-on-month gain in June, the year-on-year rate is expected to weaken from -5.1% to -7.5%. Also, in the US we'll get the July ISM service sector index, which is expected to ease from 57.1 to 55.0. While that's still expansion territory (above 50), it shows **prospective damage** from the (re)closure of bars, restaurants and gyms, and persistent weakness in travel. Services account for about 70% of US GDP.

On Thursday, expect to see German factory orders plus a monetary policy decision in the UK. The **Bank of England** is forecast to hold interest rates at 0.25% and maintain its quantitative easing programme at GBP 725 billion.

The week closes with a heavy Friday calendar. In China, we'll see July imports and exports, which are expected to contract 10.0% and 1.5% year-on-year, respectively. In Europe, **Germany's economic recovery** will be in focus, with export growth expected to accelerate to 13.8% month-on-month and industrial production forecast to jump 10%. In the US, investors will decipher the July employment report, with consensus estimates pointing to another blowout 2.26 million jobs added and unemployment falling from 11.1% to 10.3%.

Reviewing risk-on

The "**risk-on**" reflationary trade continues to hold, with commodity prices improving while the US dollar weakens. Cyclical indicators are pointing toward a rotation, potentially offering further support for Europe's bourses. In the US, technology stocks continue to provide leadership, shrugging-off brief bouts of weakness and rising concerns about stretched valuations. While the macro backdrop has become more challenging, technical trends suggest a continued overweight in commodities and equities.

Stay cool,

Greg

Upcoming Political Events 2020

Aug 1: BoE meeting, minutes and inflation report

Aug 2: BoJ minutes

Overview political events 2020 (click here)

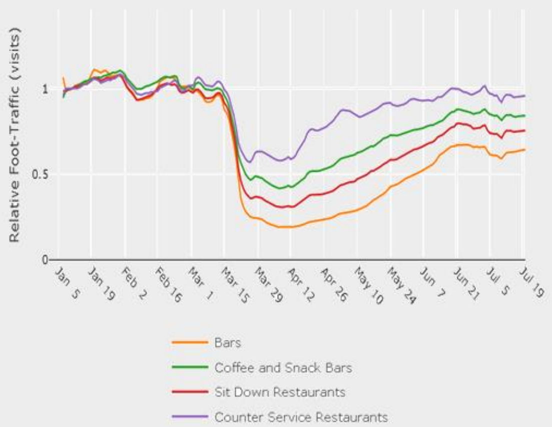
Global Capital Markets & Thematic Research goes Social Media:

to our publications (click here)

to our twitter feed (click here)

Chart of the Week

In the US food traffic in restaurants, bars, coffee shops has stalled…



Source: Safegraph, AllianzGI Economics & Strategy (as of July 23th 2020)

Calendar Week 32:

Monday			Consensus	Previous
CH	Caixin Manufacturing PMI	Jul	51,3	51,2
IT	Markit Italy Manufacturing PMI	Jul	--	47,5
JN	Vehicle Sales YoY	Jul	--	-26,00%
US	ISM Manufacturing	Jul	53,6	52,6
US	Construction Spending MoM	Jun	1,00%	-2,10%

Tuesday				
EC	PPI YoY	Jun	--	-5,00%
JN	Tokyo CPI YoY	Jul	--	0,30%
JN	Tokyo CPI Core YoY	Jul	--	0,20%
JN	Monetary Base YoY	Jul	--	6,00%
US	Factory Orders MoM	Jun	5,50%	8,00%
US	Factory Orders ex. Transport MoM	Jun	--	2,60%

Wednesday				
CH	Caixin Composite PMI	Jul	--	55,7
CH	Caixin Services PMI	Jul	58	58,4
EC	Retail Sales YoY	Jun	--	-5,10%
IT	Markit Italy Services PMI	Jul	--	46,4
IT	Markit Italy Composite PMI	Jul	--	47,6
US	ADP Employment Change	Jul	2150k	2369k
US	Trade Balance	Jun	-$53.6b	-$54.6b
US	ISM Non-Manufacturing Index	Jul	55	57,1

Thursday				
GE	Factory Orders YoY	Jun	--	-29,30%
GE	Markit Construction PMI	Jul	--	41,3
IT	Industrial Production YoY	Jun	--	-20,30%
UK	Markit Construction PMI	Jul	--	55,3
UK	Bank of England Bank Rate	Aug 06	--	0,10%

Friday				
CH	Exports YoY	Jul	--	0,50%
CH	Imports YoY	Jul	--	2,70%
CH	Trade Balance	Jul	--	$46.42b
CH	BoP Current Account Balance	2Q P	--	-$33.7b
CH	Foreign Reserves	Jul	--	$3112.33b
FR	Industrial Production YoY	Jun	--	-23,40%
FR	Manufacturing Production YoY	Jun	--	-25,20%
FR	Trade Balance	Jun	--	-7051m
FR	Current Account Balance	Jun	--	-8.5b
GE	Trade Balance	Jun	--	7.1b
GE	Current Account Balance	Jun	--	6.5b
GE	Exports SA MoM	Jun	--	9,00%
GE	Imports SA MoM	Jun	--	3,50%
GE	Industrial Production YoY	Jun	--	-19,30%
IT	Trade Balance	Jun	--	5584m
JN	Labor Cash Earnings YoY	Jun	--	-2,10%
JN	Leading Index	Jun P	--	78,4
JN	Coincident Index	Jun P	--	73,4
US	Change in Nonfarm Payrolls	Jul	2000k	4800k
US	Unemployment Rate	Jul	10,20%	11,10%
US	Average Hourly Earnings YoY	Jul	--	5,00%
US	Consumer Credit	Jun	$8.000b	-$18.280b