



## AFS Insights

**Arne Petimezas**  
Senior Analyst  
+31 20 522 0244  
a.petimezas@afsgroup.nl

## Headline Sweep

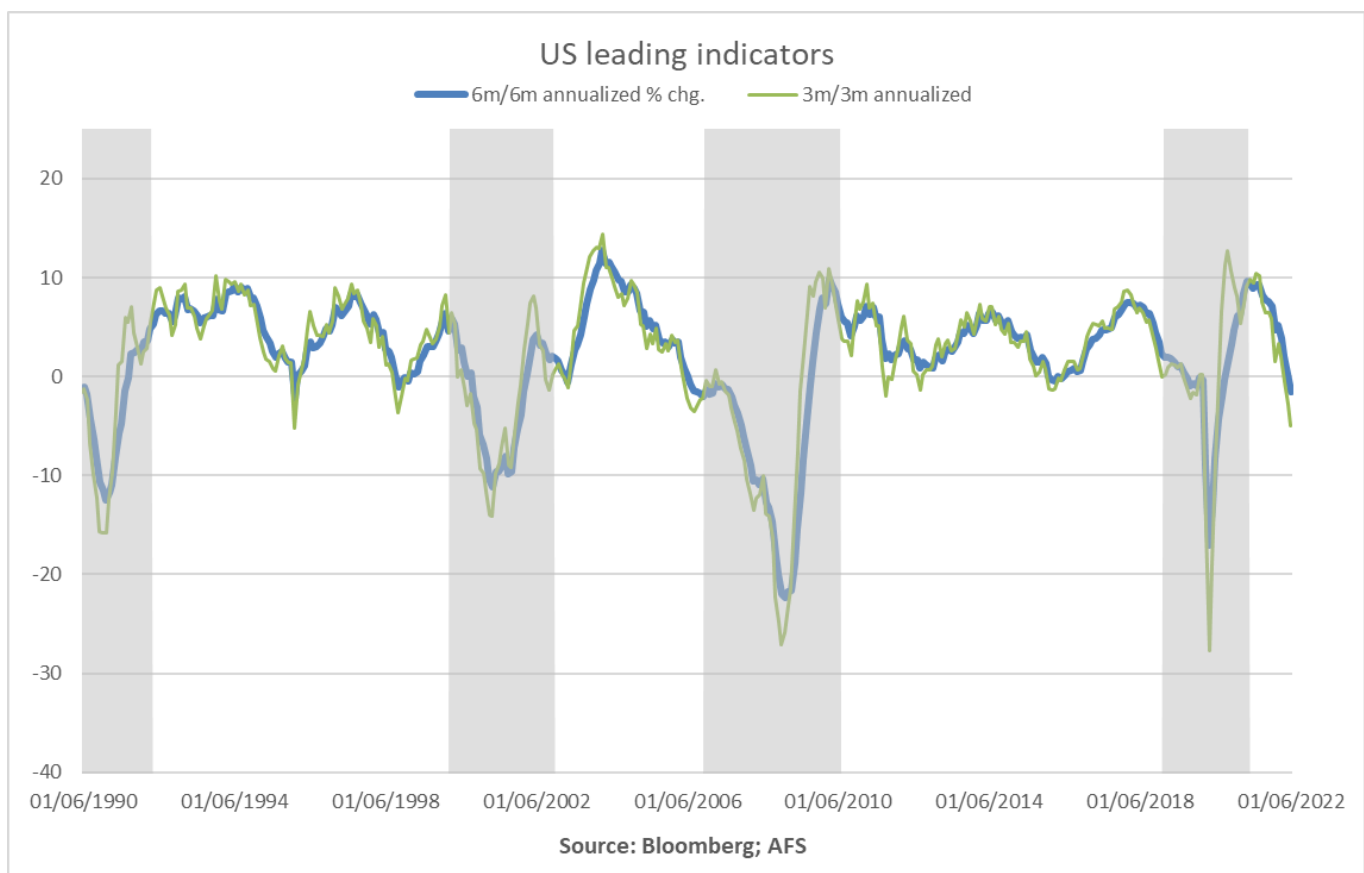
- Italy's Far-Right Favorite Aims to Stick to EU Budget Rules
- Kashkari Says Fed Still 'Long Way' From Backing Off Hikes: NYT
- Asia Factory Activity Tumbles on Supply, Weaker Demand
- Pelosi begins closely-watched Asia tour in Singapore

## Overnight Comment/The Day Ahead/Week Ahead

- **Meanwhile in markets, the much-hated bear market rally keeps on going while the now persistent US Treasury yield curve inversion signals it will take a while before we have an acute shortfall of demand on our hands.**
- **US Treasury yields were flat in Asian trading, with the 2y10y spread at a negative 24bps.** That spread has been inverted for 24 days, which compares with a minimum of 185 days before the last recession that was preceded by a yield curve inversion that was the result of Fed over-tightening. Fed funds futures suggests there are 100bps of Fed hikes left for the year.
- **In the Eurozone govvie market the 10y Italy Bund spread opened at 220bps, which is down 20bps from the highs.** That follows a report on Friday that Brothers of Italy leader Giorgia Meloni said she would stick to EU budget rules. For what it's worth. If the rules are reapplied in 2024, Italy is in for a lot of austerity. ECB pricing remains duly in line with our forecast of 100bps of additional hikes this year. It remains the case that 2023 hikes are mostly priced out.
- **Asian equities are showing modest or moderate gains this morning despite weak PMI data that showed that industrial output in key economies in the region is contracting (at a faster pace).** On the charts US and Eurozone economies are enjoying a fat (bear-market) rally. We can't stress this enough, but equities are a lagging indicator when it comes to the timing of the business cycle. Equities can have a very strong second half even when the US Treasury yield remains inverted for the rest of the year. Commodities have benefited from the dollar coming off the highs. Commodities, as measured by the Bloomberg index, are 13 percent below the early 2022 high. Peak-to-trough they were down 22 percent a month ago.
- **Looking ahead, keep an eye on US House Speaker Pelosi's Asia tour.** Pelosi, the world's most renowned day-trader, is scheduled to visit Singapore, Malaysia, South Korea and Japan. Taiwan is not mentioned though she was supposed to visit the island in her last days as Speaker of the House. We have a hunch that Beijing's tantrum and the White House's not subtle hints have succeeded in deterring

