

Chief Investment Office

Weekly Market Commentary

For professional advisers only



In Summary

- The number of new US jobs in June missed market expectations however wage inflation remains high
- The market expects US headline Consumer Price Index (CPI) to fall dramatically on Wednesday but for core inflation to be sticky
- Falling consumer inflation expectations remain critical to avoiding an inflationary spiral

The number of new US jobs in June missed market expectations however wage inflation remains high

The headline miss in the US employment report on Friday was not taken as good news by equity markets who instead focused on some of the stickier labour market metrics. Equities closed lower on the day, with the US down just over 1% for the week and Europe underperforming, down a sizeable 3% over the same period.

The US employment report had positives and negatives for investors worried about labour market driven US inflation. The headline number of new jobs created in June came in below market expectations which is the first miss versus expectations in over a year. The unemployment rate grinded lower however, hitting 3.6% while the average number of hours worked in a week climbed versus expectations. The average hourly earnings also rose more than the market expected, coming in at 4.4% year-on-year. In aggregate, there may be some initial signs that labour market strength may soften in the coming months however the tick up in earnings and hours worked suggest that the inflationary wage pressures are still capable of fuelling consumption demand.

The market expects US headline CPI to fall dramatically on Wednesday but for core inflation to be sticky

This focus on inflation brings us to this week's latest US CPI print which is released on Wednesday. The release comes amidst a series of US Federal Reserve (Fed) speakers so there will be a live commentary on the inflation results for the markets to consider. The headline US CPI reading is expected to plummet from 4% to 3.1% year-on-year while the US core CPI (excluding food and energy) is expected to fall more gradually, from 5.3% to 5%. The bond market, and Fed, will focus far more on this stickier core CPI target which remains well ahead of the central bank's target range.

Falling consumer inflation expectations remain critical to avoiding an inflationary spiral

The Fed will be looking closely at the core CPI number when it is released however arguably consumers (and the media) are more likely to focus on the headline number. This is important as later in the week we see the University of Michigan release their consumer sentiment survey which includes inflation expectations. Should the headline US CPI continue to fall, this could quickly filter through to lower consumer inflation expectations which in turn may moderate wage growth demands.

Economic indicators (week beginning 3 July)

Day	Data Release	Consensus	Prior	Actual
Monday	France HCOB France Manufacturing PMI Jun F	45.5	45.5	46
	United States ISM Manufacturing Jun	47.2	46.9	46
	Japan Jibun Bank Japan PMI Mfg Jun F	--	49.8	49.8
	Italy HCOB Italy Manufacturing PMI Jun	45.3	45.9	43.8
	Germany HCOB Germany Manufacturing PMI Jun F	41	41	40.6
	Eurozone HCOB Eurozone Manufacturing PMI Jun F	43.6	43.6	43.4
	United Kingdom S&P Global/CIPS UK Manufacturing PMI Jun F	46.2	46.2	46.5
	United States S&P Global US Manufacturing PMI Jun F	46.3	46.3	46.3
	Japan Tankan Large Mfg Index 2Q	3	1	5
	Japan Tankan Large All Industry Capex 2Q	10.00%	3.20%	13.40%
	Japan Tankan Large Non-Mfg Index 2Q	22	20	23
	Japan Tankan Large Non-Mfg Outlook 2Q	21	15	20
	United States Construction Spending MoM May	0.50%	1.20%	0.90%
	Tuesday	Canada S&P Global Canada Manufacturing PMI Jun		49
Japan Monetary Base YoY Jun		--	-1.10%	-1
Wednesday	United States Durable Goods Orders May F	1.70%	1.70%	1.80%
	France HCOB France Services PMI Jun F	48	48	48
	France HCOB France Composite PMI Jun F	47.3	47.3	47.2
	France Industrial Production YoY May	0.60%	1.30%	2.60%
Thursday	United States Initial Jobless Claims 37073	245k	239k	248k
	United States MBA Mortgage Applications 11110	--	3.00%	-4.40%
	United States ADP Employment Change Jun	240k	278k	497k
	Germany Factory Orders MoM May	1.00%	-0.40%	6.40%
	United States Trade Balance May	-\$69.0b	-\$74.6b	-\$69.0b
	United States ISM Services Index Jun	51.3	50.3	53.9
United Kingdom S&P Global/CIPS UK Construction PMI Jun	51	51.6	48.9	
Friday	United States Change in Nonfarm Payrolls Jun	225k	339k	209k
	Canada Unemployment Rate Jun	5.30%	5.20%	5.40%
	United States Unemployment Rate Jun	3.60%	3.70%	3.60%
	Germany Industrial Production SA MoM May	0.00%	0.30%	-0.20%
	France Industrial Production MoM May	-0.20%	0.80%	1.20%
	Canada Net Change in Employment Jun	20.0k	-17.3k	59.9k
	United States Factory Orders May	0.80%	0.40%	0.30%
	Japan Tankan Large Mfg Outlook 2Q	4	3	9

Source: Bloomberg, data accessed 10.07.23



Economic indicators (week beginning 10 July)

Day	Data Release	Consensus	Prior
Monday	China CPI YoY Jun	0.20%	0.20%
	Japan BoP Current Account Balance May	¥1910.8b	¥1895.1b
	China PPI YoY Jun	-5.00%	-4.60%
Tuesday	Germany ZEW Survey Expectations Jul	-10.5	-8.5
	Germany ZEW Survey Current Situation Jul	-62	-56.5
	Germany CPI YoY Jun F	6.40%	6.40%
	United Kingdom Jobless Claims Change Jun	--	-13.6k
	Italy Industrial Production MoM May	0.60%	-1.90%
	Germany CPI MoM Jun F	0.30%	0.30%
	United Kingdom ILO Unemployment Rate 3Mths May	3.80%	3.80%
Australia Westpac Consumer Conf SA MoM Jul	--	0.20%	
Wednesday	Canada Bank of Canada Rate Decision 41091	5.00%	4.75%
	United States CPI MoM Jun	0.30%	0.10%
	United States CPI YoY Jun	3.10%	4.00%
	Japan PPI YoY Jun	4.40%	5.10%
	Japan Core Machine Orders MoM May	1.00%	5.50%
Thursday	United States Initial Jobless Claims 39630	250k	248k
	France CPI YoY Jun F	4.50%	4.50%
	United Kingdom Manufacturing Production MoM May	-0.50%	-0.30%
	China Trade Balance Jun	\$74.80b	\$65.81b
	China Exports YoY Jun	-10.00%	-7.50%
Friday	Japan Industrial Production MoM May F	--	-1.60%
	United States U. of Mich. Sentiment Jul P	65.5	64.4
	United States MBA Mortgage Applications 39264	--	-4.40%
	United Kingdom Industrial Production MoM May	-0.40%	-0.30%
	United States PPI Final Demand MoM Jun	0.20%	-0.30%
	China Money Supply M2 YoY Jun	11.20%	11.60%
	United Kingdom Claimant Count Rate Jun	--	3.90%

Source: Bloomberg, data accessed 10.07.23



Asset market performance

Index	Value	As at Friday close		YTD	
		CR	TR	CR	TR
MSCI UK GBP	2073	-3.67%	-3.66%	-3.30%	-1.16%
MSCI USA USD	4180	-1.15%	-1.12%	14.83%	15.54%
MSCI Europe ex UK EUR	179	-3.11%	-3.07%	7.09%	9.20%
MSCI AC Asia Pacific ex JPN USD	506	-1.47%	-1.23%	0.16%	1.76%
MSCI Japan JPY	1385	-1.60%	-1.60%	20.40%	21.81%
MSCI Emerging Markets USD	981	-0.89%	-0.63%	2.54%	4.22%
Barclays Sterling Gilts GBP	212		-2.15%		-5.98%
GOLD USD	1925	0.30%		5.54%	
WTI Oil USD	74	4.56%		-7.97%	
MSCI PIMFA Income		-1.87%	-1.82%	-1.07%	0.21%
MSCI PIMFA Balanced		-2.00%	-1.96%	-0.16%	1.12%
MSCI PIMFA Growth		-2.17%	-2.13%	1.07%	2.35%

Source: Bloomberg, MSCI; please see important information, data accessed 10.07.23

YTD denotes year to date, TR denotes total return and CR denotes capital return.



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