Pelosi not to visit Taiwan. Beijing’s tantrum, as in threats to “intercept” Pelosi’s plane. The White House said it is “not such a good idea” to visit the Island.

- **Key economic reports this week include this afternoon’s US ISM manufacturing PMI reading; the ISM services equivalent on Wednesday; and of course the monthly US labor market report on Friday.** Regarding the ISM surveys, both should have edged down in July while still hovering above the 50-breakeven mark that demarcates growth from contraction.
- **Regarding the US business cycle, the chart below shows the ups and downs of the US business cycle according to the Conference Board’s leading indicators, a composite index made up high-frequency data such as jobless claims, housing starts and manufacturing production.** Negative readings, such as we have now, are always associated with either a recession scare or the onset of an actual recession (denoted grey in the chart). However, the data has to deteriorate quite a bit more before the leading indicators are actually at recessionary levels. So, close but no cigar.



- **The US labor market report on Friday should show a further decline in headline payrolls growth.** However, the 250k gain consensus expects for July (June was +372k) is still consistent with above potential GDP growth and a strong economy. Punters will be paying close attention to the discrepancy between payrolls (which is based on a survey of firms and government entities) and employment according to the separate survey of households (which is also used to calculate the unemployment rate). The household survey suggest employment has been stable since March while the establishment survey has shown continued stellar gains in employment (i.e. payrolls). Note that Powell & Co have pinned their hopes of a soft landing on the strong labor market, in particular the payrolls gains. The Fed

might become even wobblier in its resolve with regards to tightening if payrolls growth stalls. Now, we're not suggesting that the Fed will lose its nerve and abort tightening anytime soon. However, as per last Wednesday FOMC post-mortem, we worry that the Fed might soften its tightening stance further even though Powell & Co have scored zero points yet against the inflation dragon. There has been no perceptible improvement in inflation readings.

- **Both the Bank of England and the Czech National Bank will announce rates on Thursday.** Regarding the former, consensus and market pricing suggests a very high likelihood of a 50bps hike to 1.75 percent. The central bank is also likely to speed up the process of shrinking the balance sheet. Besides having (partially) stopped reinvestments, the BOE could announce a sales target for bonds of 50 to 100 billion annually according to wire reports.
- **Meanwhile, the Czech National Bank may or may not do a 25bps hike to 7.25 percent on Thursday afternoon.**

## Calendar

TIME	REGION	EVENT	PERIOD	CONSENSUS	PRIOR
03:45	China	Caixin PMI Manufacturing	Jul	51.5	51.7
08:00	Russia	S&P Global Manufacturing PMI	Jul	--	50.9
09:00	Netherl.	S&P Global/Neve Manufacturing PMI	Jul	--	55.9
09:15	Spain	S&P Global Manufacturing PMI	Jul	49.8	52.6
09:45	Italy	S&P Global Manufacturing PMI	Jul	49.1	50.9
09:50	France	S&P Global Manufacturing PMI	Jul F	49.6	49.6
09:55	Germany	S&P Global/BME Manufacturing PMI	Jul F	49.2	49.2
10:00	Eurozone	S&P Global Manufacturing PMI	Jul F	49.6	49.6
10:00	Italy	Unemployment Rate	Jun	8.10%	8.10%
10:00	Greece	S&P Global Manufacturing PMI	Jul	--	51.1
10:30	UK	S&P Global/CIPS Manufacturing PMI	Jul F	52.2	52.2
11:00	Eurozone	Unemployment Rate	Jun	6.60%	6.60%
11:00	Belgium	Unemployment Rate	Jun	--	5.50%
11:30	Germany	Sells EU3 Billion of 112-day Bills			
11:30	Germany	Sells EU3 Billion of 287-day Bills			
11:30	Netherl.	Sells Up to EU1.5 Billion 180-day Bills			
11:30	Netherl.	Sells Up to EU1.5 Billion 86-day Bills			
14:50	France	Sells Bills			
15:45	US	S&P Global US Manufacturing PMI	Jul F	--	52.3
16:00	US	Construction Spending MoM	Jun	0.30%	-0.10%
16:00	US	ISM Manufacturing PMI	Jul	52.1	53
	Italy	Budget Balance	Jul	--	-6.0b

Consensus data: Bloomberg News; All Times Are in Central European Time

## AFS GROUP AMSTERDAM

The AFS Morning Comment only summarizes recent market movements and contextualizes upcoming political, economic and central bank events. Any views expressed in the AFS Morning Comment are limited in scope. Under Recital 29 and Article 12(3)(a) of the MiFID II Delegated Directive, such publications are considered a minor non-monetary benefit which can be freely distributed without charge. AFS Group does not accept any liability whatsoever for any direct or consequential loss arising from the use of this document. This document is for information purposes only and is not, and should not be construed as, an offer to buy or sell any securities or derivatives. The information contained in this document is published for the assistance of the recipient, but is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient.