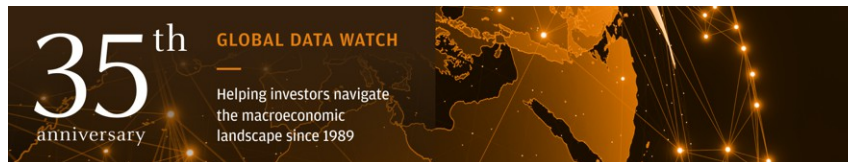


Global Data Watch

2024 Institutional Investor
II Global Fixed Income Research Survey

VOTE

Voting Opens July 8th - August 2nd
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- Risks of less rotation in July surveys...
- ... but indicators still point to solid overall global growth
- Balancing growth and inflation risk opens door for DM easing
- Next week: Fed on hold; BoJ hikes; US job gains slow

Let the games begin

Last week, we described the global expansion as moving through an orderly transition with anticipated rotations toward manufacturing and away from the US taking hold amidst a moderation in global GDP growth to a trend-like pace. Incoming July survey readings challenge our views on both of these rotations. The latest downshift in manufacturing surveys is accompanied by positive readings from the service sector. Disappointment in the Euro area and China, meanwhile, come together with positive surprises from the US and EM ex. China. Given our perspective that balance across regions and sectors promotes resilience, this news shifts growth risks downward. However, the shift is not substantial enough to point to a meaningful threat to the expansion. We judge the US and global expansion as still standing on firm ground at midyear and see risks to our second-half global forecast for 2.1%ar global GDP growth as still modestly skewed to the upside.

A second consecutive disappointing DM manufacturing PMI aligns with weak July national surveys to question whether a mid-year recovery in DM factory output will prove to be a flash in the pan (Figure 1). A notable sharp loss in momentum in the PMI new orders-inventory ratio last month challenges our view that solid gains in retail spending and capex will provide ongoing support for the

Figure 1: DM mfg PMI and output

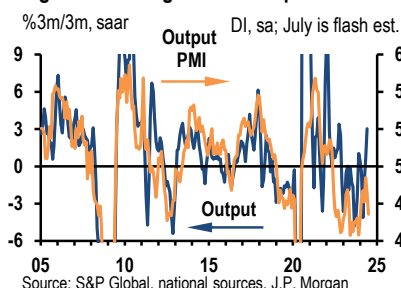
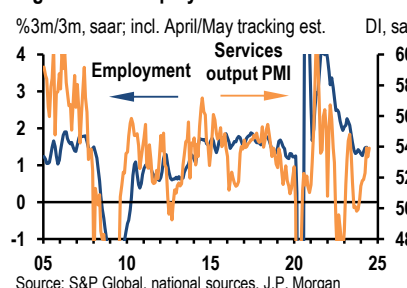


Figure 2: DM employment and services PMI



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Our Special Report "Begin the begin: Gauging the coming global easing cycle" was published on July 24, and is now available on our website.

See page 89 for analyst certification and important disclosures.

manufacturing recovery. We see two reasons to be cautious in interpreting the manufacturing PMI. First, the survey has consistently underestimated output gains in recent years, delivering sporadic downbeat signals that were reversed. Second, we see [fundamental supports](#) for both consumer and business spending and both are tracking solid gains around midyear. More broadly, this month's manufacturing survey contrasts with an upside surprise in services. The all-industry survey remained stable in July as the services survey moved higher in both the US and Japan (Figure 2). Combined with solid labor market indicators this points to sustained service sector and GDP growth.

More concerning are the signals on Europe, which continues to show a lackluster recovery from last year's stall. Our forecast that Western Europe will awake from last year's stall is consistent with 1H24 with regional GDP tracking a 1.5%ar 1H24 GDP gain. But the Euro area all-industry PMI stepped down for a second consecutive month. With this decline mirrored in the Ifo and Insee surveys we have lowered our sights on Euro area growth this quarter.

Recent developments point to a more balanced alignment of growth and inflation risk opening the door for central banks to lower policy rates. The Fed is unlikely, however, to ease at next week's meeting. While refraining to provide clear guidance on the timing and magnitude of the easing cycle, it should reinforce the case for a September easing by emphasizing the rebalancing of risk and its growing confidence that inflation is on the right path.

If we are right, the US growth and inflation performance will keep the Fed balancing growth and inflation risks for some time to come, an outcome consistent with a shallow once-a-quarter easing cycle. In assessing risk, much recent discussion has revolved around the past year's 0.5%-pt rise in the unemployment rate, which could point to greater downward pressure on both growth and inflation. Indeed, the near breach of the Sahm rule was cited this week by former FRBNY president Dudley as a reason why the Fed should ease next week.

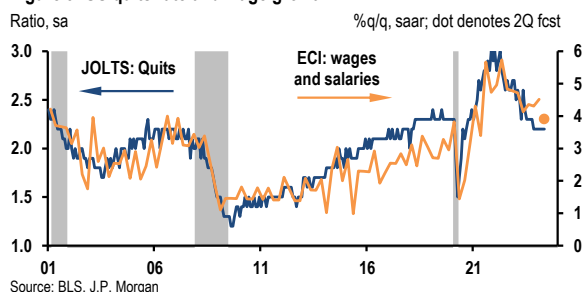
The Sahm rule was designed as a descriptive tool—one that reliably signals a rise in the unemployment consistent with the start of a recession. It is possible that we breach this rule in next week's job report. If so, we should brace for a dramatic shift in 2H24 labor market conditions. In every episode before the pandemic that the Sahm rule has been triggered, the US unemployment rate has risen by a minimum 0.8%-pt in the following six months.

We have argued that the business cycle signal of a rising unemployment rate has been weakened in recent years by measurement problems related to population sampling. In this

regard, the underlying behavioral shift that the rule captures—a significant shift by firms to shed labor—is not evident in other measures of job loss. This break is evident in the continued stability of the insured unemployment rate through July and will likely be reinforced by the continued stability in layoff rates in next week's JOLTS report. We do expect a slowdown in employment gains in next week's payroll report (150k), but interpreting this outcome will likely be complicated by possible hurricane effects in the sample week.

We put more weight on the risk that the rise in the unemployment rate reflects a boost to labor supply that could moderate wage pressures. Next week's employment cost index will provide important new information on this front. Our forecast is for a moderation in the ECI, though wage inflation would still have an elevated 4.2% over year rate (Figure 3).

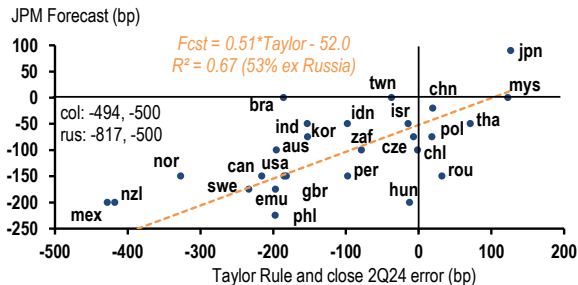
Figure 3: US quits rate and wage growth



Synchronized easing on the way

The coming year is forecasted to deliver the most synchronized monetary easing cycle in history outside of a recession. In tracking the start of this global easing cycle, it is important to not overstate the importance of the Fed and ECB in leading the way. But it is a mistake to confuse synchronization with coordinated action. Domestic conditions are almost always the key to policy setting and we show in a [special report](#) this week that the output gap and core inflation explain most of the cross-country variation in policy rates—both now and in our forecasts for the year ahead (Figure 4).

Figure 4: Policy rate change 2Q24-4Q25, Taylor vs JPM forecast



The synchronization of policy easing owes to the fact that much of the world is seeing an unwinding of supply shocks delivering falling inflation. Still, the results of our report suggest that the wide variation in starting conditions and projected changes will be important factors of differentiation in rate outturns. We see less scope of easing across most of Asia and much of CEE and more scope across Latin America. Beyond macro conditions, the EM will also be sensitive to a range of other factors. For example, leverage concerns have kept the BoK more cautious, while political risks play a role in our call for the BCB to remain on hold.

Another hike on deck for the BoJ

Next week should deliver the BoJ's second hike this year after moving rates out of negative territory in March. We expect a 15bp hike to 0.25% along with an announcement of the future path of the BoJ's JGB purchases. The move comes against a backdrop of rising confidence in reaching the BoJ's inflation goal, reinforced by firming wage growth and signs of a pickup in consumer spending. Indeed, wage momentum and the recovery in domestic demand are now posing some upside risks to future inflation. Governor Ueda likely will likely temper his remarks, reiterating a gradual path for rates back to neutral, but we will watch for guidance regarding the terminal rate and the time frame to get to there.

China: growing pressure for policy support

Last quarter's sharp growth deceleration has raised pressure for increased policy support in China. Despite weak consumer spending and a contracting real estate sector, government bond issuance has lagged with only 38% of the full-year quota issued in 1H24. We expect GDP growth to return to a trend-like 4.5%ar in 2H24 assuming policy remains modestly accommodative and special bond issuance accelerates in line with the targets approved at the March National People's Congress. Alongside this week's earlier-than-expected policy rate cuts, the authorities announced a program to support equipment upgrades for corporates and consumer subsidies for car and home appliance trade-ins. We await further policy signals from this month's Politburo meeting but do not expect much in the way of additional stimulus.

Korea down, Taiwan up in 2Q24

While robust tech demand has supported growth across North Asia's bellwethers, domestic demand performance has been varied across economies. Korea's exports held up in 2Q but falling domestic demand led to a 0.9%ar GDP contraction after 1Q's outsized gain. We look for a recovery in consumer spending along with robust export gains to drive a stronger 3Q rebound to 4%ar and for the annual GDP growth outturn to exceed the Bank of Korea's forecast (2.5%). Meanwhile, Taiwan's June export orders took a step down after its recent

rapid gains but IP growth remains firm and the strength in external demand is feeding into the domestic economy, evident in surging capital goods imports and respectable gains in retail sales. We look for solid 4.5%ar growth in next week's advanced 2Q GDP report.

India budget remains on consolidation path

India has doubled down on fiscal consolidation in its first budget since the elections, targeting a fiscal deficit of 4.9% of GDP—lower than the interim target of 5.1% and down from 5.6% of GDP last year. Conservative tax assumptions raise the risk that the deficit could end up being even lower. A large annual dividend from the RBI is helping to cut the deficit without much pain and the implied modest tightening in the fiscal stance (to the tune of 0.3% of GDP) should keep GDP growth strong. Growth continues to be driven by public capex and service exports but the budget's focus on job creation is encouraging and could help boost consumption and thus broaden the base of growth.

CEE easing shifts to lower gear

As a Western Europe easing cycle begins there is only modest space for easing in Central Europe. After delivering a 15th consecutive rate cut this week, Hungary's NBH signaled limited space for further cuts amid a stall in the disinflation process. In Czechia, inflation is at target, but the board is cautious about aggressive easing due to upside inflation risks. Growth disappointments could deliver more easing and regional manufacturing is facing problems similar to the Euro area's. With the exception of Hungary our growth nowcasters point to downside risk to our 2Q GDP forecasts, although we still see scope for EU fiscal transfers to boost capex in the region.

LatAm: Home court rules

In Brazil inflation has moved close to the BCB's target, but currency weakness and rising inflation expectations, related to political uncertainty, have pushed markets to price in rate hikes this year. We think the BCB's restrictive stance gives it some leeway and we see rates remaining on hold. Meanwhile in Mexico, upside inflation surprises in June and July are challenging Banxico's earlier dovish pivot. We see the August rate decision as a close call but on balance still expect a 25bp cut. With core inflation well-behaved and growth softening, we look for a further cut in December and intermittent easing through 2025. On top of the recent surge in raw-food prices, further peso weakness around the US election remains a key risk to monitor. The central banks of Chile and Colombia meet next week, and we expect CBC to be on hold given the advanced stage of its easing cycle, while BanRep should continue cutting in 50bp steps.

Global Economic Outlook Summary

	Real GDP			Real GDP						Consumer prices			
	% over a year ago			% over previous period, saar						% over a year ago			
	2023	2024	2025	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	4Q23	2Q24	4Q24	2Q25
United States	2.5	2.4 ↑	1.7	1.4	2.8 ↑	<u>1.0</u>	1.0	2.0	2.3	3.2	3.2	2.9	2.3
Canada	1.2	0.8	1.7	1.7	<u>0.8</u>	1.0	1.5	2.0	2.0	3.2	2.7	2.1	2.1
Latin America	1.9	1.5	2.2	1.5	1.8 ↓	2.5	2.2	2.3	2.1	5.0	4.4	4.3 ↑	3.6 ↑
Argentina	-1.6	-3.4	4.6	-9.9	<u>0.5</u>	3.0	4.0	6.0	5.0	172.6	278.7	174.4	68.0
Brazil	2.9	2.5	1.9	3.1	<u>2.5</u>	3.0	2.2	2.0	1.8	4.7	4.0	4.1	3.4
Chile	0.2	2.7	2.3	7.8	<u>-2.3</u>	3.5	2.8	2.5	2.3	4.6	4.0	4.1	3.8
Colombia	0.6	2.0	2.7	4.4	<u>3.4</u>	0.0	3.0	3.5	3.0	10.0	7.2	5.4	4.2
Ecuador	2.4	0.6	2.0	14.8	<u>-7.0</u>	3.3	2.0	3.0	2.5	1.6	2.6	2.1	2.6
Mexico	3.2	1.8	1.3	1.1	2.0 ↓	1.7	1.0	0.6	1.0	4.4	4.8	4.6 ↑	3.8 ↑
Peru	-0.6	3.0	3.0	2.0	<u>4.0</u>	4.5	3.5	2.5	2.5	3.7	2.3	2.6	2.6
Uruguay	0.4	2.7	2.2	3.8	<u>4.5</u>	3.8	2.5	1.5	2.3	4.8	4.3	5.7	6.1
Asia/Pacific	4.4	3.9	3.5	5.6	<u>1.7</u>	3.5 ↑	4.0	3.3	3.5	1.5	1.6	1.8	2.0
Japan	1.8	-0.1	0.7	-1.8	<u>1.5</u>	1.0	0.8	0.6	0.6	2.9	2.6	2.6	3.0
Australia	2.0	1.4	2.1	0.5	<u>2.0</u>	2.4	2.5	2.0	2.0	4.1	3.5	3.3	2.9
New Zealand	0.6	0.8	2.3	0.7	<u>1.1</u>	2.5	2.2	2.5	1.6	4.7	3.3	2.6	2.2
EM Asia	5.0	4.7	4.1	7.1	<u>1.7</u>	3.9 ↑	4.6	3.8	4.1	1.1	1.3	1.5	1.8
China	5.2	4.7	3.9	7.4	<u>1.0</u>	<u>4.0</u>	5.0	3.7	3.7	-0.3	0.3	0.7	1.1
India	7.9	6.5	6.0	10.0	<u>4.0</u>	5.0	5.0	5.0	6.5	5.4	4.9	4.7	4.8
Ex China/India	2.5	3.6 ↑	3.5	4.6	2.6 ↑	3.1 ↑	2.9	3.5	3.9	2.8	2.5	2.2	2.1
Hong Kong	3.3	2.8 ↓	2.9 ↓	9.6	<u>0.0 ↓</u>	1.6	1.6	4.1	4.1	2.6	1.3 ↑	1.5 ↑	2.9 ↑
Indonesia	4.0	4.1	5.3	5.1	<u>3.5</u>	3.5	5.0	5.0	6.0	2.8	2.4	2.4	2.6
Korea	1.4	2.7 ↓	2.3 ↑	5.3	-0.9 ↓	4.0 ↑	2.5	2.3	2.3	3.4	2.7	1.7	1.7
Malaysia	3.4	5.0 ↑	4.6	5.9	11.6 ↑	3.5	3.5	4.0	5.0	1.6	3.6	3.8	1.8
Philippines	5.5	5.3	5.6	5.4	<u>3.2</u>	2.0	2.0	6.1	8.2	4.3	4.1	3.8	3.2
Singapore	1.1	2.0	2.1	0.2	<u>1.0</u>	1.0	0.0	2.5	2.5	4.0	2.9	2.1	1.7
Taiwan	1.3	4.7	2.8	1.1	<u>4.5</u>	2.6	2.6	2.7	2.7	2.9	2.2	1.7	2.0
Thailand	1.9	2.7	3.3	4.6	<u>4.8</u>	3.4	3.4	3.1	3.1	-0.5	1.0	2.1	1.7
Western Europe	0.5	0.8 ↓	1.0 ↓	1.6	<u>1.5</u>	1.0 ↓	1.0	1.0	0.9	3.1	2.5	2.5	2.3
Euro area	0.6	0.8	1.1	1.3	<u>1.5</u>	1.0 ↓	1.0	1.0	1.0	2.7	2.5	2.5	2.1
Germany	0.0	0.2 ↓	0.8 ↓	0.9	<u>1.3</u>	0.5 ↓	0.8	0.8	0.8	3.0	2.6	2.5	2.3
France	0.9	1.0 ↑	1.0 ↓	0.9	<u>1.0</u>	2.0 ↑	0.3 ↓	1.0	1.0	4.2	2.5	2.5	2.3
Italy	1.0	0.9 ↓	0.8 ↓	1.4	<u>1.0</u>	0.5 ↓	0.8	0.8	1.0	1.0	0.9	2.0	2.1
Spain	2.5	2.6 ↓	1.7	3.2	<u>3.0</u>	2.0 ↓	1.5	1.5	1.5	3.3	3.6	2.6	2.1
Norway	1.1	0.7	1.1	0.6	<u>0.7</u>	0.8	0.8	1.3	1.3	4.5	3.1	2.8	2.4
Sweden	0.1	0.6	1.0	2.9	<u>-1.0</u>	0.5	0.8	1.3	1.3	5.6	3.4	1.6	1.0
United Kingdom	0.1	1.0	0.8	2.9	<u>2.0</u>	1.0	1.0	0.8	0.5	4.2	2.1	2.7	3.0
EMEA EM	2.5	2.8	2.4	5.0	2.3 ↓	1.5	1.3 ↑	2.5	3.2	15.8	16.7	11.8	9.0
Czech Republic	-0.1	1.2	2.1	0.9	<u>2.3</u>	2.5	2.3	1.8	2.0	7.6	2.5	2.3	1.9
Hungary	-0.9	1.8	2.3	3.1	<u>1.3</u>	1.8	2.0	2.5	2.5	7.7	3.8	3.9	4.3
Israel	2.0	1.7	4.5	14.4	<u>5.8</u>	6.3	4.5	4.5	4.0	3.3	2.8	2.8	3.0
Poland	0.2	2.8	3.6	2.0	<u>4.0</u>	5.0	3.5	3.5	3.5	6.5	2.5	4.6	4.9
Romania	2.1	3.1	3.5	2.7	<u>6.1</u>	5.3	6.1	-2.8	6.1	7.1	5.3	4.2	4.6
Russia	3.6	3.5	1.2	3.8	<u>1.8</u>	0.8	0.3	1.3	1.8	7.2	8.2	6.9	5.6
South Africa	0.7	1.0	1.4	-0.2	1.8 ↓	1.7 ↓	3.1 ↑	0.8	1.5	5.5	5.2	4.2 ↓	4.4
Turkey	4.5	3.0	3.5	9.9	<u>-0.4</u>	-4.0	-2.5	6.5	6.5	62.7	72.5	45.1	30.5
Global	2.8	2.6 ↑	2.3	3.2	2.0 ↑	2.0 ↓	2.2	2.3	2.5	3.4	3.3	3.0	2.7
Developed markets	1.7	1.5	1.4	1.2	2.1 ↑	1.0 ↓	1.1	1.5	1.6	3.2	2.9	2.7	2.4
Emerging markets	4.2	4.0	3.6	6.1	1.8 ↓	3.4 ↑	3.8	3.4	3.7	3.7	4.0	3.4	3.1 ↑
Emerging ex China	3.3	3.3	3.3	4.8	<u>2.6</u>	2.8 ↑	2.7 ↑	3.2	3.7	7.5	7.5	5.9	4.9
Global — PPP weighted	3.2	2.9	2.7	3.8	2.1 ↑	2.4 ↓	2.6	2.5	2.8	4.4	4.4	3.7	3.2

Source: Government agencies and J.P. Morgan Global Economics. Details on request. Note: For some emerging economies seasonally adjusted GDP data are estimated by J.P. Morgan. Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts. Unless noted, concurrent nominal GDP weights calculated with current FX rates are used in computing our global and regional aggregates. Regional CPI aggregates exclude Argentina and Ecuador. Source: J.P. Morgan. Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China) and Taiwan (China).

26 July 2024

G-3 economic outlook detail

	2023	2024	2025	2023	2024	2025	2023	2024	2025
				4Q	1Q	2Q	3Q	4Q	1Q
United States									
Real GDP	2.5	2.4	1.7	3.4	1.4	2.8	1.0	1.0	2.0
Private consumption	2.2	2.1	1.3	3.3	1.5	2.3	1.1	1.1	1.2
Equipment investment	-0.3	2.4	3.6	-1.1	1.6	11.6	1.0	1.8	4.0
Non-residential construction	13.2	4.9	3.0	10.9	3.4	-3.3	2.5	2.0	4.0
Intellectual property products	4.5	4.7	5.6	4.3	7.7	4.5	3.0	5.5	7.0
Residential construction	-10.6	3.8	1.7	2.8	16.0	-1.4	-5.0	-4.0	0.0
Inventory change (\$ bn saar)	43.7	73.8	123.5	54.9	28.6	71.3	95.2	100.2	124.3
Government spending	4.1	3.0	1.4	4.6	1.8	3.1	0.6	1.3	1.6
Exports of goods and services	2.6	1.7	1.6	5.1	1.6	2.0	-0.8	0.3	1.5
Imports of goods and services	-1.7	3.7	3.1	2.2	6.1	6.9	2.2	3.0	3.0
Domestic final sales contribution	2.3	2.5	1.8	3.6	2.5	2.7	1.0	1.3	1.9
Inventories contribution	-0.4	0.2	0.2	-0.5	-0.4	0.8	0.4	0.1	0.4
Net trade contribution	0.6	-0.3	-0.2	0.3	-0.7	-0.7	-0.4	-0.4	-0.3
Consumer prices (%oya)	4.1	3.0	2.4	3.2	3.2	3.2	2.9	2.9	2.5
Excluding food and energy (%oya)	4.8	3.4	2.5	4.0	3.8	3.4	3.2	3.0	2.6
Core PCE deflator (%oya)	4.1	2.7	2.2	3.2	2.9	2.7	2.7	2.7	2.3
Federal budget balance (% of GDP, FY)	-6.2	-6.7	-6.2						
Personal saving rate (%)	4.5	3.6	4.1	3.7	3.8	3.5	3.6	3.7	3.8
Unemployment rate (%)	3.6	4.0	4.2	3.7	3.8	4.0	4.1	4.2	4.2
Industrial production, manufacturing	-0.5	0.0	0.9	-1.4	-1.3	3.4	0.4	0.3	1.0
Euro area									
Real GDP	0.6	0.8	1.1	-0.2	1.3	1.5	1.0	1.0	1.0
Private consumption	0.6	1.2	1.2	0.7	0.7	2.0	2.0	1.3	1.0
Capital investment	1.5	-0.7	1.4	3.4	-5.9	-0.3	0.5	1.3	1.8
Government consumption	1.0	1.0	0.6	2.3	0.1	0.3	0.5	0.5	0.8
Exports of goods and services	-0.6	1.3	2.3	0.8	5.6	2.0	2.0	2.0	2.5
Imports of goods and services	-1.2	0.0	2.3	2.3	-1.3	2.0	2.0	2.0	2.5
Domestic final sales contribution	0.8	0.7	1.1	1.6	-1.0	1.1	1.3	1.0	1.1
Inventories contribution	-0.5	-0.6	-0.1	-1.2	-1.3	0.3	-0.4	-0.1	-0.2
Net trade contribution	0.3	0.7	0.1	-0.6	3.5	0.1	0.1	0.1	0.1
Consumer prices (HICP, %oya)	5.4	2.5	2.0	2.7	2.6	2.5	2.3	2.5	2.2
ex food, alcohol and energy	4.9	2.9	2.3	3.7	3.1	2.8	2.7	2.9	2.7
General govt. budget balance (% of GDP, FY)	-3.2	-2.8	-2.7						
Unemployment rate (%)	6.6	6.4	6.4	6.5	6.5	6.4	6.4	6.4	6.4
Industrial production	-2.2	-2.2	1.5	-0.7	-3.6	1.0	0.0	1.0	2.0
Japan									
Real GDP	1.8	-0.1	0.7	0.4	-1.8	1.5	1.0	0.8	0.6
Private consumption	0.6	-1.1	0.6	-1.4	-2.9	0.5	0.6	0.6	0.6
Business investment	1.9	1.4	1.7	7.8	-1.7	3.0	2.0	2.0	2.0
Residential construction	1.1	-3.3	0.5	-5.4	-9.7	0.5	0.5	0.5	0.5
Public investment	3.0	3.2	-0.2	-0.7	12.5	0.0	-0.5	-0.5	0.0
Government consumption	0.5	-0.7	-1.4	-0.4	0.6	-2.0	-2.0	-2.0	-1.0
Exports of goods and services	3.2	0.6	2.7	11.6	-19.0	10.0	6.0	4.0	1.0
Imports of goods and services	-1.4	-0.8	1.9	7.3	-12.7	7.0	3.0	2.0	1.2
Domestic final sales contribution	0.9	-0.5	0.3	0.1	-1.5	0.3	0.2	0.2	0.4
Inventories contribution	0.0	0.1	0.3	-0.6	1.3	0.6	0.2	0.2	0.2
Net trade contribution	0.9	0.3	0.2	0.9	-1.6	0.6	0.6	0.4	0.0
Consumer prices (%oya)	3.3	2.6	2.9	2.9	2.5	2.6	2.8	2.6	3.5
ex food and energy	2.6	2.2	2.2	2.8	2.5	1.9	2.0	2.4	2.4
General govt. net lending (% of GDP, CY)	-6.2	-7.3	-6.2						
Unemployment rate (%)	2.6	2.4	2.4	2.5	2.5	2.4	2.4	2.4	2.4
Industrial production	-1.4	-1.4	2.3	4.5	-19.0	16.8	3.5	1.2	1.0
Memo: Global industrial production	0.4	1.1	2.1	1.6	-0.2	2.4	2.2	1.8	2.2
%oya				1.0	0.6	1.1	1.4	1.5	2.1

Source: Government agencies and J.P. Morgan Global Economics. Details on request.

Global Central Bank Watch

	Official rate	Current rate (%pa)	4-qrtr change (bp)		Last change	Next mtg	Forecast next change	Forecast (%pa)				
			Last	Next				Sep 24	Dec 24	Mar 25	Jun 25	Sep 25
Global		5.08	50	-64				4.95	4.73	4.44	4.15	3.89
excluding US		4.92	72	-60				4.82	4.62	4.31	4.01	3.74
Developed		4.47	7	-66				4.26	4.05	3.80	3.52	3.24
Emerging		5.96	111	-62				5.92	5.71	5.34	5.04	4.82
Latin America		10.13	-219	-65				9.91	9.67	9.48	9.32	9.09
EMEA EM		18.05	949	-263				18.00	17.10	15.42	13.71	12.42
EM Asia		2.81	-9	-20				2.81	2.74	2.62	2.58	2.57
The Americas		6.05	-13	-77				5.81	5.54	5.28	5.05	4.82
United States	Fed funds	5.50	25	-75	26 Jul 23 (+25bp)	31 Jul 24	Sep 24 (-25bp)	5.25	5.00	4.75	4.50	4.25
Canada	O/N rate	4.50	-50	-125	24 Jul 24 (-25bp)	4 Sep 24	Sep 24 (-25bp)	4.25	3.75	3.25	3.00	3.00
Brazil	SELIC O/N	10.50	-325	0	8 May 24 (-25bp)	31 Jul 24	On hold	10.50	10.50	10.50	10.50	10.50
Mexico	Repo rate	11.00	-21	-75	21 Mar 24 (-25bp)	8 Aug 24	Aug 24 (-25bp)	10.75	10.50	10.25	10.00	9.50
Chile	Disc rate	5.75	-550	-25	18 Jun 24 (-25bp)	31 Jul 24	17 Dec 24 (-25bp)	5.75	5.50	5.50	5.25	5.00
Colombia	Repo rate	11.25	-200	-375	28 Jun 24 (-50bp)	31 Jul 24	31 Jul 24 (-50bp)	10.00	8.50	7.50	7.00	6.50
Peru	Reference	5.75	-200	-125	9 May 24 (-25bp)	8 Aug 24	8 Aug 24 (-25bp)	5.25	5.00	4.50	4.25	4.25
Europe/Africa		7.29	241	-119				7.09	6.69	6.10	5.36	4.71
Euro area	Depo rate	3.75	25	-75	6 Jun 24 (-25bp)	12 Sep 24	Sep 24 (-25bp)	3.50	3.25	3.00	2.50	2.00
United Kingdom	Bank rate	5.25	25	-75	3 Aug 23 (+25bp)	1 Aug 24	Aug 24 (-25bp)	5.00	4.75	4.50	4.25	4.00
Norway	Dep rate	4.50	75	-50	14 Dec 23 (+25bp)	15 Aug 24	19 Dec 24 (-25bp)	4.50	4.25	4.00	3.50	3.25
Sweden	Repo rate	3.75	0	-125	8 May 24 (-25bp)	20 Aug 24	20 Aug 24 (-25bp)	3.25	3.00	2.50	2.25	2.00
Czech Republic	2-wk repo	4.75	-225	-75	27 Jun 24 (-50bp)	1 Aug 24	Aug 24 (-25bp)	4.25	4.00	4.00	4.00	4.00
Hungary	Base rate	6.75	-625	-75	23 Jul 24 (-25bp)	27 Aug 24	Sep 24 (-25bp)	6.50	6.25	6.00	5.50	5.00
Israel	Base rate	4.50	-25	-50	1 Jan 24 (-25bp)	28 Aug 24	Nov 24 (-25bp)	4.50	4.25	4.00	4.00	4.00
Poland	7-day interv	5.75	-100	0	6 Sep 23 (-75bp)	4 Sep 24	May 25 (-25bp)	5.75	5.75	5.75	5.50	5.25
Romania	Base rate	6.75	-25	-25	5 Jul 24 (-25bp)	7 Aug 24	8 Nov 24 (-25bp)	6.75	6.50	6.50	6.25	5.75
Russia	Key pol rate	18.00	1050	-200	26 Jul 24 (+200bp)	13 Sep 24	1Q 25 (-100bp)	18.00	18.00	16.00	14.00	13.00
South Africa	Repo rate	8.25	0	-75	25 May 23 (+50bp)	19 Sep 24	Sep 24 (-25bp)	8.00	7.75	7.50	7.25	7.25
Turkey	1-wk repo	50.00	3500	-1000	21 Mar 24 (+500bp)	20 Aug 24	21 Nov 24 (-250bp)	50.00	45.00	40.00	35.00	30.00
Asia/Pacific		2.56	-4	-13				2.58	2.55	2.43	2.42	2.40
Australia	Cash rate	4.35	25	-25	7 Nov 23 (+25bp)	6 Aug 24	Feb 25 (-25bp)	4.35	4.35	4.10	3.85	3.60
New Zealand	Cash rate	5.50	0	-100	24 May 23 (+50bp)	14 Aug 24	Aug 24 (-25bp)	5.25	4.75	4.50	4.00	3.75
Japan	Pol rate IOER ¹	0.10	15	40	19 Mar 24 (+20bp)	31 Jul 24	3Q 24 (+15bp)	0.25	0.50	0.50	0.75	0.75
Hong Kong	Disc. wndw	5.75	-550	-75	26 Jul 23 (+25bp)	-	Sep 24 (-25bp)	5.50	5.25	5.00	4.75	4.50
China	7-day rev repo	1.70	-20	-10	22 Jul 24 (-10bp)	-	1Q 25 (-10bp)	1.70	1.70	1.60	1.60	1.60
Korea	Base rate	3.50	0	-25	13 Jan 23 (+25bp)	22 Aug 24	4Q 24 (-25bp)	3.50	3.25	3.25	3.00	3.00
Indonesia	BI RRR	6.25	50	-50	24 Apr 24 (+25bp)	21 Aug 24	4Q 24 (-25bp)	6.25	6.00	5.75	5.75	5.75
India	Repo rate ²	6.50	0	-50	8 Feb 23 (+25bp)	8 Aug 24	Dec 24 (-25bp)	6.50	6.25	6.00	6.00	6.00
Malaysia	O/N rate	3.00	-300	0	3 May 23 (+25bp)	5 Sep 24	On hold	3.00	3.00	3.00	3.00	3.00
Philippines	Rev repo	6.50	25	-75	26 Oct 23 (+25bp)	15 Aug 24	4Q 24 (-25bp)	6.50	6.00	5.75	5.00	4.75
Thailand	1-day repo	2.50	50	-25	27 Sep 23 (+25bp)	21 Aug 24	1Q 25 (-25bp)	2.50	2.50	2.25	2.00	2.00
Taiwan	Official disc.	2.00	13	0	21 Mar 24 (+12.5bp)	19 Sep 24	On hold	2.00	2.00	2.00	2.00	2.00

Source: J.P. Morgan. ¹ BoJ sets the policy rate on IOER (O/N) and targets 10-year JGB yields as policy guidance

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages.

Any long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China;

Hong Kong SAR (China) and Taiwan (China).

26 July 2024

NLP of central bank speak

- [BoC's Macklem](#) (HDS: -12, trailing 5-speech avg: 0)
- [BoC Statement](#) (HDS: -4, trailing 5-speech avg: +6)
- [ECB's Guindos](#) (HDS: +13, trailing 5-speech avg: +3)

Table 1: Hawk-Dove Scores

3m mov avg; -100 (Dovish) to +100 (Hawkish)

	Current	Change over period		
		1m	3m	6m
FRB	13.8	-2.0	-0.4	1.6
ECB	5.1	-1.0	3.4	-10.6
BoE	16.6	9.3	3.1	-11.7
BoJ	-9.3	1.4	3.7	-5.5
RBA	23.1	4.2	6.1	0.0
BoC	-4.0	-2.2	-16.2	-30.6
Norges Bank	27.2	0.0	2.1	4.0
Riksbank	16.0	1.4	7.6	-0.7

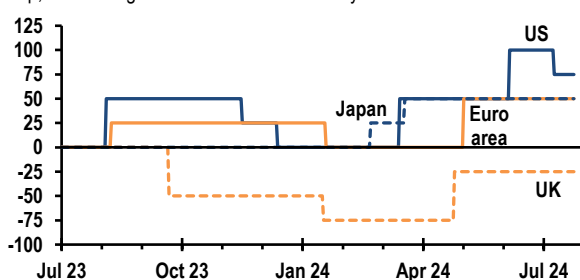
Source: J.P. Morgan

For a primer on our NLP model, see [methodology report](#).

J.P. Morgan forecasts evolution

Figure 1: J.P. Morgan policy rate forecast revision index, DM

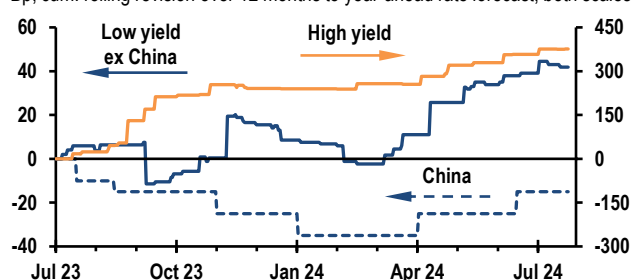
Bp; cum. rolling revision over 12 months to year-ahead rate forecast



Source: J.P. Morgan Global Economics

Figure 2: J.P. Morgan policy rate forecast revision index, EM

Bp; cum. rolling revision over 12 months to year-ahead rate forecast; both scales

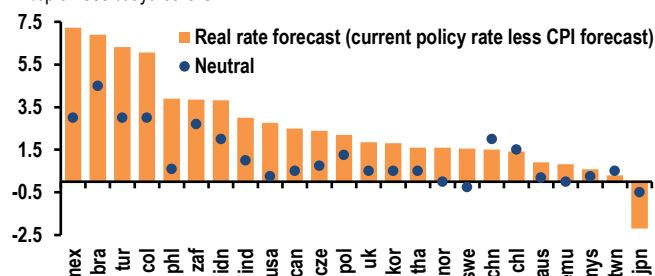


Source: J.P. Morgan Global Economics

Real policy rates

Figure 3: Real policy rate and neutral: forecast for 4Q24

%p.a. less %o/a core CPI



Source: J.P. Morgan Global Economics. US uses core PCE forecast.

J.P. Morgan forecasts vs. market

Policy Rate: J.P. Morgan and Market

	Current %pa	Basis point change from current							
		End 3Q24		End 4Q24		End 2Q25		End 4Q25	
		JPM	JPM-Mkt	JPM	JPM-Mkt	JPM	JPM-Mkt	JPM	JPM-Mkt
Global	4.99	-9	-15	-30	-6	-91	-10	-132	-19
Developed	4.47	-20	1	-42	9	-94	11	-135	-1
US	5.50	-25	1	-50	16	-100	32	-150	18
EMU	3.75	-25	-1	-50	4	-125	-17	-175	-40
Japan	0.10	15	2	40	15	65	26	90	40
UK	5.25	-25	-4	-50	-1	-100	1	-150	-16
Norway	4.50	0	19	-25	-18	-100	-12	-150	-24
Sweden	3.75	-50	-7	-75	6	-150	-19	-175	-11
Canada	4.50	-25	-1	-75	-22	-150	-46	-150	-14
Australia	4.35	0	-7	0	-1	-49	-22	-99	-47
New Zealand	5.50	-25	-2	-75	-6	-150	18	-200	1
Emerging	5.84	8	-38	-12	-29	-79	-41	-113	-41
EM Low Yield	2.40	-1	21	-6	23	-21	21	-28	8
EM High Yield	12.92	29	-212	-26	-190	-198	-214	-287	-182
EM Asia	1.86	0	0	-2	2	-12	2	-14	-6
China	1.70	0	-1	0	1	-9	2	-9	-4
Hong Kong	5.75	-25	--	-50	--	-100	--	-150	--
India	6.50	0	-1	-25	-13	-50	-22	-50	8
Indonesia	6.25	0	--	-25	--	-50	--	-50	--
Korea	3.50	0	14	-25	16	-50	6	-75	-15
Malaysia	3.00	0	9	0	21	0	22	0	17
Philippines	6.50	0	--	-50	--	-150	--	-225	--
Taiwan	2.00	0	-6	0	-16	0	-20	0	-19
Thailand	2.50	0	1	0	46	-50	-7	-50	-36
EMEA EM	18.59	82	-345	-14	-264	-385	-295	-578	-256
Czechia	4.75	-50	-8	-75	3	-75	49	-75	26
Israel	4.50	0	16	-25	8	-50	15	-50	35
Poland	5.75	0	-3	0	8	-25	49	-75	-16
Romania	6.75	0	--	-25	--	-50	--	-125	--
Russia	16.00	200	-546	200	-455	-200	-592	-400	-577
South Africa	8.25	-25	3	-50	6	-100	2	-100	12
Turkey	50.00	0	-27	-50	129	-1500	149	-2000	341
LATAM	10.13	-21	-51	-45	-83	-80	-114	-124	-137
Brazil	10.50	0	-38	0	-100	0	-168	0	-172
Chile	5.75	0	22	-25	16	-50	34	-100	-4
Colombia	11.25	-125	-48	-275	-82	-425	-121	-500	-188
Mexico	11.00	-25	-10	-50	-7	-100	10	-200	-31
Peru	5.75	-50	--	-75	--	-150	--	-150	--

-- indicates market-based policy rate forecast is unavailable. Market-based forecast data are lagged 1-2 days.

FRI is Forecast Revision Index, the bp cumulative revision to rolling year-ahead policy rate forecast

Real rate defined as policy rate less %o/a core inflation.

Source: J.P. Morgan Global Economics. The long-form nomenclature for China, Hong Kong, and Taiwan is Mainland China, Hong Kong SAR (China), and Taiwan (China).

For additional detail, see our full [policy rate OED](#) report.

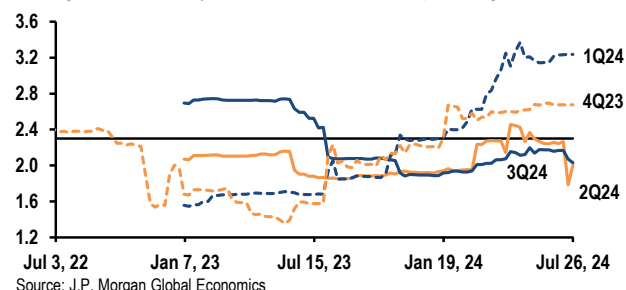
Economic Activity Tracking

See [here](#) for a real-time snapshot and methodology reports.

- Our estimate for 2Q24 global real GDP growth rose 0.2%-pt this week to 2.0%ar (Figure 1), while the top-down global nowcaster for 2Q moved sideways at 2.4%ar. The nowcaster is tracking 3Q growth at 2.3%ar (Table 2).
- About 15% of the economies we track have seen data surprise stronger over the past 30 days. The nowcaster implies upside risk to 2Q growth in a little over half of these economies (Figure 2).
- Our [CapexNow model](#) suggests an acceleration in capex growth from 2.4%ar in 1Q24 to 2.9%ar in 2Q24 (Table 4).
- This week's data were headlined by the DM July flash PMIs. The all-industry PMI aligns with our forecast for 2H24 DM growth, but [a slide in both manufacturing and the Euro area](#) challenges what had looked like a convergence in growth gaps. Meanwhile, [global core inflation looks to have cooled further](#) in June, led by US services.

Figure 1: J.P. Morgan global GDP

% change saar; forecast by date made, black line shows potential growth



GDP nowcaster

Table 1: J.P. Morgan global aggregates

%ch, sa (ar for qrt). PMIs are levels. Confidence is std.dev from 2010-19 avg

	2Q24	3Q24	Jun 24	Jul 24	Aug 24	Sep 24
PMI, mfg	52.2	52.3	52.3	52.4	52.3	52.3
PMI, serv	53.3	53.2	53.1	53.1	53.2	53.3
IP	2.1	1.3	0.0	0.1	0.0	0.2
Retail sales	-1.0	3.0	0.1	0.2	0.2	0.2
Auto sales	23.1	7.0	2.2	-0.5	-0.3	0.0
G-3 cap. ship.	0.1	-0.5	-0.1	0.0	0.0	0.0
G-3 cap. orders	2.5	0.8	0.2	-0.1	0.1	0.2
Cap. exports	11.0	5.1	-0.1	0.8	0.4	0.5
Bus conf	-0.7	-0.5	-0.7	-0.6	-0.5	-0.4
Cons conf	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Nowcast (ar)	2.4	2.3	2.1	2.3	2.3	2.5

Source: J.P. Morgan Global Economics, S&P Global, and national statistical agencies. Note. Shaded values show forecasts computed by the Kalman filter estimates from the dynamic factor model. Underlined values are our estimates based on available data and our judgment.

Figure 2: GDP nowcaster: risk bias for 2Q24 vs data surprises

Data surprise (+stronger, -weaker): 30-day chg in NRI

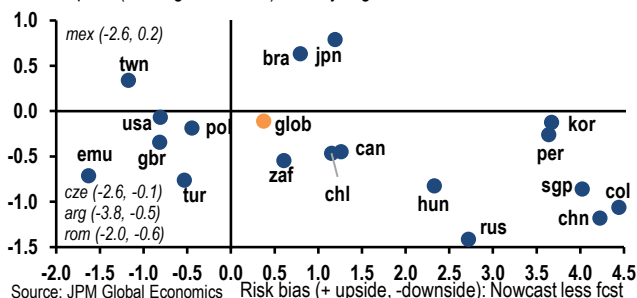


Table 2: Real GDP

%q/q, saar. Underline indicates J.P. Morgan forecast.

	2Q24		3Q24	
	Actual/Fcst	Nowcast	Forecast	Nowcast
Global	<u>2.0</u>	2.4	<u>2.0</u>	2.3
Weighted Avg*	<u>1.8</u>	2.4	<u>1.8</u>	2.9
Developed*	<u>2.2</u>	1.4	<u>1.0</u>	1.1
US	2.8	2.0	<u>1.0</u>	1.8
EMU	<u>1.5</u>	-0.1	<u>1.0</u>	-0.1
UK	<u>2.0</u>	1.2	<u>1.0</u>	1.6
Canada	<u>0.7</u>	2.0	<u>1.0</u>	1.5
Japan	<u>1.5</u>	2.7	<u>1.0</u>	0.8
Emerging*	<u>1.3</u>	4.1	<u>3.2</u>	5.8
EM Asia*	<u>1.0</u>	5.0	<u>3.9</u>	7.4
China	1.0	5.2	<u>4.0</u>	7.9
Korea	-0.9	2.8	<u>4.0</u>	3.6
Taiwan	<u>4.5</u>	3.3	<u>2.6</u>	3.9
Singapore	<u>1.0</u>	5.0	<u>1.0</u>	4.4
Latam*	<u>1.9</u>	1.5	<u>2.4</u>	2.0
Brazil	<u>2.5</u>	3.3	<u>3.0</u>	3.1
Mexico	<u>2.0</u>	-0.6	<u>1.7</u>	0.8
Argentina	<u>0.5</u>	-3.3	<u>2.0</u>	0.0
Chile	<u>-2.3</u>	-1.1	<u>3.5</u>	3.1
Colombia	<u>3.4</u>	7.8	<u>0.0</u>	2.0
Peru	<u>4.0</u>	7.6	<u>4.5</u>	3.7
EMEA EM*	<u>1.9</u>	2.9	<u>1.0</u>	3.0
Poland	<u>4.0</u>	3.6	<u>5.0</u>	3.3
Hungary	<u>1.3</u>	3.6	<u>1.7</u>	1.4
Czech Rep.	<u>2.2</u>	-0.3	<u>2.5</u>	0.7
Romania	<u>6.1</u>	4.1	<u>5.3</u>	2.9
Russia	<u>1.7</u>	4.5	<u>0.7</u>	3.6
Türkiye	<u>-0.4</u>	-0.9	<u>-4.0</u>	3.2
South Africa	<u>1.8</u>	2.4	<u>1.7</u>	0.8

Source: J.P. Morgan Global Economics. * Aggregates are GDP weighted averages of constituents. The long-form nomenclature for references to China and Taiwan is Mainland China and Taiwan (China).

26 July 2024

J.P. Morgan Forecast Tracking

Table 3: Change in forecast revision indexes

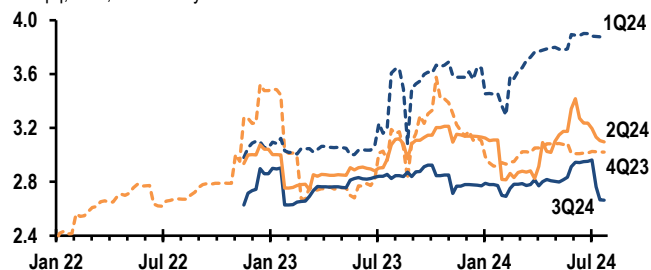
%-pt revision to rolling year-ahead outlook over 13 weeks

	GDP	Inflation	Core inflation	Policy rate
Global	-0.1	-0.1	0.0	0.2
DM	0.1	0.1	0.1	0.2
US	0.0	-0.3	-0.2	0.3
Euro area	0.3	0.3	0.3	0.5
UK	0.5	0.5	0.6	0.0
Japan	-0.8	1.2	0.3	0.0
EM	-0.3	-0.3	0.0	0.3
EM Asia	-0.4	-0.5	-0.3	0.1
M. China	-0.7	-0.7	-0.2	0.1
Korea	0.2	-0.3	0.0	0.0
Taiwan	0.3	0.2	0.1	0.0
India	-0.5	-0.5	-1.0	0.0
LatAm	0.2	0.4	0.2	0.5
Brazil	0.5	0.5	0.5	0.5
Mexico	0.1	0.2	-0.2	0.8
Chile	-0.4	0.3	0.5	0.3
Colombia	-0.1	1.5	0.0	0.3
EM EMEA	-0.1	0.3	0.9	0.9
CE4	0.0	-0.4	-0.5	0.2
Russia	0.1	1.4	2.3	2.0
Türkiye	-0.2	-1.0	0.5	0.0
South Africa	-0.2	-0.5	0.0	0.0

Source: JPM Global Economics. The long-form nomenclature for China and Taiwan is: Mainland China and Taiwan.

Figure 3: J.P. Morgan global core CPI forecast

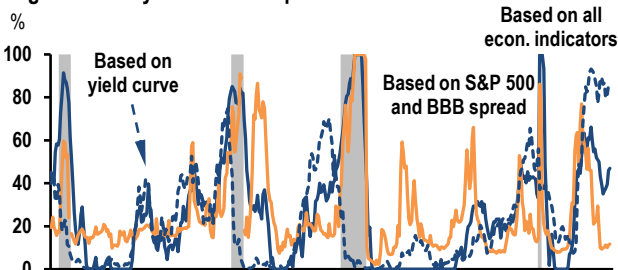
%q/q, saar; forecast by date made



Source: J.P. Morgan Global Economics

US recession probabilities

Figure 4: One-year recession probabilities since 1995



Source: J.P. Morgan

Capex nowcaster

Table 4: Global capex nowcaster

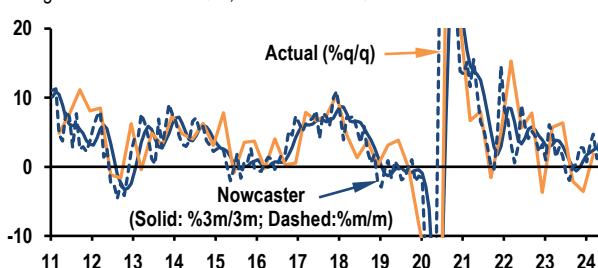
%ch, saar. PMIs are levels.* Monthly are not annualized.

	1Q24	2Q24	Mar 24	Apr 24	May 24	Jun 24	Jul 24
Inv. goods PMI	50.4	50.0	51.8	49.1	51.4	49.5	49.8
Capital goods exports	14.4	11.0	-2.9	3.5	0.4	0.0	0.7
Capital goods IP	-0.2	2.6	0.1	0.4	-0.2	-0.2	-0.4
G-3 shipments	0.7	-0.5	0.7	0.1	-0.3	-0.4	0.1
Nowcast*	2.4	2.9	0.4	0.1	0.4	0.1	0.1

Source: S&P Global, JPM. Forecasts shaded. Tracking months underlined.

Figure 5: Global capex, actual and nowcaster

%chg saar. Actual thru 1Q24; Nowcast thru 2Q24.

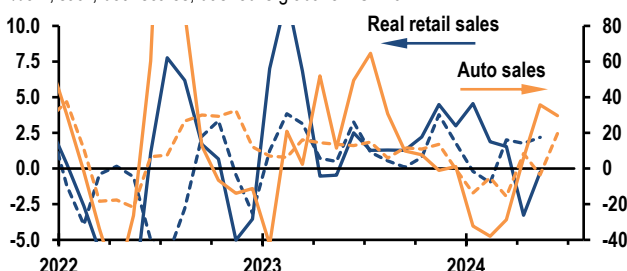


Source: J.P. Morgan Global Economics. Details on request.

Global consumption tracking

Figure 6: Global consumer spending

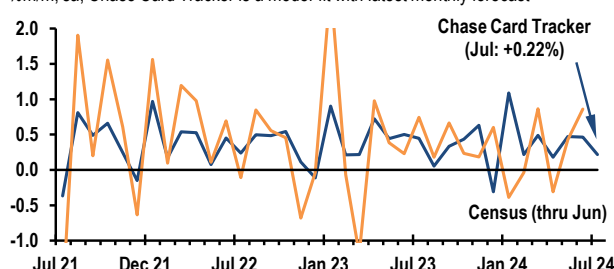
%3m, saar, both scales; dashed is global ex. China



Source: National sources, J.P. Morgan. Details on request.

Figure 7: US retail sales control, Census and Chase Card Nowcaster

%m/m, sa; Chase Card Tracker is a model-fit with latest monthly forecast



Source: Census Bureau, J.P. Morgan

Click [here](#) for disclaimers and methodology for Chase Card Tracker data.

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26 July 2024

J.P. Morgan Market Watch

Bonds

Bonds rallied this week. US yields have risen and the curve has twisted steeper over the last two weeks, amid somewhat stronger data. While we continue to think even shallower easing cycles are supportive of lower yields, we remain neutral duration given markets are currently pricing in a faster-than-quarterly pace of cuts over the near-term combined with the ongoing yield curve inversion. We continue to hold 5s/30s as a more strategic representation of our view, and continue to recommend hedging near term risks with a beta-weighted short in 2-year Treasuries

In the **Euro area**, the ECB stayed on hold without giving an explicit signal for September, in line with a more data dependent approach. Our economists continue to see a September cut. We hold tactical longs in 5Y Germany, steepeners in 2Yx2Y/10Yx10Y EUR swaps, and a bias for a steeper 5Yx30Y German curve. In the **UK**, we continue to see a 25bp cut by the BoE at the August meeting, but see it as a close call. We hold long Sep24 MPC OIS, 1Y/1Yx1Y SONIA curve flatteners and long 5Yx5Y SONIA vs. SOFR. In **Japan**, we expect the BoJ to hike policy rates and provide greater clarity over the QT pace at the July meeting. We hold 5s/30s JGB curve steepeners.

In **EM**, US election uncertainty is holding back supportive EM debt fundamentals, and we do not see a strong trend in EM asset prices over the coming month. The two major drivers - the business cycle versus the US election - likely mean a trendless overall market. We stay neutral EM local bonds overall. We remain OW India, Poland, Türkiye and Uruguay and UW in Thailand and Chile ([EMOS](#), Jul 25th).

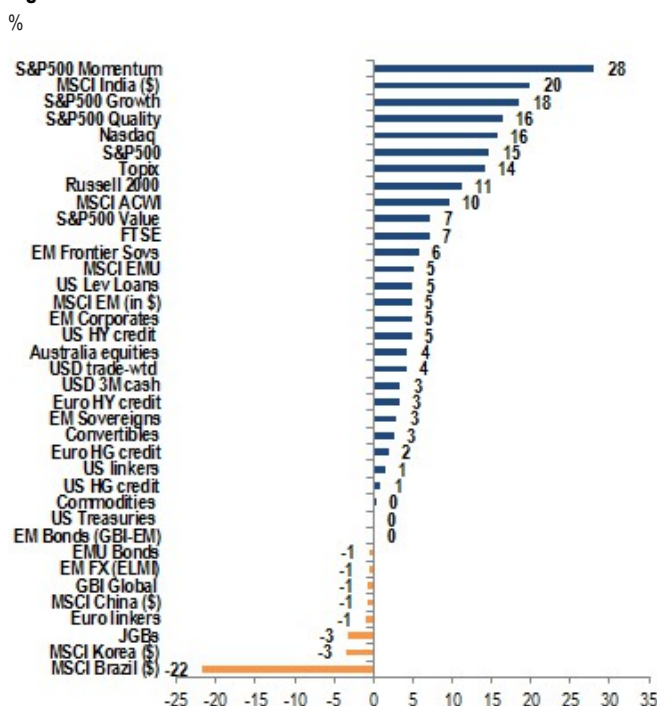
Credit

US HG spreads pressured by earnings and supply but cushioned by yields. Spreads reached their widest level in nearly a month but the range overall has been narrow at 103-107bp. Supply MTD has reached \$103bn suggesting a total well above the historical \$90bn average. Despite these supply pressures, a move higher in rates has helped offset the negative impacts on spreads. Yields continue to be the primary driver of spreads, and the increase in yields has helped blunt the potentially negative impacts of heavy supply and equity market weakness. A steeper UST curve and lower yields would likely drive steeper spread curves, as higher yields across the UST curve have contributed to flat spread curves over the past few quarters ([CMOS](#), Jul 26th).

Euro IG ratings drift was slightly positive in the 2Q24. However, the average rating on the benchmark was flat as

these upgrades were offset by composition effects from lower-rated new issuance. HY ratings drift re-accelerated after moderating for three consecutive quarters. Loan ratings continue to deteriorate but at a slower pace than previously ([European Credit Ratings Watch](#), Jul 23rd). Earnings season is off to a shaky start, in our view, with a number of significant earnings misses and guidance downgrades in consumer facing sectors, together with several warnings over weak Chinese demand and trade barrier risk ([European Credit Weekly](#), Jul 26th).

Figure 1: Year-to-date returns



Source: J.P. Morgan

Revisiting seasonality in Euro HY. Seasonal patterns point to diminishing gains over the coming two months. August has typically delivered small positive total returns, but disappointing credit returns. September has the worst track record over the past 20 years on a number of metrics we track. The best two-month periods to own euro HY have been Dec-Jan and Mar-Apr, with 80-85% success rates and strong average and median returns. May-Jun has only delivered positive total and excess returns half the time over the long-run ([High Yield Talking Points](#), Jul 24th).

Currencies

Yen-maggedon. The 5%+ intra-month rally in the Yen ranks among the most extreme in two decades. Acute Yen strength on this scale tends to peter out fairly quickly, though old Yen lows are not easily revisited. The convulsion in carry resem-

bles typical risk bearish August seasonality pulled forward. Yen contagion to other funding currencies is most plausible for CHF, and least for CNY.

Trade Recommendations: Neutral on JPY but keep risk-off/deleveraging exposure by virtue of long-USD & short NZD. Take profit on long AUD/NZD but stay short NZD/USD. Sell EUR/CHF on disappointing EU cyclical and potential further deleveraging of CHF shorts. Short EUR vs USD & NOK. We stay MW in **EM FX** which is likely held back in 2H24 by US elections, even as macro backdrop has improved with Fed likely to cut in Sept. Favour idiosyncratic carry stories and currencies with attractive valuations ([EXMW](#), Jul 26th).

Commodities

The question of remaining US shale oil reserves has been gaining traction since 2023. We estimate current reserve levels are not a limiting factor for future production growth. They are, however, price-dependent. \$70 WTI represents a price at which there are sufficient reserves to grow production to a peak of 14.3 mbd, after which it plateaus. \$80, \$90 and \$100 WTI prices unlock additional economic reserves to support growth well into the next decade ([Oil Markets Weekly](#), Jul 25th). **Global oil demand is tracking 1.7 mbd growth in July.** Global oil demand remains in line with our published estimates, with US total oil demand tracking stronger-than-anticipated for July. However, jet fuel demand softened since July 19 on account of global IT outages with the recovery likely to take time as airlines struggle to normalize operations. Reported visible OECD commercial oil stocks (US, Europe, Japan, and Singapore), drew by 15 mb in the third week of July, driven by an 18 mb draw in crude while product inventories built by 3 mb ([Oil Demand Tracker](#), Jul 24th).

We maintain our multi-year bullish outlook on gold and silver. Year ahead gold & silver price targets raised to \$2,800/oz & \$36/oz, respectively. Structurally bullish factors including US fiscal deficit concerns, central bank reserve diversification amid de-dollarization, inflation hedging, and simmering geopolitical risk. Our focus for the driver of the next legs higher in gold remains fixed primarily on stronger inflows from the investor community, where holdings inclusive of ETF ounces still remain around 20% lower than the recent peak. Silver has underperformed gold recently amid broader selling pressure across industrial metals. We continue to see a persistent deficit silver market driven by continued solar demand growth ([Metals Weekly](#), Jul 24th).

Global commodity market inflows reach a YTD high. The estimated value of open interest across global commodity markets declined after oil prices sold off, and base metals markets experienced price and contract-flow driven losses. Global commodity market inflows reached a 2024 YTD high.

Net inflows seen into crude oil, gold market and ags markets while base metals saw outflows. The energy markets declined primarily due to crude oil and petroleum products. Inflows into gold markets continued to dominate aggregate inflows across the broader precious metals complex. Across base metals markets, there were significant contract outflows seen last week lead by copper. Global agricultural market decreased but saw contract-based inflows largely concentrated in cocoa, soybean and products markets. Price momentum generally declined across all markets over the week ([Commodity Market Positioning & Flows](#), Jul 22nd).

JPM Forecasts

Rates	Current	Sep-24	Dec-24	Mar-25	Jun-25
US (SOFR)	5.35	5.10	4.85	4.60	4.35
10-year yields	4.20	4.20	4.15	4.05	3.90
Euro area (depo)	3.75	3.50	3.25	3.00	2.50
10-year yields	2.41	2.40	2.20	2.10	2.00
Italy-Germany 10Y (bp)	136	150	160	160	160
Spain-Germany 10Y (bp)	83	80	80	75	75
United Kingdom (repo)	5.25	5.00	4.75	4.50	4.25
10-year yields	4.10	4.10	3.95	3.85	3.75
Japan (call rate)	-0.10	0.25	0.50	0.50	0.75
10-year yields	1.06	1.20	1.45	1.45	1.60
EM Local (GBI-EM yield)	6.49		6.10		5.76
Currencies	Current	Sep-24	Dec-24	Mar-25	Jun-25
JPM USD Index	133.7	134.4	132.7	131	130.6
EUR/USD	1.09	1.05	1.09	1.12	1.12
USD/JPY	154	157	156	155	154
GBP/USD	1.29	1.25	1.31	1.35	1.35
AUD/USD	0.66	0.69	0.68	0.68	0.68
USD/CNY	7.25	7.3	7.3	7.25	7.2
USD/KRW	1384	1385	1325	1320	1320
USD/MXN	18.44	18	17.75	17.5	17.5
USD/BRL	5.66	5.25	5.2	5.1	5.1
USD/TRY	32.94	33	35.5	37.5	38.5
USD/ZAR	18.27	17.9	17.65	17.4	17.25
Commodities	Current	Sep-24	Dec-24	Mar-25	Jun-25
Brent (\$/bbl, qtr end)	81	88	85	79	73
WTI (\$/bbl, qtr end)	77	84	81	75	69
Gold (\$/oz, qtr avg)	2,384	2,530	2,650	2,700	2,750
Copper (\$/ton, qtr avg)	9,040	9,800	10,400	10,700	11,000
Aluminum (\$/ton, qtr avg)	2,229	2,470	2,560	2,650	2,750
Iron ore (US\$/dt, qtr avg)	106	110	110	110	110
Wheat (\$/bu, qtr avg)	5.2	7.3	7.3	7.0	6.8
Soybeans (\$/bu, qtr avg)	10.8	12.5	12.0	12.0	12.5
Credit	Current	Dec-24			
US High Grade (bp over UST)	JPM JULI	109	110		
Euro High Grade (bp over Bunds)	iBoxx HG	124	120		
US High Yield (bp vs. UST)	JPM HY	336	380		
Euro High Yield (bp over Bunds)	iBoxxx HY	359	375		
EM Sovereigns (bp vs. UST)	JPM EMBIGD	393	400		
EM Corporates (bp vs. UST)	JPM CEMBI	226	220		

Source: J.P. Morgan

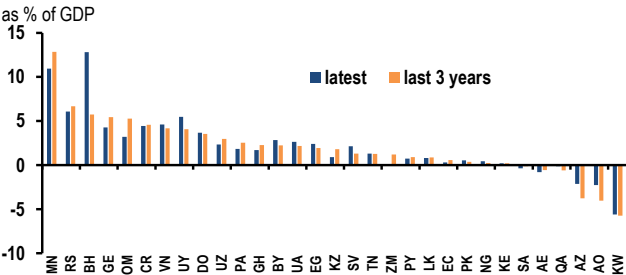
25 July 2024

EM Edge: The FDI recipe

- FDI is a key source of financing with clear positive spillovers spreading through the economy
- In the EM Edge group several countries are able to manage CA pressures thanks to large FDI...
- ...but others saw the consequences of not enough FDI inflows as international financial conditions were tight
- Good macro policies and a supportive business environment are key to boost investment

Positive impacts of FDI to a receiving economy run from extra growth and employment through to additional know-how and productive capacity. From a BOP standpoint, FDI is the most sought-after source of financing for countries running a current account (CA) deficit. FDI tends to be sticky and can reduce trade imbalances by increasing local production, hence reducing imports or increasing exports. In the EM Edge group, FDI flows range from large receivers such as Mongolia and Serbia, to large suppliers such as the oil exporters (Figure 1).

Figure 1: Net FDI inflows in EM Edge



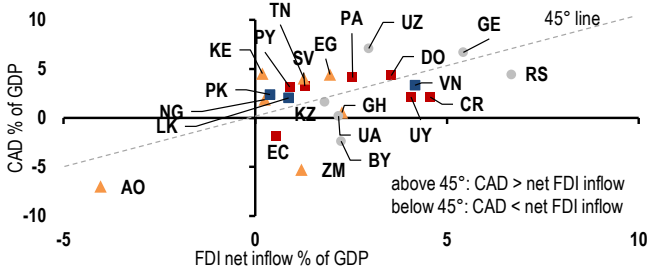
Source: IMF, local sources, J.P. Morgan

The importance of a balanced broad CA

We focus on broad current account balances to highlight potential sources of pressure on exchange rates and FX buffers. As an example, Serbia reported an average current and capital account deficit (including errors and omission) of about 4.4% of GDP in the last three years. This is similar to what has been seen in Kenya and Egypt. However, Serbia's large deficit was actually driven (and covered) by FDI inflows. For the two African countries the CAD was instead driven by domestic demand unmatched by FDI flows. As a direct consequence, pressures on reserves and exchange rate have been diametrically opposed. Several countries in the EM Edge have recently not been able to finance CAD with FDI flows (Figure 2), forcing them to attract flows from different sources. As international markets have been recently "closed" or just too expensive, they often relied on multilateral and bilateral support or they were forced to deplete reserves or to impose harsh FX restrictions.

Previously, we looked at BOP dynamics highlighting the struggle of several EM Edge countries to attract enough FDI. The difficulties were clear in Africa Edge with a net inflow of less than 1% of GDP while Latam, Europe, and Asia received between 2% and 3% of GDP despite differentiations between countries. Here we investigate the qualitative and quantitative drivers behind FDI stocks and flows.

Figure 2: EM Edge net FDI inflows and broad CA deficit* - 2021-23 avg



Source: IMF, local sources, J.P. Morgan - Figure exclude GCC, Mongolia, Azerbaijan
* Current account + capital account + net errors and omissions

Domestic and global growth driving inflows

We run a panel analysis across countries to look at what drives FDI inflows in EM Edge on a short-term basis. Due to large differences in economic structure, we excluded GCC countries focusing on frontier economies. Also, due to large outliers due to one-off investments, we removed Azerbaijan and Mongolia from the panel. After testing for several different potential drivers, our results show that growth is the key driver of FDI flows. Domestic growth is linked to profits of international companies which tend to be re-invested and represent a large part of total FDI. Global growth points to impact from the global business cycle.

Table 1: Drivers of FDI inflows as % of GDP in EM Edge frontier

	Total	Commodity exporters	Commodity importers
	Beta p-val	Beta p-val	Beta p-val
Constant	1.02 ***	0.67 ***	1.32 ***
GDP real growth %	0.18 ***	0.12 ***	0.25 ***
Global growth % (1 period lag)	0.37 ***	0.44	0.30 ***
1-period lag	0.12 ***	0.10 ***	0.15 ***
Adjusted R-squared	0.65	0.56	0.70

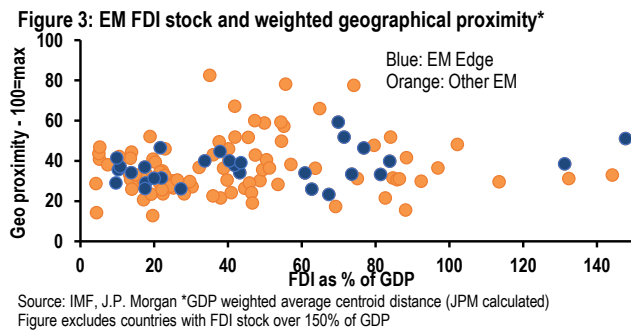
Source: J.P. Morgan - Cross-section fixed effects - 2007-23 data ex GCC, AZ, MN - *** <1%, ** 1-5%, * 5-10%

As the EM Edge group is not homogenous, the model was tested on smaller groups. The model performs better for commodity importers with higher importance given to local growth. The model for commodity exporters sees global growth as not statistically significant, which might point to investment in these countries being less driven by global short-term shifts. We also tested the importance of inflation but results were not satisfactory in this case. The same model for the regional groups showed domestic growth and FDI one-period lag being key in the regions, while global growth was relevant mostly in Latam while not as much in the other regions.

Not much of “geography luck”

The panel is able to explain a large part of FDI flows variance. This is likely the reflection of broad stability and stickiness of flows. Cross-section effects were included in the model as countries have their own characteristics which could drive the level of flows. Indeed a model only including cross-section effects could explain 52% by itself. Hence, it is worth exploring further what drives these characteristics. To do so, we removed cross-section effects from the model while testing “ad-hoc” fixed regressors.

Being geographically close to big economies might be one of the peculiarities worth testing. We created a variable looking at the actual distance between countries weighted by GDP. The best “proximity” is held by Serbia (59/100), being close to large EU economies, with Uruguay (23/100) being the furthest. Figure 3 shows a mild positive correlation between proximity and FDI stock for EM economies, with a slightly stronger one found for our EM Edge group. However, we found that the mild correlation becomes irrelevant when looking at flows and controlling for other variables.



Policies key for non-commodity exporters

Overall, the new panel, which kept the same regressors and added “ad-hoc” fixed effects, was able to retain a high *R-squared* with no large shift for the beta of domestic growth (Table 2). On the other hand, the introduction of other variables decreased the role of global growth, which remained marginally significant only for commodity importers.

The new panel showed the importance of “governance”. We built this variable using the [World Bank Worldwide Governance Indicators](#). These present six indicators which tend to be highly correlated, hence the decision to use a single aggregate. Our “governance” indicator goes from zero to 100. In 2022, Uruguay was on top of the EM Edge group (score 71/100) while Nigeria closed the ranking (28/100). The model also recognizes the importance of education as we included a variable for education (% of population with secondary education). On the macro side, we tested average long-term infla-

tion and volatility which could be seen as good proxy for sound macro policies. The long-term average reported the best result while volatility was not significant.

Both commodity exporters and importers models achieved a satisfactory result, but differences between the two are large. For importers, who cannot enjoy the same advantage of being a home of key natural resources, it is clear that FDI flows are much more related to sound policies and macro performance. Low growth and high inflation hit FDI flows more marginally in commodity-rich countries with governance and education not significant. Commodity exporters offer products which the international market needs, while importers need to boost their competitive advantage through other channels. When running the same exercise on the EM Edge regional groups results are less satisfactory likely due to the sample shrinking in size. However, governance appears to be a major factor in our Europe Edge group with low inflation important in Asia Edge.

As mentioned, geographical proximity does not appear relevant reporting negligible betas and no statistical significance. We might argue that this might be true for the entire EM Edge group and subgroups, but still relevant for specific countries. A clear example is Serbia where proximity, but also prospects of joining the EU, has likely been a key FDI driver. Furthermore, we tested the model for importers including regional dummies. The model points to negative betas with an under-performance for Africa Edge group of about 0.9% of GDP and a strong over-performance of Europe Edge (+2.1%).

Table 2: Drivers of FDI inflows as % of GDP in EM Edge frontier

	Total	Commodity exporters	Commodity importers
	Beta p-val	Beta p-val	Beta p-val
GDP real growth %	0.15 ***	0.09 ***	0.24 ***
Global growth % (1 period lag)	0.07	0.09	0.11 *
1-period lag	0.59 ***	0.63 ***	0.48 ***
Governance	0.02 ***	0.02	0.04 ***
Secondary education (% pop)	0.01 ***	0.01	0.03 ***
LT CPI avg %	-0.08 ***	-0.04 *	-0.28 ***
Adjusted R-squared	0.61	0.50	0.70

Source: J.P. Morgan - 2007-23 data ex GCC, AZ, MN - *** <1%, ** 1-5%, * 5-10%

Sound policies could boost inflows

Sustainable balance of payments dynamics are key for the EM countries and even more for frontier economies. Current high interest rates expose more clearly how broad CAD pressures and perennial deficits can generate harsh consequences. In this context, attracting extra FDI could be easier, and less economically impacting, than forcing a large swing in the current account balance, as recent experiences in Egypt and Pakistan have shown. A focus on sound macro policies targeted at a sustainable growth and at creating a supportive business environment can open the door to higher investment in the medium to longer term.

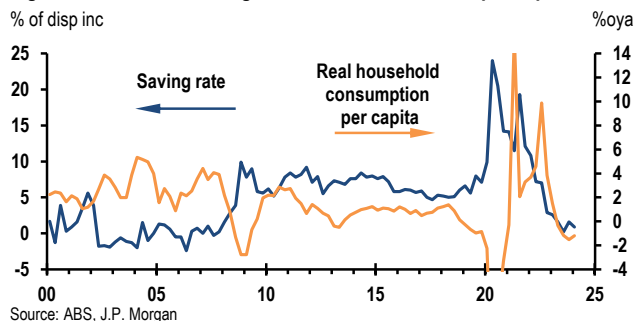
25 July 2024

Australia: Saving rate to matter less for spending

- The low household saving rate disguises significant equity injection into housing
- At this stage of the cycle, we expect low-saving households to spend income gains, and others to reduce equity injection
- Saving rate dynamics are unlikely to constrain consumption from here; the labour market will dictate consumer performance

Australia's household saving rate has dropped significantly (Figure 1) as households attempt to smooth through the real disposable income hit from higher interest rates, and inflation. Taken at face value, this suggests limited scope to move down further - or perhaps, a bias to rise - which could damage consumption. However, in the details there is more to the story, and in our view saving rate outcomes are not going to be at the forefront for consumption dynamics in the coming quarters.

Figure 1: Household saving rate and household cons per capita



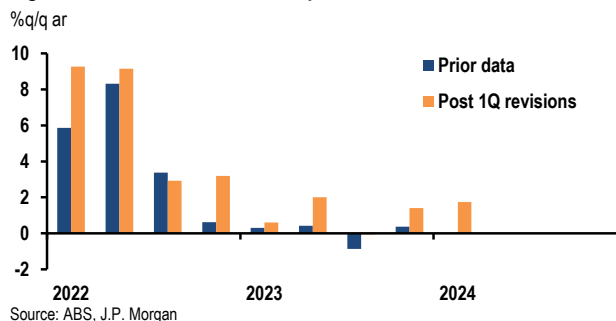
First, household disposable income is garnering some support from [tax cuts](#) and (in real terms), [subsidies](#) and broader disinflation. Any given saving rate will then apply to a growing base for after-tax real income. Second and more subtly, the low aggregate saving rate for the nation as a whole reflects a mix of outcomes across households, and across income streams. At this time of the cycle for interest rates, inflation, and housing, there are a number of dynamics which can lift the saving rate without damaging real consumption, and conversely, redirect some saving into spending, without a fall in saving rates.

Cashflow constraints binding for some...

Starting with the most straightforward piece of the story, a low aggregate saving rate amid weak per capita spending growth (Figure 1 again) strongly suggests some households are under cost of living pressure, with limited scope to further

reduce real consumption. Saving rates tend to rise with income, as does housing ownership. Households with lower saving rates are therefore less likely to be exposed to higher interest rates (in either assets or liabilities), and more likely to have their real purchasing power constrained by inflation.

Figure 2: Real household consumption, with revisions

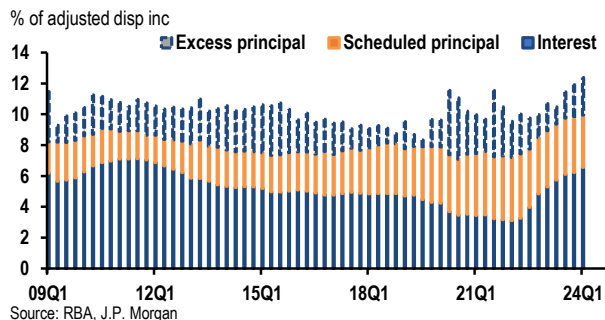


For those most reliant on labor income, and living 'hand to mouth', an environment of falling inflation, rising real wages and tax cuts should then flow through quite cleanly, i.e. with a high marginal propensity to consume, to real consumer spending. Reflecting this and other factors, [we wrote earlier in the year](#) that it was likely real household spending growth troughed in 2H23. The 1Q24 GDP data and associated revisions appear to confirm a lift playing out a little earlier than we thought (Figure 2). We suspect part of that dynamic was improving real incomes, flowing through to real consumption.

...but not for others...

Though the aggregate saving rate is low, separately-reported measures of housing equity addition remain elevated. Among other things, this suggests some households – as above, most likely those with somewhat higher incomes – are still maintaining a strong saving flow, particularly into housing assets.

Figure 3: Housing debt payments



Those flows take two forms. Excess mortgage principal repayments are the liquid form, and tend to sit in mortgage offset accounts which reduce households' net interest liability,

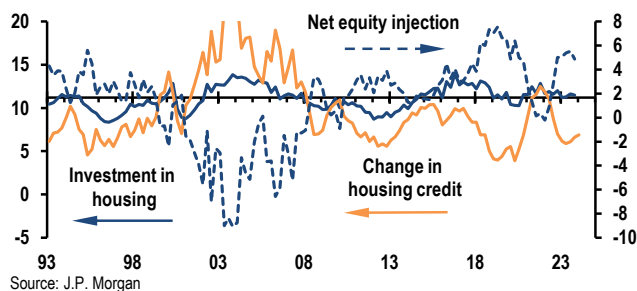
while not technically cancelling the associated debt. Households have maintained an elevated flow into these accounts (Figure 3).

High interest rates clearly incentivize households to continue making excess mortgage repayments, and those flows are even stronger than they appear in the above chart, which for technical reasons is presented relative to *adjusted* disposable income (which adds back interest payments). Given that higher interest payments erode free cashflow, maintaining offset inflows as a share of adjusted disposable income indicates an even stronger positive saving rate impulse from such households, as the ordinary household saving rate is measured with respect to unadjusted disposable income.

The other, less liquid form of home equity addition is the acquisition of new housing assets by the household sector. For the household sector to acquire more real housing assets on net (as opposed to transfers between households) requires alterations and additions (investing in the quantity/quality of the housing stock) or to a lesser extent, building new housing on land acquired from other sectors. The equity, or saving component of this, is the amount funded without additional mortgage debt.

Figure 4: Housing credit and household investment in housing

% of adjusted disp inc, ex-GMI, both axes



This form of equity injection is harder to measure directly than mortgage offset accounts, but applying the method of the RBA, we take the difference between a proxy of net nominal residential investment (nominal alts/adds + nominal housing turnover purchased from other sectors, less transaction costs) and the change in housing credit outstanding.

The measure of net housing equity injection is also elevated relative to history (dashed line in Figure 4), which fits an important earlier feature of this cycle: the boom in building approvals, alongside the broader housing market during the lockdown/low interest rate period. That boom was incentivized by government homebuilding subsidy programs, and facilitated by excess saving flows.

As discussed further below, both the liquid, and illiquid forms of housing equity addition appear biased to moderate from here, assisting consumption, without a clear directional impact on the saving rate.

Don't lose sight of the cycle

At this point of the cycle for interest rates and housing, there is scope for consumption to lift without a clear implication for the saving rate. Most simply for real income, inflation is easing, which clearly helps previously constrained households to increase their real consumption, and a high MPC should be expected for these groups.

Similarly, we don't expect rate cuts imminently, but do think the RBA is done hiking, and transmission of earlier hikes through mortgage rates is all but complete (see previous link above). Nominal income growth remains decent, and should also have a greater beta to consumption in the absence of incremental rate hikes. Once interest rates do fall, disposable income rises, creating scope for households to both increase gross saving and consumption simultaneously. The balance of the two will dictate the saving rate. As those most exposed to interest rates (those with housing assets) have been adding significant equity lately, these households should have some flexibility, and there isn't a strong reason to expect those with an already-high saving rate to lift it further.

Figure 5: Dwelling sales turnover and prices



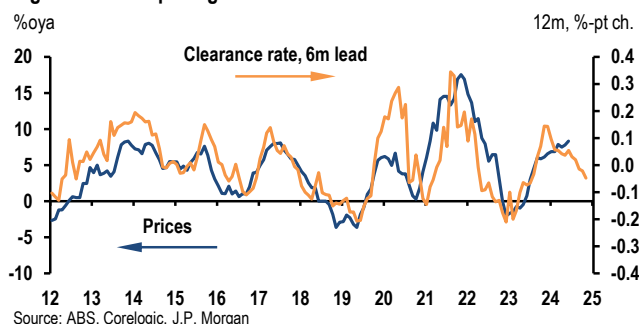
To the contrary, housing turnover and leading indicators of prices have eased (Figures 5 and 6), most likely because rate cuts have not arrived on the schedule households might have expected. We expect more of this ahead over the remainder of 2024. Further, as the [backlog of prior building projects is cleared](#), there will be less alteration/addition activity in particular.

Falling interest rates, softer house prices and lower turnover/investment in housing assets all suggest reduced equity injection into housing. As shown above, there is scope for households to redeploy such saving, relative to *adjusted* disposable income, back into consumption. Even at current interest rates,

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this can occur without technically lowering the saving rate, though falling interest rates strengthen that dynamic.

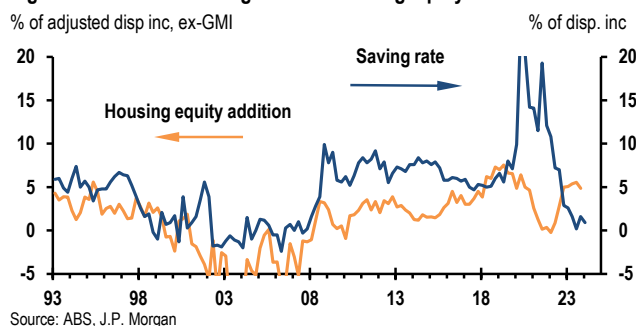
Figure 6: House price growth and auction clearance rates



...and relieving some shared drags on income and savings

Lastly, we note some technical drags on household income – and so other things equal, saving and consumption – which should be relieved over time. Figure 7 presents again the net housing equity contribution from Figure 4. The outperformance relative to the saving rate is striking. As discussed above, this reflects the different experiences of those with, and without housing exposure, and differing impact of inflation on free cashflows across the income strata.

Figure 7: Household saving rate and housing equity addition

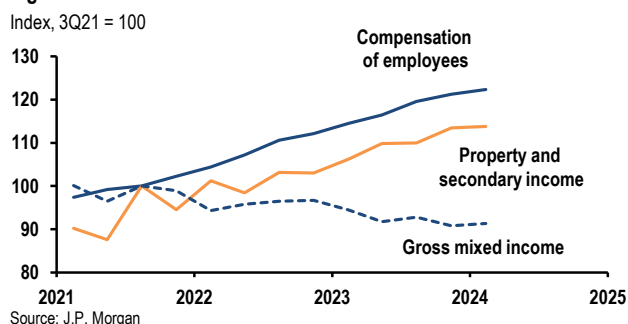


It is worth mentioning that to measure housing equity injection accurately (again, following the RBA method) the disposable income denominator there also excludes gross mixed income (GMI). GMI is the profit of unincorporated enterprises, not including finance, insurance, pension funds, and general government/public entities, and so largely represents SME profits.

While GMI is excluded in the denominator for housing equity addition, it is included in the ordinary measures of household income from which the saving rate is derived. That difference matters, since over the period that the saving rate has been falling, GMI has starkly underperformed other household income streams. Since 3Q21 (the final, lockdown peak in the

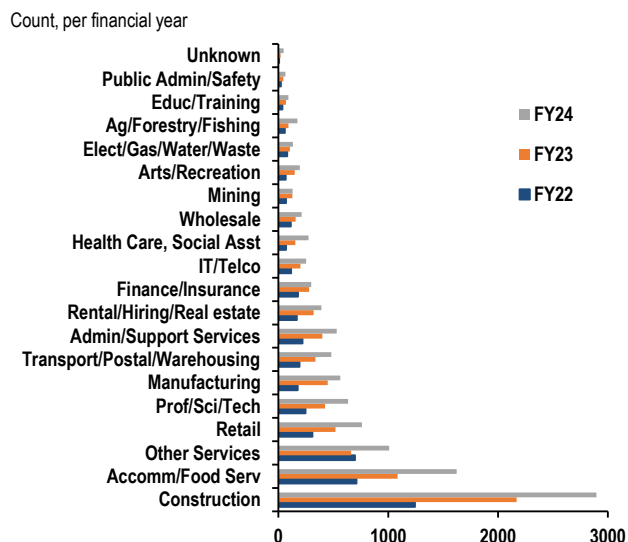
saving rate), employee compensation has grown 22%, property and secondary income is up 14%, but GMI is down 9%, see Figure 8. Had this stream grown in line with employee compensation, total household disposable income would be 4% higher. GMI is derived indirectly, so it is plausible that this has depressed the saving rate relative to the housing equity contribution, adding to the latter's outperformance in Figure 7.

Figure 8: Household income streams



Why has GMI underperformed to such an extent? SME income is disproportionately skewed to firms in the construction, hospitality (accommodation/food services) and retail sectors. These are all sectors which have come under significant cost pressure during the recovery and have struggled to fully pass on cost inflation, driving a rise in insolvencies. These sectors lead insolvencies nationwide (Figure 9) and the associated losses in part reflect a transfer of income/surplus from such SMEs to other parts of the household sector, particularly mortgagee/wage-earners who do not own businesses.

Figure 9: Business insolvencies



As cost-driven inflation in such sectors comes down, it is reasonable for things to get a little less bad for these pockets of the SME sector, lifting GMI. This will relieve a drag on household income, and so, potentially both saving and real consumption. Less-bad SME profits should also to some extent rebalance the equity position of different parts of the household sector.

Labour, not saving

As discussed above, the low aggregate household saving rate disguises a number of factors at play, and in particular disguises significant equity addition into housing, in both liquid and illiquid forms. Since housing is normally the channel of perceived vulnerability when the saving rate is low, in our view underlying saving flows are better than they appear. A cooling housing market, and later on, falling interest rates should also create space for stronger consumption without the saving rate having to fall. Those running structurally lower saving rates in the first place are also most likely to have high MPCs, and so boost real spending as tax cuts and falling inflation lift real income.

We have not mentioned the wealth effect in our analysis above, since per previous research, it tends to be weak outside periods of macroprudential tightening, and has been dwarfed by larger changes in income, taxes and interest rates in recent years. Similarly in this case, we don't expect the saving rate to be a constraint to household spending, with the labour market, as usual, looming as the key determinant of consumer performance. The unemployment rate has been rising gradually of late, but real disposable income is nevertheless picking up, a balance we expect to be sustained through 2H24.

The time inconsistency of China's housing strategy

- Since 2015-17, China has tried to curb real estate as a key growth driver and to raise housing affordability ...
- ... reflecting the CPC's new objectives of delivering both higher quality growth and common prosperity
- But a gradualist approach, alongside geopolitical changes, have created time inconsistency problems
- The replacement drivers (high-end manufacturing) have not offset the drag from housing
- Slowing the price adjustment to protect household net worth has prolonged the quantity adjustment
- A comprehensive housing strategy is needed, while using other policies to mitigate the collateral damage
- The recently concluded 3rd Plenum has made progress on several elements of such a strategy

China's housing market is in the midst of its most severe downturn in three decades. Many market participants are puzzled as to why the authorities have not delivered a more decisive policy response. Frequently asked questions are how China got here, how much longer the adjustment will take, and how will the housing landscape eventually look. While the downturn started from the housing policy tightening in 4Q20, the shift in China's housing policy strategy can be traced back to 2017. We see two fundamental objectives underpinning China's post-2017 housing policy.

First is the planned shift in China's growth driver from credit-driven investment to productivity. As the population aged and debt burgeoned in the aftermath of the GFC, the government realized that the previous 30-year strategy of growing by increasing inputs, i.e., labor and capital, was no longer sustainable. Instead, China would have to rely on productivity as its main growth driver. Over 2015-17, a series of policy shifts ushered in this new era. The government's 2015 announcement of *Made in China 2025* (later *Vision 2030*) set the blueprint for China's "new economy" by shifting growth dependence away from credit-heavy real estate/construction to high-value-added manufacturing and high-end services. It culminated in the *2017 changes* to the Communist Party of China (CPC)'s objectives of seeking *higher quality growth* and sharing more broadly its gains ("common prosperity").

Common prosperity gained prominence as a societal objective under President Xi's leadership. It seeks to reduce income and geographical inequalities and equalize economic opportunities and access to housing, education, and health-care. President Xi elevated improving home affordability as a priority of common prosperity, making it the second objective

of the new housing policy.

President Xi's declaration that "housing is for living not speculation" became the new foundation of policies and reforms, not just in housing but across the economy. This replaced Deng Xiaoping's pronouncement that "it does not matter whether the cat is white or black as long as it eats mice," which had hitherto driven China's 30-year long pursuit of high growth.

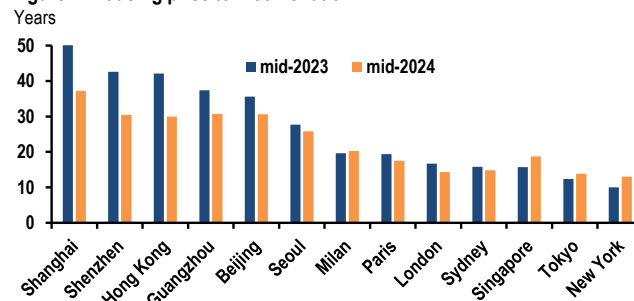
A tangled web of new policies

To achieve the first policy objective, the government tightened housing policy but strengthened industrial policies to support manufacturing sector upgrades. The policy tightening was summarized by the "Five Red Lines": "Three Red Lines," i.e., more restrictive limits on the liability/asset, net gearing, and short-term debt to cash ratios to reduce borrowings by real estate developers and "Two Red Lines," namely ceilings on property exposure and mortgage loan exposure of banks.

Under the *Made in China 2025* strategy, more favorable funding and support via preferential tax rates, subsidies, PPP funding, targeted relending, etc. were provided to emergent sectors such as robotics, semiconductors, clean energy, and NEV in manufacturing and fintech, healthcare, and insurance in services. This month's 3rd Plenum extended that support to next-generation IT, artificial intelligence, aerospace, and quantum computing, among others.

To improve housing affordability, the authorities identified speculative investment as the key culprit behind China's still extreme metrics (Figure 1). Not only was the cost of speculative housing investment increased significantly, but also home purchase and resale restrictions were tightened and price increases were capped e.g., in Beijing, the minimum down-payment ratio was lifted to 35-40% for first-home unit and 60-80% for second-home unit, along with resale restrictions of five years.

Figure 1: Housing price to income ratio



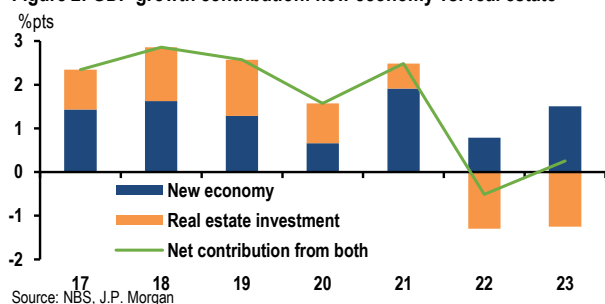
Source: Numbeo, J.P. Morgan

Best laid plans of mice and men

Rotating the growth drivers made sense in principle but came with a risk. If the new economy took more time to develop or did not expand fast enough to offset the drag from the shrinking real estate sector, which in 2017 made up an estimated 25-30% of GDP taking both the direct and indirect contributions together, then overall growth could collapse below China's socially acceptable level, weakening confidence in the economy and in the new policy framework. Preventing such a collapse would, ironically, need more credit-fueled policy support.

In the event, that risk materialized (Figure 2). The large-scale tightening hit the housing market hard: transactions fell sharply as did real estate investment, inventories of both completed and unfinished stocks ballooned, and two of China's (and the world's) largest developers went bankrupt. The share of real estate in total investment dropped from 14.0% of GDP in 2020 to 9.2% in 1H24, and that of real estate and construction in GDP fell from 14.4% to 11.9%. Just the decline in real-estate investment reduced GDP growth by 1.2-1.4%pts each year in 2022 and 2023. And the real estate sector and overall economy entered a self-reinforcing downward spiral: housing dragged down growth, and without any material signs of the economy recovering, housing demand languished, reinforcing the shrinkage of real estate. The combined contribution of the new economy and real-estate FAI to overall economic growth averaged 2.6%pts over 2017-19. In the last two years, it has turned to a drag of 0.1%-pts.

Figure 2: GDP growth contribution: new economy vs. real estate



Rotation runs into sentiment shock and geopolitics

While the government has steadfastly supported the new economy, with a share of just 16% of GDP in 2017-19, the emerging sectors had to deliver very high expansion rates to offset the housing drag. While this was always an arduous task, two factors have made it more difficult.

Following a series of abrupt regulatory changes over late 2020 to 2021, China's regulatory/policy framework was

increasingly seen as both inequitable (favoring SOE manufacturing over private-sector services) and uncertain (e.g., start-ups can't assure investors that the government will approve their IPOs). As this perception became entrenched, business confidence plummeted and has languished since then.

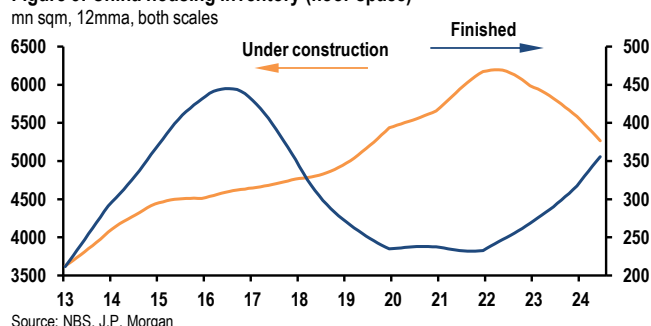
Also, the new economy, which depended directly or indirectly on continued access to Western fundamental research (especially in advanced microchips) has been hamstrung by the intensification of Western sanctions on technology transfers. More recently, Western nations have also turned their attention to new economy exports (especially EVs), imposing tariffs and regulatory restrictions. With domestic demand still weak, finished inventories have started to pile up. This has raised concerns of overcapacity and has the market worried whether the EV sector could also turn like real estate. With both technology transfer to the new economy and external demand for its products facing substantial headwinds, in the absence of more substantive indigenization of technology and absorption by domestic demand, overall growth is likely to remain under pressure from the housing market drag.

Whom to save: Insiders or outsiders?

With demand sharply culled, large swaths of incomplete projects, and rising inventory of unsold finished projects, housing transactions across the board nose dived and prices fell. Under such circumstances, typically the market resolves the situation with drastic price declines that restore supply-demand balance, often involving large destruction of capital.

However, the Chinese government has chosen to dampen the price decline and let quantity do most of the adjustment. New home starts (in floor space) contracted 64% compared to the 2021 peak, and new homes sold declined 52%. But even after over 11 quarters of adjustment, unsold and incomplete inventories remain large. New homes under construction stand at more than six years of new home sales. Completed unsold units are equivalent to five months of new home sales (Figure 3).

Figure 3: China housing inventory (floor space)



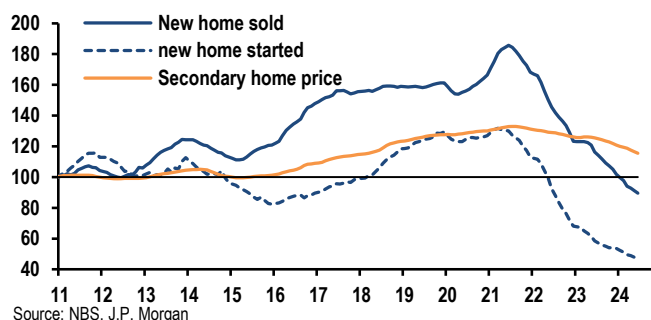
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Along with continued cash pressure and low incentive to purchase land and start new projects, fresh investment has kept declining, down 30% from its 2021 peak. But the price correction has been significantly shallower. The NBS 70 cities' new home prices declined 7.1% compared to the 2021 peak and secondary home prices dropped 13.2% (Figure 4).

The shallow price decline reflects the dilemma authorities face and forms the other time inconsistency of China's housing strategy. A sharper price decline would improve affordability for new home buyers and achieve a key pillar of "common prosperity." But it would also damage the net wealth of existing homeowners, a vast majority of whom are urban middle class with around 60% of their wealth tied to real estate. In addition, land sales make up a significant portion of local government revenues, particularly LGFVs, which were mostly local-government sponsored off-budget construction or real estate companies. Land sales nearly halved in the last 2.5 years, [weighing on LGFVs](#)' ability to make debt repayments and, in turn, putting regional banks under pressure.

Figure 4: China housing indicators

2010 Dec=100

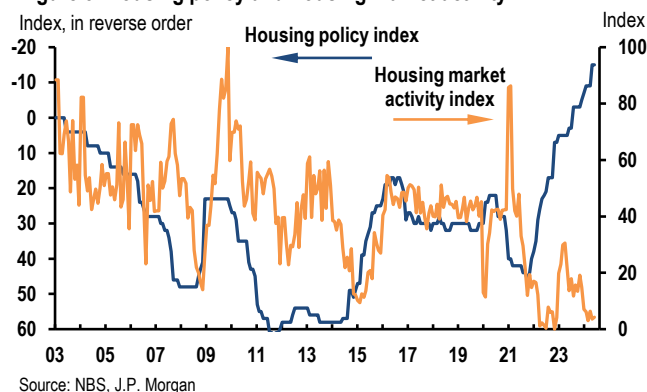


Source: NBS, J.P. Morgan

Market ignores policy easing

Without sufficient and early price adjustment, fears of further future price decline remain entrenched. As in other asset markets, unless the market believes that prices have bottomed out and even overshoot the adjustment, demand rarely recovers meaningfully. In such circumstances, the impact of regulatory or credit easing is blunted – as is happening now. Over the past two years, the government has steadily eased housing policy, including material reductions in mortgage rates and minimum down-payments. However, unlike in the past, activity ([link](#) for methodology) has shrugged off the policy easing ([link](#) for methodology) and has continued to decline. The main difference being the widespread fear of further large price reductions that has gripped the market (Figure 5).

Figure 5: Housing policy and housing market activity



Source: NBS, J.P. Morgan

There is no free lunch

The current piecemeal housing strategy is only worsening the time inconsistencies. The calculus that overall GDP growth can be managed within acceptable levels of tolerance (4-5%), while the transition from real estate to the new economy is completed and the housing market stabilizes at an improved level of affordability without damaging households' balance sheet, is becoming increasingly challenged. Repeating the pattern from 2023, after a strong start in 1Q24 on the back of fiscal and monetary policy support carried over from the previous year, growth slumped in 2Q. Hence we recently [downgraded our 2024 growth forecast](#) to 4.7% from 5.2% on current policies. While the authorities so far have continued to focus on minimizing downside risks ([link](#)), chances are that further modest policy support will be forthcoming in 2H that, in turn, could lift 4Q24 growth and spill over to early 2025. This cycle of calibrated support, whose impact fades after a few quarters requiring further support, is a reflection of the gradualist housing strategy. This approach could run into further headwinds if a change in US policies post the November election intensifies tariffs and slows exports that have buoyed China's economy in 1H24.

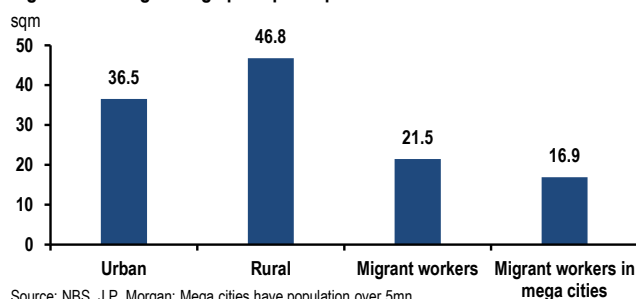
Oversupply or mismatch

We have long argued that China's housing market correction is [both cyclical and structural](#) and, thus, requires both near- and long-term solutions. However, the starting point of any solution, calibrated or comprehensive, needs to be an assessment of whether there is overcapacity in China's housing market. Understandably this is an odd question to ask in the face of seemingly overwhelming evidence of excess capacity, but we believe the answer is no.

In our view, the current problem is more a reflection of supply-demand mismatch, and not solely of structural oversupply, as is widely believed. The 2020 Census reported that the average living space of a Chinese resident is 42 square meters per capita (having risen from 36sqm in 2010). This is roughly

in line with other economies. However, there are wide rural-urban and migrant-resident divides. First, the average living space for urban residents is 36.5 square meters in 2020 (up from 29.2sqm in 2010), compared to 46.8sqm for rural residents (up from 31.7sq in 2010). Second, within urban areas, the living space for migrant workers is only 21.5 square meters and even lower at 16.9sqm for those working in cities with population above 5 million (Figure 6).

Figure 6: Average living space per capita



So, while the stock of unsold and incomplete inventories in the private housing market is high, public and rental housing is under-supplied. The size of this gap is hard to estimate. But the enormity of the gap can be gleaned from the large difference between two measures of China's urbanization. Based on usual residency status, 66% of the population lives in urban areas. Based on Hukou registration (place of origin) that number drops to 48%. The 18%-pts difference represents 250 million people who can't afford private property and represent potential demand for public and rental housing as urbanization expands.

Everything, everywhere, all at once

Over the last year or so, we have written extensively on housing solutions (e.g., [here](#), [here](#), and [here](#)). Our view has been that the adjustment needs to be completed early through a comprehensive strategy, such as a large-scale real estate stability fund to address funding stresses for developers, a central government led funding package to support private housing de-stocking and public housing development, and full removal of home purchase restrictions. While the resource needs are daunting, a version of the 2000-07 bank restructuring playbook (when the pain of adjustment was shared across government, PBOC, and financial institutions) can make it manageable. However, any comprehensive solution will require creating a new sustained source of housing demand. Potentially, such a source is migrant housing demand. This, in turn, would require reforming the Hukou system (under the system, immigrants and their families remain registered to their place of origin and, therefore, cannot access public health and education facilities in their place of work), collective ownership of rural land (collectively owned land cannot

be used as collateral for mortgage loans), and inter-provincial and center-state fiscal transfers.

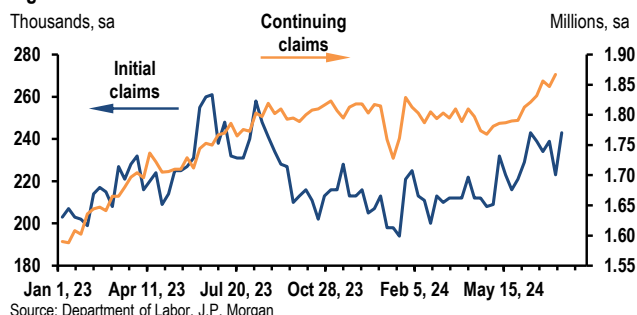
The recently concluded [3rd Plenum](#) makes some headway on Hukou and rural land reform. In the reform agenda, immigrants and their families can access public health and education facilities in their place of work, no longer restricted to the place of their Hukou registration. In addition, rural households will be allowed to lease out their homes. The proposed reforms suggest a stronger political willingness to move on these critical elements of a comprehensive housing strategy. That said, we do not expect a major shift from the calibrated approach in the near term and as such housing will likely remain a drag on growth in 2024, stabilizing gradually in 2025.

United States

- **2Q GDP surprised higher at 2.8%; June activity data point to solid momentum into 3Q**
- **With June core PCE at 0.18% as expected, FOMC set to signal September easing next week**
- **Rising jobless claims have been concerning but cooled somewhat this week**
- **Next week: Hurricane Beryl slows NFP gains to 150K, u-rate steady at 4.1%**

Heading into next week's FOMC meeting, risks around the outlook have moved into better balance, though the recent drift up in the unemployment rate still warrants caution. In that vein, next Friday's employment report will give a first look at July activity data after recent releases have sent mixed signals about how much cooling we are likely to see during the back half of this year. While 2Q GDP is in some sense old news, the notable upside surprise in the advance release was due to a modestly stronger consumer and better-than-expected export data, and these were reinforced by solid consumer spending and industrial production in the June data releases. Momentum in economic activity looks to be firm heading into the current quarter.

Figure 1: Jobless claims



Even so, consumer fundamentals may not be quite as solid as they once appeared. June real income growth was softer than expected, pulling the saving rate down to an 18-month low of 3.4%. There are signs that lower-income households in particular are getting stretched, and depressed confidence measures have been trending the wrong way. Most significantly, jobless claims data are sending a cautionary signal (Figure 1). Continuing claims in particular have continued to trend up after breaking out of their prior stable range over a month ago. Initial claims reversed some of the prior week's jump that could be attributed in part to Hurricane Beryl—which also has the potential to distort the message from next week's jobs report. Initial claims look to have temporarily moved up during the past two summers before coming back down. A repeat of that pattern would be comforting, whereas even a modest but sus-

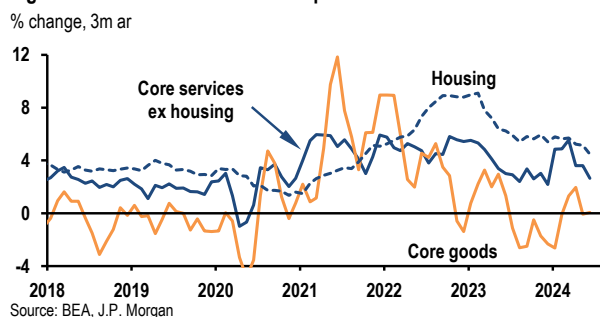
tained move higher from here would be more concerning. Meanwhile, the housing market appears to have taken another leg down in recent months even as mortgage rates have drifted lower over the same period.

Fed on track for September ease

Against this backdrop, the FOMC meets next week. Despite a few high-profile calls for the Fed to start cutting next week, that does not appear to be in the cards. Rather, we look for easing to commence in September provided the incoming data continue to align with the Committee's expectations. This is likely to be signaled by some modest changes to the statement language as well as Chair Powell conceding that the Fed is gaining greater confidence that inflation is on a path back to 2%. But we still expect him to stress data dependence (and thus avoid describing the first cut as "consequential"), as well as suggest decisions will be made meeting by meeting and to avoid giving any sense of the expected pace of easing. The days of explicit calendar guidance are likely behind us.

Elsewhere in the statement, the characterization of the labor market is likely to remain, with "strong" job gains and "low" unemployment. On inflation, the statement could drop "modest" from the characterization of further progress, given the softer pace of core PCE inflation over the past few months. The June reading came right in line with our 0.18% forecast, with similar monthly readings for the supercore and market-based core measures. Even with some upward revisions to the May print, the year-ago core inflation rate held steady at 2.6% while the three-month annualized rate slipped to 2.3%. Looking at the split into housing, supercore, and core goods, all three have decelerated recently (Figure 2).

Figure 2: Core PCE inflation decomposition



Given these data, the language also could be tweaked to suggest risks are "coming into better balance" per Powell's recent Congressional testimony. The forward guidance part of the statement could similarly be modified to say something like reducing the target range will be appropriate once the FOMC "gained further confidence." Together, these small changes should open the door for a likely September ease.

Labor market buffeted by Beryl

The modest upward trend in initial claims since April and a more recent move up in continuing claims have raised concerns about the health of the labor market. Some of the recent uptick in initial claims could be weather-related, as Hurricane Beryl made landfall in Texas about two weeks ago. While the Labor Department does not release seasonally-adjusted state data, state figures adjusted by Haver Analytics had shown spikes in claims in the week ending July 13 in Texas and some other affected midwest states. Texas could still be showing some impact from the weather, as seasonally adjusted claims rose another 7.8K in the latest week on top of a 6.6K increase the week prior. By contrast, at the national level initial claims pulled back to 235K for the week ending July 20 from 245K the prior hurricane-impacted week, which was welcome news. Aside from the weather-related noise, there is still some uncertainty as to whether the recent run-up in claims [may be influenced by change in seasonal patterns](#). In coming months it will be useful to see if claims push higher relative to last year's trend and signal softness in the labor market.

Also in this week's report, continuing claims declined to 1.851mm in the week ending July 13 from 1.860mm the prior week. That sideways move follows a recent trend up. Declining exit rates from unemployment as the labor market slows might be partly behind that recent jump in continuing claims.

But the key news on the labor market will come in next week's July jobs report. Since Beryl made landfall during the reference week, we anticipate some potential distortions in the upcoming print. [Based on our analysis](#) of similar episodes of Category 1 hurricanes making landfall during reference weeks, we find some potential impact on nonfarm payroll gains—but surprisingly little discernible impact on hours or earnings. Acknowledging the limited sample size, we think that nonfarm payrolls increased by 150K in July. This gain would have been closer to 175K absent this storm impact. Though we could not see much of an impact on hours in our analysis, prolonged power outages in the aftermath of the storm raise the risk of a drag on hours as well.

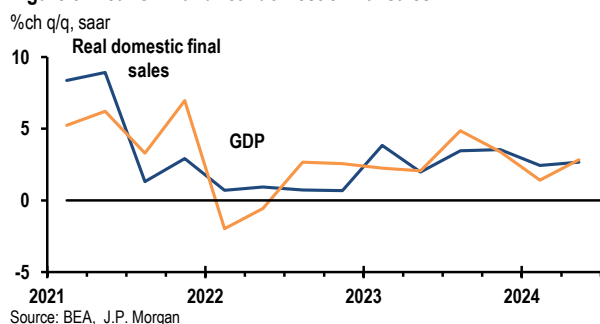
Elsewhere in the report, the unemployment rate should stay flat at 4.1%. Overall, we think that the labor market is continuing to soften gradually and that the July jobs report will reiterate this trend. Further signs of slowing labor demand might come from the June JOLTS report next week as well.

Ending 2Q on a strong note (mostly)

Coming into this week we had anticipated that the economy was growing at around a 2% pace last quarter, whereas the advance release of 2Q GDP showed notably stronger growth

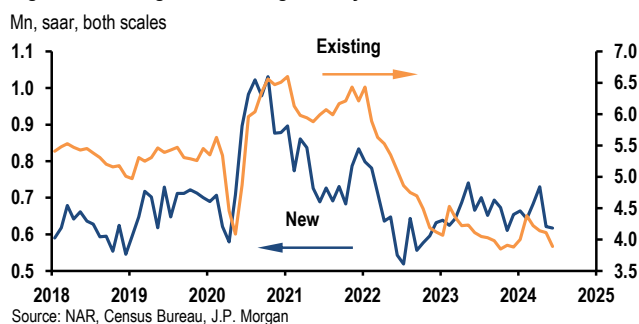
of 2.8% (Figure 3). Consumer spending, equipment investment, and exports all posted solid gains, alongside further inventory accumulation, especially of autos, which are still recovering from their post-pandemic lows. Strong equipment investment of 12% was driven by transportation, especially aircraft but also vehicles, as well as investment in technology equipment. However, capex plans in regional Fed surveys are still soft and with the large increases in aircraft deliveries unlikely to repeat, investment growth will likely decelerate ahead.

Figure 3: Real GDP and real domestic final sales



A clear area of weakness in the GDP report was real estate, as nonresidential structures investment declined 3.3%/q, saar and residential investment fell 1.4%. Residential investment in particular is likely to get weaker in the coming quarters given the past reductions in housing starts, and June data out this week had more soft readings for both new and existing home sales (Figure 4). Next week's construction spending report will provide an updated view on nonresidential spending, where manufacturing spending remains robust while other categories have recently started to decline.

Figure 4: Existing and new single-family home sales



In addition to the employment report, next week's data releases will include the June JOLTS reports and 2Q ECI, which will provide additional context on the strength of the labor market. We will also get more insight into the manufacturing sector in the form of the July ISM manufacturing report and final manufacturing PMI release.

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Data releases and forecasts

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

Consumer confidence					
Tue	Sa				
Jul 30					
10:00am		Apr	May	Jun	Jul
	Conference Bd index	97.5	101.3	100.4	100.0
	Present situation	140.6	140.8	141.5	
	Jobs plentiful	38.4	37.0	38.1	
	Jobs hard to get	15.5	14.3	14.1	
	Labor mkt diff	22.9	22.7	24.0	
	Expectations	68.8	74.9	73.0	

The Conference Board consumer confidence index was likely little changed in July around 100.0, consistent with recent readings that have left the index moving sideways to slightly down. The Michigan consumer sentiment index did fall to 66.4 in July from 68.2 in June, and while these two measures have not been that closely aligned recently the Michigan report doesn't suggest any pickup in confidence. One wildcard is the impact of recent political news. The Michigan survey, whose polling ended on July 22, didn't appear to show any dramatic changes in response to the attempted assassination of Donald Trump or the Republican convention, and the withdrawal of President Biden from the presidential race came too late to influence the survey. The Conference Board report also ends its survey period about three weeks into the month, so any effect of the Biden withdrawal should appear in August.

Of particular interest in this report will be the labor market differential and the signal it sends on the unemployment rate. The differential, defined as the share of respondents reporting jobs are plentiful less the share reporting they are hard to get, was 24.0% in June. As discussed in a recent [note](#), around this level and higher there is low correlation between the changes in the differential and changes in the unemployment rate, but as the differential moves lower there starts to be a clearer negative relationship.

JOLTS					
Tue	Thousands, sa, unless noted				
Jul 30					
10:00am		Mar	Apr	May	Jun
	Job openings	8355	7919	8140	8000
	Job openings rate (%)	5	4.8	4.9	
	Hires	5617	5615	5756	
	Hires rate (%)	3.6	3.5	3.6	
	Separations	5330	5337	5422	
	Separations rate (%)	3.4	3.4	3.4	
	Quits	3409	3452	3459	
	Quits rate (%)	2.2	2.2	2.2	
	Layoffs	1601	1542	1654	
	Layoffs rate (%)	1	1	1	

The JOLTS report will likely show that job openings decreased in June to around 8.0mm, which would lower the job opening rate to 4.8%, the same level as April. The job opening rate had increased to 4.9% in May, which was unexpected given the ongoing increase in the unemployment rate. Although the job opening rate has retraced most of its post-COVID high, the recent level of openings still looks slightly elevated in comparison to unemployment, as judged by the Beveridge curve relationship in recent years. In addition to the rise in the unemployment rate, the share of firms in the NFIB small business survey reporting they had positions they were not able to fill declined to 37% in June from 42% in May, and the average reading on employment indexes in the regional Fed manufacturing and services surveys declined slightly.

ADP employment					
Wed	Change from month ago, sa				
Jul 31		Apr	May	Jun	Jul
8:15am					
	ADP	188	157	150	
	BLS private payroll	108	193	136	

The ADP employment report, which can be used to predict changes in private nonfarm payrolls in the BLS employment report, has had an average absolute error of 82k on first prints over the last 6 months. Cumulatively since the start of this year, the first prints for ADP have shown a 925k increase in payrolls while BLS has reported a 1,304k rise, although the revised BLS values are 1,046k, closer to the initial ADP estimate. Consequently, while the two reports have tracked each other reasonably well over time recently, there can still be large discrepancies in the monthly forecasts.

Employment cost index					
Wed					
Jul 31					
8:30am		3Q23	4Q23	1Q24	2Q24
	Total(%q/q, sa)	1.0	0.9	1.2	1.0
	Wages and salaries	1.1	1.1	1.1	1.0
	Benefits	0.9	0.7	1.1	0.9
	Total(%oya, nsa)	4.3	4.2	4.2	4.2
	Wages and salaries	4.6	4.3	4.4	4.3
	Benefits	4.1	3.8	3.7	3.7

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We think the employment cost index (ECI) rose 1.0% q/q in 2Q. While modestly slower than the surprisingly strong 1.2% growth recorded in 1Q24, it would be enough to maintain the year-ago pace at a still elevated 4.0%. Although the trend in average hourly earnings has slowed into 2Q, we think it would be inappropriate to extrapolate from this reading. Indeed, we suspect that composition effects could be playing a role in reducing AHE relative to the ECI. While evidence on the extent of labor market cooling remains mixed, the recent stall in the gradual decline of the quits rate appears consistent with some continued firmness in ECI wage and salary growth. We also look for modestly slower growth in ECI benefits in 2Q.

Wed Pending home sales

Jul 31 sa, unless noted
10:00am

	Mar	Apr	May	Jun
Total (mn, ar)	78.3	72.3	70.8	<u>71.9</u>
%ch m/m	3.6	-7.7	-2.1	<u>1.5</u>
%oya (nsa)	-4.4	-0.8	-6.6	<u>-5.8</u>

Pending home sales from the National Association of Realtors, which lead existing home sales by 1-2 months, hit an all-time low in May, and while we expect a slight 1.5% rebound in June they will likely continue to point to ongoing weakness in home sales. Under our forecast pending home sales would be down 5.8%oya. Weekly pending sales data from Redfin were down 3-4%oya in June, while Zillow's figures were off 1.5%, though these have had slightly more favorable over-year-ago comparisons than the NAR data recently. Sales could pick up more substantially in coming months if there is relief on mortgage rates, and while mortgage rates did decline a bit in July the drop in recent days is only around 10bp from the June average, a small move. Meanwhile weekly mortgage purchase applications still show sales moving sideways at a low level.

Thu Jobless claims

Aug 1
8:30am

	New claims (wr.)		Continuing claims		Insured Jobless, %
	Wkly	4-wk avg	Wkly	4-wk avg	
May 18 ¹	216	220	1790	1786	1.2
May 25	221	223	1791	1789	1.2
Jun 1	229	222	1813	1795	1.2
Jun 8	243	227	1821	1804	1.2
Jun 15 ¹	239	233	1832	1814	1.2
Jun 22	234	236	1856	1831	1.2
Jun 29	239	239	1847	1839	1.2
Jul 6	223	234	1860	1849	1.2
Jul 13 ¹	245	235	1851	1854	1.2
Jul 20	235	236			
Jul 27	<u>235</u>	<u>235</u>			

1. Payroll survey week

We look for initial jobless claims to hold stable around 235k in the week ending July 27, in line with the four-week average. The four-week average of claims had drifted higher

between the end of April and mid-June, though since then there has been relative stability. Last year claims had a similarly timed rise, as not seasonally adjusted claims were more elevated during the summer months than they had been in recent years. The pattern this year bears some similarities and over the last four weeks NSA claims are roughly equal to a year ago, so it will be key to see if claims are tracing out a similar path to last year or move definitively higher.

Continuing claims have also increased recently and are running above last year's level, though the insured unemployment rate (continuing claims relative to insurance-covered employment) is still stable at 1.2%. Following their recent increase continuing claims have been fairly stable since the week of June 22.

Thu Productivity and costs

Aug 1
8:30am Nonfarm business sector, %q/q, saar, unless noted

	3Q23	4Q23	1Q24	Prel 2Q24
Productivity	4.6	3.5	0.2	<u>2.2</u>
%oya	2.4	2.7	2.9	<u>2.6</u>
Output	5.8	3.8	0.9	<u>3.3</u>
%oya	3.1	3.3	3.1	<u>3.4</u>
Hourly compensation	4.6	0.6	4.2	<u>3.2</u>
%oya	4.3	4.4	3.8	<u>3.2</u>
Unit labor costs	0.1	-2.8	4.0	<u>1.0</u>
%oya	1.9	1.7	0.9	<u>0.5</u>
Hours	1.1	0.2	0.6	<u>1.1</u>
%oya	0.7	0.6	0.2	<u>0.8</u>

We look for a reacceleration of nonfarm productivity growth to a 2.2%/q/q, saar pace in 2Q after a nearly flat reading to start the year. With GDP growth surprising to the upside in the advanced 2Q release, we look for nonfarm business output to have grown 3.3% last quarter. Hours likely increased a more modest 1.1% over the same period. This combination should yield a solid rise in productivity, with growth of 2.6% over year-ago levels. Compensation should also have posted a fairly strong 3.2% reading for 2Q, which implies a more moderate 1.0%/q/q, saar increase in unit labor costs relative to the surge recorded in 1Q. On a year-ago basis, unit labor costs (ULC) should slow to just a 0.5% pace in 2Q, its slowest growth in eight years. However, we would caution against inferring too much downside to inflation from the ULC data; other price and wage measures remain elevated.

Wed S&P Global manufacturing PMI (US flash)

Aug 1
9:45am Index, sa

	Jul 23	Jun 24	Flash Jul 24	Final Jul 24
Composite	49.0	51.6	49.5	<u>49.5</u>
Output	50.2	52.1	49.5	
ISM-weighted composite	48.6	51.4	49.7	

The July flash manufacturing PMI was weak, with the composite falling to its lowest level since November, and we expect it to remain there in the final report. Like with the ISM survey this report is up a bit from a year earlier but is still on the low end of what would be expected in an expansion,

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despite the fact that real GDP expanded a very respectable 2.8%q/q, saar in 2Q.

ISM manufacturing survey					
Thu Aug 1 10:00am	Sa				
		Apr	May	Jun	Jul
Overall index		49.2	48.7	48.5	<u>49.0</u>
Production		51.3	50.2	48.5	
New orders		49.1	45.4	49.3	
Inventories		48.2	47.9	45.4	
Employment		48.6	51.1	49.3	
Supplier deliveries		48.9	48.9	49.8	
Export orders		48.7	50.6	48.8	
Imports		51.9	51.1	48.5	
Prices		60.9	57.0	52.1	

We expect a small improvement in the ISM manufacturing composite for July, predicting it will rise to 49.0 from 48.5. The flash manufacturing PMI declined to 49.5 in July from 51.6, but this survey has been running stronger than the ISM over the past year and the drop may be read more as a convergence of the series. Four regional Fed manufacturing surveys are also already out this month, and their average composite value rose to 48.7 from 47.7.

Even if the ISM survey edges up like we predict it will remain on the low end of the range of past expansions. The survey has been consistently depressed since early 2023 and has improved only marginally since then. In terms of the components, new orders in June had reversed a large drop in May so it will be important to see if the index can hang onto these gains. Production meanwhile has fallen in each of the last three months and is now back near the lows of the past-COVID period.

Construction spending					
Thu Aug 1 10:00am	%m/m, sa				
		Mar	Apr	May	Jun
Nominal		0.1	0.3	-0.1	<u>-0.3</u>
Private		-0.2	0.4	-0.3	<u>-0.6</u>
Residential		-0.2	0.9	-0.2	<u>-0.8</u>
Nonresidential		-0.1	-0.3	-0.3	<u>-0.2</u>
Public		1.1	0.0	0.5	<u>0.5</u>

We project that nominal construction spending fell 0.3%/m in June, with private construction down twice that amount. Overall construction spending had risen steadily through the start of the year, but since then the growth has slowed and May posted the first decline since the fall of 2022. However, the behavior of aggregate spending masks substantially different trends and prospects among the key categories.

First, residential spending is set to decline given the drop in both single-family and multifamily housing starts that have occurred in recent months. Spending has mostly held up so far on the back of the large number of units under construction, but total units under construction have recently been falling and are down 13% annualized in the last six months.

That hasn't yet translated into any substantive declines in spending, with non-improvement residential spending up 2.5% annualized in the same period, but this should start to worsen.

Second, many categories of private nonresidential construction began to decline late last year after experiencing a run of strong growth that began at the start of 2022. However, manufacturing spending, which has become the largest private non-residential segment, continues to grow rapidly, supported in part by funds from government stimulus measures including the IRA and CHIPS Act.

Finally, public construction continues to increase, though the rate of growth has slowed. Most public construction spending comes from state and local governments. In a recent [piece](#) on state and local employment, we noted that state budgets are forecast to contract next year, which could negatively impact construction spending.

Motor vehicle sales				
Thu Aug 1	Millions, saar			
		Apr	May	Jun
Light trucks and autos		15.8	15.9	15.3
Imports		3.8	3.4	3.4
Domestics		12.1	12.5	11.9
Autos		2.1	2.2	2.0
Light trucks		10.0	10.3	9.9

Sales of light vehicles probably rebounded in July to around 16.3mm saar following a low 15.3mm pace in June. Note that our auto equity research team may have an updated forecast next week in their Monthly Auto Review. Relative to a year earlier fleet sales should be down with retail sales up, and there should be an ongoing shift toward small/compact cars and mid-size SUVs gaining share at the expense of larger or luxury vehicles, though pickup truck sales are expected to remain strong.

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Labor-market report

Fri					
Aug 2	Sa				
8:30am		Apr	May	Jun	Jul
Payroll employment					
(ch. m/m, 000s)		108	218	206	<u>150</u>
Private payrolls		108	193	136	<u>110</u>
Goods-producing		-3	12	19	<u>0</u>
Construction		-5	16	27	<u>5</u>
Manufacturing		7	0	-8	<u>0</u>
Service-providing		111	206	187	<u>150</u>
Private service-providing		111	181	117	<u>110</u>
Wholesale trade		6	2	14	
Retail trade		14	7	-8	
Professional services		-17	31	-17	
Temporary help		-24	-16	-49	
Education/health		98	81	82	
Leisure and hospitality		-9	22	7	
Government		0	25	70	<u>40</u>
Average weekly hours		34.3	34.3	34.3	<u>34.2</u>
Index, hrs worked (%m/m)		-0.2	0.2	0.1	<u>-0.2</u>
Hourly earnings (%m/m)		0.2	0.4	0.3	<u>0.4</u>
(%oya)		3.9	4.1	3.9	<u>3.8</u>
Unemployment rate (%)		3.9	4.0	4.1	<u>4.1</u>
Participation rate (%)		62.7	62.5	62.6	

We expect that payrolls rose 150k in July and that the unemployment rate held steady at 4.1%. We anticipate that there could be some drag from Hurricane Beryl, which made landfall in Texas as a Category 1 hurricane on July 8, during the July payroll survey week (the week including the 12th of the month). Absent hurricane effects we wouldn't expect much change from the recent trend in payrolls, which depending on the way you cut them have mostly stabilized since the first half of 2023 or are still gently decelerating. Payrolls have risen by 177k, 222k, and 218k per month over the trailing 3, 6, and 12 month period, respectively, and absent the hurricane our forecast would be nearer to 175k. Any hurricane impact should be concentrated in private payrolls.

The effects of hurricanes on the employment report is discussed further in this week's Focus, where we look at other Category 1 hurricanes that have made landfall during the payroll survey week. Not surprisingly there is a large range of variation in historical effects and it is challenging to pinpoint how much of a drag Beryl will have on job growth, so the effect could be larger than the roughly 25k we have assumed. In addition to the impact on employment, weather events often reduce hours worked. Hourly earnings also tend to be biased up because employees who miss work are more likely to be in lower-paid industries, such as leisure and hospitality. Consequently, we assume that the workweek fell to 34.2 after three consecutive months of staying at 34.3, and that average hourly earnings will rise by 0.4%/m/m, a tenth of a percent more than we would have assumed absent the hurricane.

In support of the view that payroll growth would be fairly stable absent the hurricane drag we would note a number of indicators. Initial jobless claims and their four-week average were little changed between the June and July payroll survey

weeks, although continuing claims did rise by close to 20k. The PMI composite employment measure fell from 42.5 in June to 50.8 in July, but this reading is right in line with the average from the prior year, though it is worth noting that this average is well lower than normal for an economic expansion. And the simple average of employment indexes in the regional Fed surveys improved a bit for manufacturing and declined a bit for services, not suggesting large changes in labor conditions vs. earlier months.

While overall payroll growth has been reasonably stable in the past year, there are some industries in which growth has been steadily weakening, particularly mining and leisure and hospitality. Indeed, absent those two segments, private payroll growth has been quite stable in the last year and half, growing an average of 142k the last three months, very similar to the average from the prior 12 or 18 months. Elsewhere, construction employment continues to do reasonably well, though this could soon weaken. Residential construction spending has been declining, and nonresidential construction spending has also recently dropped, though strong manufacturing construction is providing some of an offset. Public construction spending is likewise growing more slowly recently, and tighter state budgets next year could create a further drag.

In the household survey, the June unemployment rate reading was 4.054%, just rounding up to 4.1%, and we expect the rounded value to hold at 4.1% in July. If on the other hand the rate were to rise to 4.2% then the Sahm rule would just be triggered, as the latest three-month average rate would be 0.5%-pt above the low of that series from the prior year. The forecast for a flat unemployment rate assumes that the participation rate stays constant at 62.6%. The participation rate rose steadily through late 2023 to a cycle high of 62.8% but has since stabilized.

Hurricane Beryl will likely have less impact on the household survey numbers. One risk is misclassification of employment status. During COVID many people were classified as employed but absent from work instead of unemployed because of COVID-related business closures, which biased unemployment down. In the case of a hurricane there could be some confusion between whether a worker is unemployed, or employed but temporarily not working due to bad weather. However, it is not clear whether this would bias unemployment up or down, and we do not have documentation of this occurring in the past for weather events.

Review of past week's data

Sources for all: ADP/Moody's Analytics, BEA, BLS, Census Bureau, Conference Board, Department of Labor, Federal Reserve Board, ISM, J.P. Morgan forecasts, NAHB, NAR, NFIB, NY Fed, Philadelphia Fed, S&P Global, Standard & Poor's, University of Michigan, US Treasury

Existing home sales (Jul 23)

	Apr	May	Jun	
Total (mn, saar)	4.14	4.11	<u>3.95</u>	3.89
%m/m	-1.9	-0.7	<u>-3.9</u>	-5.4
%oya nsa	6.8	-4.0	-0.7	<u>-3.9</u> -13.4
Months' supply (nsa)	3.5	3.7		4.1
Single-family	3.3	3.6		4.0
Median price (%oya)	5.4	-14.7	14.1	4.1

Existing home sales declined 5.4%/m/m in June to a 3.89mm saar pace, almost equaling the cycle low of 3.85mm in October 2023. Pending home sales, which lead existing sales by 1-2 months, had hit a new all-time low in May, so it's possible that existing home sales could still go a bit lower in July. However, they may not fall much further from here, assuming a stable labor market environment, given that weekly mortgage purchase applications through mid-July continue to move mostly sideways at a low level, inventories are further normalizing relative to sales, and Fed rate cuts later this year could bring some relief on mortgage rates.

On the inventory front, homes for sale rose 24%oya, the largest percentage gain since 2006, and the months' supply of homes was 4.1, up from 3.1 a year earlier and similar to pre-pandemic levels. That being said, the absolute level of homes for sale is still in a historically low range, and they are down 31% from June 2019. Inventory levels also aren't that different from the summer of 2021 or 2022, though the months' supply is up because sales are weaker now. Meanwhile the median price of a home sold rose 4.1%oya, which is broadly in line with the pace of recent months.

S&P Global manufacturing PMI (US flash)				
Wed Jul 24 9:45am	Index, sa	Jul 23	Jun 24	Jul 24
	Composite	49.0	51.6	<u>52.0</u> 49.5
	Output	50.2	52.1	49.5
	ISM-weighted composite	48.6	51.4	49.7

S&P Global services PMI (US flash)				
Wed Jul 24 9:45am	Index, sa	Jul 23	Jun 24	Jul 24
	Business activity	52.3	55.3	<u>54.0</u> 56.0
	Employment	50.9	52.3	50.6

The flash July S&P Global manufacturing PMI weakened while the services PMI improved, which resulted in the all-industry output measure holding at 55.0 in July, largely unchanged from 54.8 in June and 54.5 in May. On balance the reports don't suggest any break in economic momentum heading into 3Q. The all-industry employment measure

meanwhile softened a bit after having spiked up in June but was better than in April and May and almost exactly in line with the trailing 12-month average. That 12m average is however very low for a typical economic expansion. The last year has seen solid payroll gains, but at the same time the unemployment rate has been edging up. The latest PMI employment readings don't necessarily suggest that the unemployment rate will keep increasing, but they also don't signal an improvement in the environment in comparison to recent months.

Expectations for future output also rose in manufacturing and declined in services, but both measures remain clearly within the range of the past year and the all-industry measure was little changed. On the pricing side, the output price index declined in both manufacturing and services, and the all-industry measure is only a little bit higher than the 2015-2019 average, suggesting subdued inflation pressures.

For manufacturing, the composite index declined from 51.6 to 49.5. That is the lowest reading since November and also a low reading when compared to the historical series, though it is still on the high end of the range from 2023. The weakness was led by declines in output and new orders, while employment pulled back slightly after having risen substantially over the first half of the year. Inventories of finished goods, which have been chopping back and forth at a somewhat elevated level, rebounded again in July, and the three-month average is near the high end of the historical range.

On the services side, the headline business activity index (which is not a composite of the components) rose from 55.3 to 56.0 as did the new business index. The three-month average of business activity is at its highest level in over two years, while the average of new business is at its highest level in a year. Employment weakened but is in line with the average from the prior year.

New home sales

	Apr	May	Jun	
Total (000s, saar)	-698 730	-619 621	<u>-630</u> 617	
%m/m	-2.0 6.9	-11.3 -14.9	<u>-1.4</u> -0.6	
%oya nsa	-3.3 8.3	-16.4	<u>-5.4</u> -8.6	
Months' supply	-8.1 7.7	-9.3 9.1		9.3
Median price (%oya)	-0.2 -0.9	-0.9 -3.3		-0.1

New single-family home sales were soft for the second straight month in June, falling 0.6%/m/m to 617k saar after a 15% decline in May, which leaves sales down 4%/q/q saar. Although sales had been strong back in April they have generally been slowly coming down over the last year and have now fallen 7%oya as buyers continue to contend with the affordability challenges from high prices and mortgage rates. Recent daily mortgage rates are down about 15bps from June and close to 25bps from May which will help sales on the

margin, but the decline is still quite small and weekly mortgage purchase applications through the end of last week remained near cycle lows. The NAHB index also suggested sales could remain low in July. Although new home sales continue to do materially better than existing home sales, inventories keep edging up, which could lead builders to restrain new residential construction in the months ahead (single-family starts already fell 19%/q saar in 2Q).

For inventories, there was another 0.8%/m/m (11%oya) increase in June as the number of units available for sale set another cycle high, and the months' supply hit 9.3, compared to the 2019 average of 5.8. On the positive side, while the proportion of inventory that has already been completed (21%) and the median number of months a completed home has been available for sale (2.3) have both increased from post-pandemic lows, their latest readings are still below pre-pandemic averages. Relative to the pre-COVID period sales have become more concentrated in under construction and completed homes and the proportion of inventory that is not yet started has risen.

With inventories elevated price gains remained subdued, with the median price of a new home sold flat to a year earlier. The share of homes sold costing \$500k or more was 36% in the last year, down from a peak of 41% in early 2023, but still roughly double the share from 2019.

Durable goods (Jul 25)

%m/m, sa

	Apr	May	Jun	
New orders	0.2	0.1	<u>-0.4</u>	-6.6
Ex transportation	0.4	-0.1	<u>-0.5</u>	0.5
Nondef cap. gds ex air	0.2	-0.6	-0.9	<u>-0.2</u> 1.0
Shipments	1.1	-0.4	<u>-0.3</u>	1.2
Nondef cap. gds ex air	0.3	-0.6	-0.7	<u>-0.6</u> 0.1
Inventories	0.1	-0.3	0.2	

Looking past some of the month-to-month noise the June durable goods report pointed to core capital goods (nondefense ex aircraft) orders and shipments continuing to run fairly flat. Shipments rose 0.1%/m/m and while orders did increase 1.0%/m/m that was largely just reversing a decline the prior month. Ex transportation shipments were unchanged, in line with recent trends, while ex transportation orders rose 0.5%/m/m. Orders have been slowly increasing and doing a bit better than shipments, though over year ago orders are only up 1.2% while shipments are up 0.6%. Durable goods orders did plunge 6.6%, but this was driven by the volatile aircraft category which should bounce back. Note though that while core capital goods shipments fell 2.3%/q saar in 2Q, the 2Q GDP report did show real equipment investment rising 12%/q saar, as some of the components outside of core capital goods in this report have been stronger, including aircraft and imported capital goods.

Gross domestic product (Jul 25)

%ch, q/q, saar, real, unless noted

	4Q23	1Q24	Adv 2Q24	
Real GDP	3.4	1.4	<u>-2.0</u>	2.8
Final Sales	3.9	1.8	<u>-1.2</u>	2.0
Domestic final sales	3.6	2.4	<u>-2.5</u>	2.7
Consumption	3.3	1.5	<u>-2.0</u>	2.3
Equipment	-1.1	1.6	<u>-8.0</u>	11.6
Intellectual property	4.3	7.7	<u>-6.0</u>	4.5
Nonres. structures	10.9	3.4	<u>-2.0</u>	-3.3
Residential investment	2.8	16.0	<u>-0.5</u>	-1.4
Government	4.6	1.8	<u>-3.0</u>	3.1
Exports	5.1	1.6	<u>-1.7</u>	2.0
Imports	2.2	6.1	<u>-8.0</u>	6.9
Inventories (ch, \$bn)	54.9	28.6	<u>74.2</u>	71.3
Net exports-pct.pt.contr.	0.2	-0.6	<u>-1.4</u>	-0.7
Inventories-pct.pt.contr.	-0.5	-0.4	0.8	
Core PCE price index	2.0	3.7	<u>-2.8</u>	2.9
(%oya)	3.2	2.9	2.7	
GDP chain price index	1.6	3.1	<u>-2.1</u>	2.3
(%oya)	2.6	2.4	<u>-2.5</u>	2.6

The US economy showed solid momentum in the second quarter of this year, as real GDP rose 2.8%/q saar, double the rate of growth in 1Q. We and the consensus had expected a more mild 2.0% pace. Relative to our forecast, the largest miss was in trade, which subtracted only 0.7%-pt from growth, half of what we expected, primarily on stronger-than-expected exports, which increased 2.0%. Consumption and equipment investment was also better than expected, while structures investment was weaker. Inventory building swung from a net drag in 1Q to a positive contribution in 2Q and, after subtracting out the contribution from inventories growth in final sales, has been quite stable in the first half of the year, rising 2.0% in 2Q after growing 1.8% in 1Q. Final sales to domestic purchasers was also steady, rising 2.7% in 2Q on the back of a 2.4% gain in 1Q.

Consumer spending growth improved last quarter, rising 2.3%/q saar compared to a 1.5% increase in 1Q. Spending on goods bounced back, rising 2.5% after falling 2.3% the prior quarter, while services spending slowed to 2.2% from 3.3%. The core PCE price deflator increased 2.9%/q saar, a touch faster than the 2.8% gain we were expecting.

As noted, there was a large swing in the contribution from inventories this quarter, as inventories subtracted 0.4%-pt from growth in 1Q but contributed 0.8%-pt in 2Q. A decent amount of the \$71bn annualized gain in inventories came from retail motor vehicle and parts dealers (+\$55bn) that have been rebuilding their inventories from the depressed post-COVID levels, a fact that we recently [noted](#) should restrain goods inflation. However, industry data shows the days' supply of light vehicles are still low relative to the pre-pandemic level, so inventories could rise further in coming quarters.

Equipment investment turned in a robust 11.6%/q saar gain, the best reading in over two years, despite softness in reported capex plans in the regional Fed surveys and the decline in core (nondefense ex aircraft) capital goods shipments, which fell 2.3% in nominal terms in the quarter. The gains were driven by information processing equipment (+10%) and transportation (+50%), with solid gains coming from vehicles and a 450% annualized increase in the volatile aircraft category. Trade in capital goods was also strong last quarter, with exports of capital goods ex autos rising 9% and imports surging 18%. Within this, computer goods trade over the last two quarters has been growing much faster than at any point in the past, with exports up 39% annualized in that time and imports (which are much larger than exports) up 132%. While AI-related investments could continue to boost tech investment, the combination of weak reported capex plans and the fact that the large aircraft gain likely won't repeat suggests that equipment investment growth will slow some in coming quarters. Finally, intellectual property products investment rose 4.5%/q saar, faster than any quarter in 2023 though a slowdown from the 7.7% gain in 1Q.

The clear weak spot in 2Q GDP came in structures, with non-residential spending down 3.3%/q saar and residential down 1.4%. This is the first decline in nonresidential structures investment after a series of quick gains over the last year. On the residential side, permanent structures investment was down 5%, and the recent weakness in both single-family and multifamily starts points to further negative readings in the second half of this year.

International trade (adv.) (Jul 25)

\$bn, samr, unless noted

	Apr	May	Jun	
Balance of goods, Cen. Basis	-98.2	-99.4	<u>-99.1</u>	-96.8
Exports (%samr)	1.2	-1.8	<u>-0.3</u>	2.5
Imports (%samr)	3.1	-0.7	<u>-0.1</u>	0.7

Over time the goods trade balance is generally widening but it narrowed in June given a solid 2.5%/m increase in exports, while the GDP report showed that real exports in goods and services likewise rose in 2Q overall. Trade in capital goods, including computers, has been quite strong, and over-year ago nominal exports of capital goods ex autos rose 9% while imports rose 14%.

Business inventories (adv.) (Jul 25)

%m/m, sa, unless noted

	Apr	May	Jun	
Wholesale	0.2	0.6	<u>-0.5</u>	0.2
Retail inventories	0.8	0.6	<u>-0.8</u>	0.7
Ex autos	0.2	-0.0	-0.1	0.2
Autos	1.9	2.0	<u>-2.0</u>	1.8

Nominal wholesale inventories are very gently rising again while retail non-auto inventories rose slightly on the month but still exhibit close to no growth over recent months. In

contrast, retail motor vehicle inventories are still growing quickly as dealers restock from their post-pandemic lows.

Personal income

%m/m, sa, unless noted

	Apr	May	Jun	
Personal income	-0.3	0.2	-0.5	0.4
Wages & salaries	0.2	-0.7	0.6	-0.4
Consumption	-0.1	0.2	-0.2	0.4
Real consumption	-0.1	-0.3	0.4	0.2
PCE price index	0.3	0.0	0.1	0.1
Core	0.26	0.08	0.13	0.18
Mkt-Based Core	0.2	-0.2	0.1	0.2
Core (%oya)	2.8	2.6	2.6	2.6
Mkt-Based Core (%oya)	2.5	-2.4	2.3	2.4
Saving rate	-3.7	3.5	-3.9	3.5

The June reading for the core PCE deflator was in line with expectations, rising 0.18%/m/m, while the May print was revised up to a still benign value of 0.13%/m/m from 0.08%/m/m. This left the year-on-year rate unchanged at 2.6%, while over the last three months core PCE growth has slowed to 2.3% saar, pretty much fully reversing the spike in the early part of the year. Meanwhile the headline price index rose 0.1%/m/m resulting in a year-over-year rate of 2.5%. On balance we think the latest reading is consistent with our expectation for a September Fed cut.

The monthly change in core PCE was also well aligned with other core measures. Core services ex housing (super-core) rose 0.19%/m/m (3.4%oya) and the market-based core PCE increased 0.16%/m/m (2.4%oya). Over the last three months both of these show a similar pattern of deceleration as the regular core measure.

In terms of spending, real PCE rose 0.2%/m/m and there were some upward revisions to the prior two months, resulting in decent 2.2% saar growth in the last three months, with fairly similar gains in both goods (2.7%) and services spending (2.0%). The monthly path has mostly been steadily up, which creates a favorable trajectory heading into 3Q. Even if consumption were to stay flat to June for the next three months real PCE would rise 1.1%/q saar in 3Q.

The main disappointment in the report was around income, with real disposable personal income rising just 0.1%/m/m and 1.0%oya, though it's important to note nominal employee compensation continues to grow at a decent pace, up 4.7%oya, about a percentage point faster than nominal DPI growth. Nonetheless, with consumption outpacing disposable income the saving rate has continued to edge down, falling to 3.4% in June from 3.5% in the prior few months and 4.8% a year earlier. Usually nominal personal income (4.5%oya) and disposable personal income (3.6%oya) grow at a similar pace, though volatility since COVID in tax payments has driven repeated divergence. After going up sharply and then down

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Global Economic Research
United States
26 July 2024

J.P.Morgan

after COVID, personal current taxes are growing reasonably quickly again, rising 11%oya.

Consumer sentiment (Jul 26)

	Jun	Pre Jul	Fin Jul	
Univ. of Mich. Index (nsa)	68.2	66.0	66.0	66.4
Current conditions	65.9	64.1		62.7
Expectations	69.6	67.2		68.8
Inflation expectations				
Short-term	3.0	2.9		3.0
Long term	3.0	2.9		3.0

The Michigan sentiment number was largely unchanged between the preliminary and final July report, with the headline reading revised up to 66.4 from 66.0, though the current conditions number was revised down more substantially, to 62.7 from 64.1. The survey period for the final version of the survey ended on July 22, so any reaction to Biden's withdrawal on sentiment will come through more in next month's survey. The press release did characterize labor market expectations as relatively stable in the last few months.

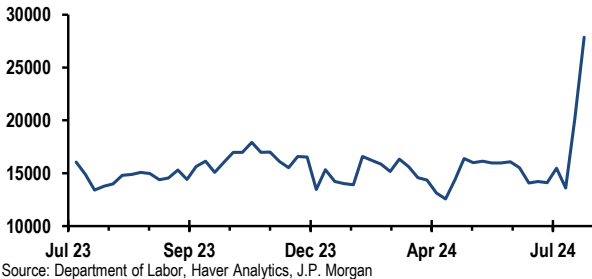
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Focus: Storm watch as Beryl could buffet July payrolls

Hurricane Beryl made landfall on July 8 in Texas and caused major disruptions. Initial claims for jobless benefits (seasonally adjusted by Haver) filed in Texas jumped by more than 6K for the week ending July 13 (Figure 1). While nationally initial claims have pulled back to 235K from a recent high of 245K since then, the seasonally adjusted data for Texas showed another increase last week.

Figure 1: Initial claims filed in Texas

sa by Haver Analytics

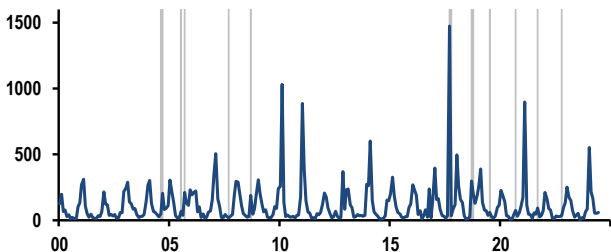


Source: Department of Labor, Haver Analytics, J.P. Morgan

Severe weather events certainly can depress regional data, but there is also some risk for an impact in the national data—especially as Beryl made landfall during the reference week for the July employment report, which could distort next week’s release. Based on our analysis of other Category 1 storms that made landfall during the reference week since 2000—an admittedly small sample—some drag on July’s nonfarm payrolls might be possible. If we do get a weaker-than-expected payroll print next week, one should interpret cautiously and recognize the possibility for a weather-related rebound in August.

Figure 2: Employed persons not at work due to bad weather

000s, nsa - shaded areas indicate landfalls during a reference week



Source: BLS, J.P. Morgan

Starting with the household (CPS) survey, people who miss work due to the hurricane are still properly counted as employed for the month. However, the BLS collects data on workers who had a job but could not go to work or worked less than their usual full-time hours during the reference week

due to bad weather in the household survey. These measures could show an uptick in the upcoming report, although the historical pattern suggests that most upticks in the first measure coincide with bad weather during winter months (Figure 2). That said, the largest surge in this (non-seasonally adjusted) measure since 2000 coincides with Irma, a Category 4 hurricane that made landfall during the September 2017 reference week. The other measure on persons working part-time due to bad weather (not shown) paints a similar picture.

Turning to the establishment (CES) survey, it is conceptually possible that some workers were not paid for the pay period during the reference week due to Hurricane Beryl, and thus might not be counted as employed in the establishment survey. Similarly, depending on the composition of these workers, aggregate hours and earnings data might show some impact as well. It is not possible to precisely quantify the impact from the hurricanes on the establishment survey, but we can try to gain some insight by looking at the six other Category 1 hurricanes that made landfall during a reference week since 2000. An important caveat to keep in mind is that the aggregate economic conditions could be different during these episodes. Over this period, eight more hurricanes made landfall during a reference week, but they were either stronger hurricanes and/or happened around recessions. Based on this limited sample, we find that payroll gains during the month of landfall is slightly lower than the prior three months, but largely bounces back afterwards (Table 1). We do not see a clear discernible pattern, however, for average weekly hours or wage gains.

Table 1: Establishment survey data around Category 1 hurricanes during reference weeks

Monthly change in sa nonfarm payrolls							
	Ophelia	Nate	Florence	Barry	Nicholas	Nicole	Beryl
3m average before	269	137	173	183	727	396	177
Month of the landfall	57	147	87	90	480	361	
3m average after	203	174	148	175	686	292	
Average weekly hours of production and nonsupervisory workers							
3m average before	33.7	33.6	33.8	33.7	34.3	34.0	33.7
Month of the landfall	33.8	33.7	33.7	33.5	34.2	34.0	
3m average after	33.8	33.7	33.7	33.6	34.2	33.9	
%ch in average hourly earnings of production and nonsupervisory workers							
3m average before	0.3	0.2	0.3	0.2	0.6	0.4	0.3
Month of the landfall	0.1	0.0	0.3	0.3	0.7	0.5	
3m average after	0.3	0.3	0.4	0.3	0.6	0.4	
States	NC	LA, MS	NC	LA	TX	FL	TX
Date	9/14/2005	10/8/2017	9/14/2018	7/13/2019	9/14/2021	10/10/2022	7/8/2024

Source: BLS, J.P. Morgan

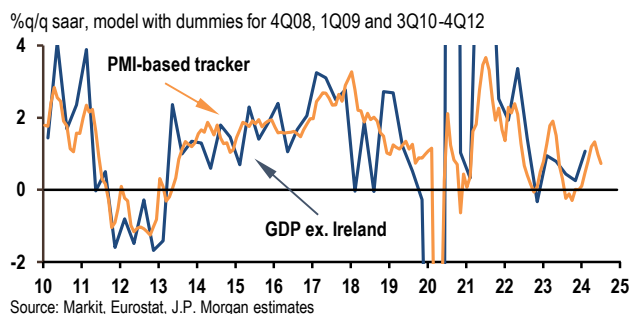
Between the conceptual survey measurement issues mentioned above and the findings shown here, we recommend exercising caution when interpreting next week’s payroll data. We see scope for Beryl to reduce payrolls by 20 to 30K in July—although that magnitude is quite uncertain—followed by a similar-sized add to August. Thus, a somewhat weaker-than-expected gain in July may not be a signal of a deterioration in the labor market on its own. Given the lengthy power outages after the storm, we also see some risk of a drag on hours.

Euro Area

- **Euro area PMI and national business surveys slip further in July**
- **PMI growth signal has moved from 1.5%ar in May to 0.8%ar in July**
- **Consumer confidence and credit improve, but weaker growth still makes ECB cuts more likely**
- **Next week: 2Q24 GDP and July HICP**

The main data report this week was the disappointing PMI. Having already slipped 1.2pts in June, the composite output index declined by another 0.9pts to 50.1 in July. This took its signal for GDP growth down to a 0.8%ar (Figure 1). This is significantly below the 1.5%ar expected by the ECB staff from around mid-year. Our own forecast has been more cautious: we acknowledged the PMI's significant improvement through May and revised up our mid-year forecasts to a 1.5%/q/q saar, but we kept a more cautious 1%/q/q saar outlook for year-end. The back-to-back declines of the PMI are however a challenge also to our more cautious stance, at the very least for 3Q24. For this reason, we reversed this week the earlier upward revision we made a few weeks ago to 3Q24, taking it back from 1.5%/q/q saar to 1.0%/q/q saar. As a result, we now expect 1% growth for the next four quarters, followed by a slight improvement in 2H25.

Figure 1: Tracking Euro area GDP growth with the PMI



Our new forecast assumes that the PMI stabilizes from here and even ticks back up a bit. This still feels reasonable to us, in part because consumer spending is underpinned by a solid outlook for real incomes and as there has been resilience in the corporate sector, for example in relation to the labour market. But, of course, there is nervousness after the last two PMI reports and the intensified weakness in manufacturing. For the ECB, the weaker PMI should help to override some of the concerns about services inflation and make a September cut even more likely than before. It should also help to keep the broader disinflation process on track and hence make further cuts more likely, in line with our existing forecast. Hence, for this year, we continue to expect two more cuts:

one in September and one in December. For now, we still think that a third cut in October would require a further intensification of the growth weakness and also some further relief on services inflation.

A troubling decline in the business surveys

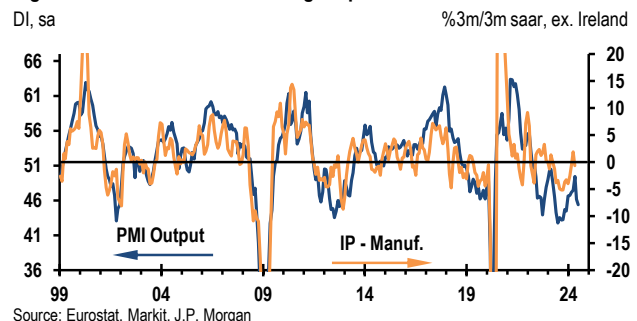
The weakness in the July flash PMI was broad-based. A few aspects are worth highlighting.

- **A bigger setback in manufacturing.** The output/activity indices declined by similar amounts in both manufacturing and services in July, but the level is much lower in manufacturing (Figure 2). Divergences are unusual and there have only been two periods of persistent divergence: in 2018/19 and since early 2022. Relative resilience in services makes some sense as consumer spending is currently being supported by a turn higher in real incomes, whereas manufacturing may be facing some structural headwinds. At the same time, it is hard to explain the relapse of the manufacturing PMI over the past two months and why IP has persistently outperformed the PMI over the past two years or so (Figure 3).

Figure 2: Euro area services and manufacturing PMI output



Figure 3: Euro area manufacturing output and PMI



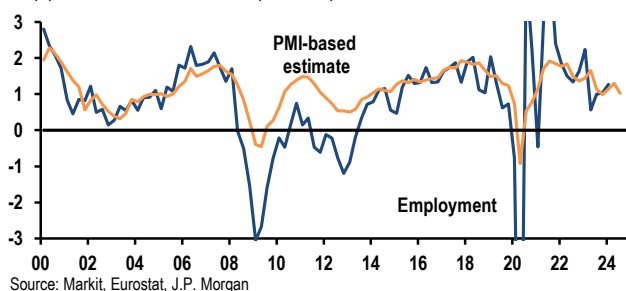
- **Corporates are still hiring.** Even though the composite employment index declined in July by 0.9pt, taking its decline since May to 2pts, the level of 50.0 is still pointing to a relatively solid pace of employment creation (Figure 4). This is sending a reassuring message about the

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corporate sector and also provides support to household incomes. But, it also makes it somewhat puzzling why corporates are accepting the resulting weakness in output per worker.

Figure 4: Euro area employment

%q/q saar, model estimated over pre-2008 period

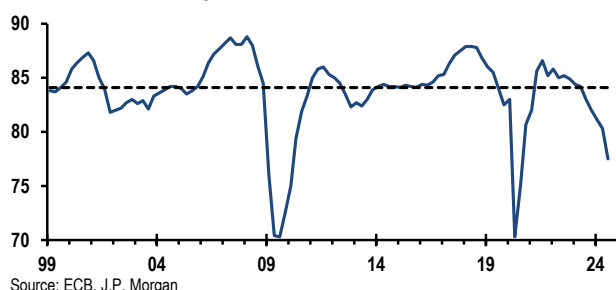


Source: Markit, Eurostat, J.P. Morgan

- **National surveys reinforce the PMI's message of renewed weakness.** Both the German IFO and French INSEE weakened significantly in July. Just to pick on one detail, the level of capacity utilization in the German manufacturing IFO slumped further in July (Figure 5). While its level is recessionary, that sits oddly with the still high levels of order backlogs in German industry.

Figure 5: German IFO - capacity utilisation in manufacturing

%, dotted is 1999-2019 avg.



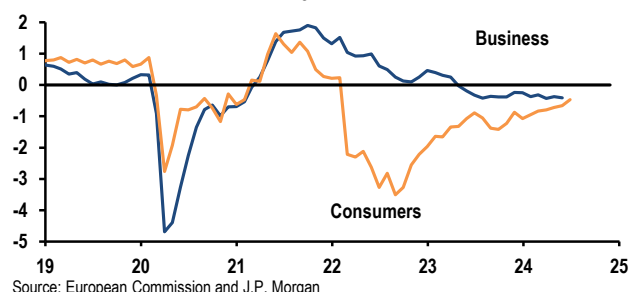
Source: ECB, J.P. Morgan

Consumer and credit bright(er) spots

While the message from the business surveys is clearly pointing to a loss of growth momentum, two other data points sent more positive messages. First, Euro area consumer confidence continued to increase in July (+1.0%-pt to -13.0%bal, Figure 6), continuing its solid upward trend. The level is still below the long-run average, but its improvement makes sense in light of the recovery in real incomes. We note also that the national measure from Germany showed significant improvement into July, contrasting with the renewed weakness in the German PMI and IFO.

Figure 6: Euro area business and consumer ESI

Standard deviations from 1999-2019 avg

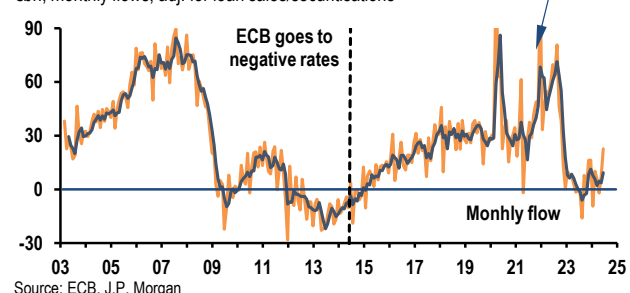


Source: European Commission and J.P. Morgan

Second, last week's ECB bank lending survey shows a stabilization (or even modest easing) in lending standards and a first increase in loan demand. This week, the ECB's M3 report showed a solid increase in bank lending to the real economy (Figure 7). The broader news on bank credit is improving, but we would probably still downplay the significance of the M3 report as the smoother 3-month average has not yet picked up strongly, as its composition did not match that of the ECB bank lending survey and as some of the gain in lending to nonfinancial corporates was narrowly based by country. But, with further ECB rate cuts on the horizon, some improvement does appear likely in the coming months.

Figure 7: Euro area bank lending to the real economy

€bn, monthly flows, adj. for loan sales/securitisations



Source: ECB, J.P. Morgan

Next week: Flash HICP and GDP

While weaker growth would clearly make ECB rate cuts more likely, we expect next week's data to deliver a modestly contrarian message. On the growth side, we still expect the flash reports for 2Q24 to show a modest pickup even though weather-related payback will have held back the construction sector. On the inflation side, we expect core inflation momentum to slow a tick further from the 0.23%/m, sa, seen in June to a 0.21%/m, sa, in July. That would still leave core inflation running above the ECB's inflation target, but it would mark further progress in the disinflation journey.

Data releases and forecasts

Week of July 29 - August 2

Output and surveys

European Commission survey

% balance of responses, sa

		Apr	May	Jun	Jul
Tue	Euro area				
Jul 30	Economic confidence	95.6	96.1	95.9	<u>95.0</u>
11:00am	Manufacturing confidence	-10.4	-9.9	-10.1	
	Construction confidence	-6.0	-6.2	-7.0	
	Retail confidence	-6.8	-6.8	-7.8	
	Service confidence	6.1	6.8	6.5	
	Consumer confidence	-14.7	-14.3	-14.0	

We pencilled in a decline in the Euro area economic confidence index in July. The PMI already declined in July and country level information (IFO in Germany and INSEE in France) also were down on the month. The decline in sentiment in France is linked to uncertainty surrounding the outcome of the French lower house election (a hung parliament). Meanwhile, the decline in the business surveys in Germany is less clear but suggests that the German economy may be slipping back to stagnation.

Real GDP

		3Q23	4Q23	1Q24	2Q24
Tue	Euro area (flash estimate)				
Jul 30	%q/q, sa	0.0	0.0	0.3	
11:00am	%q/q, saar	0.2	0.0	1.1	<u>1.5</u>
	%oya	0.1	0.2	0.5	

We expect Euro area GDP growth to firm a little in 2Q as household spending should be boosted by strong real income gains. Our forecast is aligned with the signal of the PMI. The flash GDP estimate won't come with any detail, but some color will be available in France and Spain at the expenditure and production level. Services has been the main growth engine in the region, which should still be the case in 2Q. The rise in the manufacturing PMI through 2Q is encouraging but the level is still hinting at a weak manufacturing sector, and the July decline wiped significant gains seen in prior months.

		3Q23	4Q23	1Q24	2Q24
Tue	Germany (flash estimate)				
Jul 30	%q/q, sa	0.1	-0.5	0.2	<u>0.3</u>
10:00am	%q/q, saar	0.6	-2.0	0.9	<u>1.25</u>
	%oya	-0.1	-0.2	-0.2	

The German GDP report is very hard to gauge. Total IP (incl. construction) is tracking a decline based on the April/May data, but the VDA data point to a rebound in June likely

reflecting a holiday-related distortion in May. And some of the decline in IP is due to weather-related payback from 1Q24. At the same time, the services PMI was strong in 2Q24 at 53.5 and retail sales got off to a strong start to the quarter in April. However, retail sales data for May have still not been published and hardly any hard data are available for services for 2Q24. On the trade side, imports may have fallen more than exports, which is a negative sign, but nevertheless points to a positive net trade contribution. Overall, we stick with our forecast of a 1.25%q/q saar gain in German GDP, which would actually be an acceleration from 1Q24. Risks may be skewed to the downside, but this is not entirely clear. The problem however is that the PMI weakened significantly into the early part of 3Q24.

		3Q23	4Q23	1Q24	2Q24
Tue	France (1st estimate)				
Jul 30	%q/q, sa	0.1	0.3	0.2	
7:30am	%q/q, saar	0.2	1.3	0.6	<u>1.0</u>
	%oya	0.9	1.2	1.3	
	GDP components (%q/q, saar)				
	Private consumption	2.1	1.0	0.5	
	Government consumption	1.5	1.5	2.6	
	Fixed investment	0.1	-4.0	-1.5	
	Exports	-4.4	4.1	4.9	
	Imports	-2.8	-6.7	1.7	
	Contribution to GDP growth (%q/q, saar)				
	Domestic final sales	1.5	0.0	0.6	
	Inventories	-0.8	-2.2	-0.9	
	Net trade	-0.5	3.6	1.0	

We expect French GDP to have increased 1% ar in 2Q. Based on the signal from the PMI and other higher frequency indicators the risks are tilted to the downside. A 1% ar gain would be close to the 1Q24 outcome. Household spending was still weak in 1Q. We expect the 2Q data to show a stronger gain on the back of stronger real income gains. The French lower house election took place in two rounds in late June and early July. Political uncertainty linked to the outcome of this election (a hung parliament) could negatively impact 3Q but not 2Q.

		3Q23	4Q23	1Q24	2Q24
Tue	Italy (flash estimate)				
Jul 30	%q/q, sa	0.4	0.1	0.3	
10:00am	%q/q, saar	1.5	0.6	1.4	<u>0.5</u>
	%oya	0.6	0.7	0.7	

Italian GDP has been volatile in recent quarters, averaging 0.9% ar between 1Q23 and 1Q24. The signal of high frequency indicators in 2Q suggests that GDP growth was close to 0.5% ar, with risks tilted to the downside. Real income gains likely supported household spending last quarter, mainly through services. Inventory changes was a large drag in 1Q

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while net trade was a big boost, overall offsetting each other. The volatility of these drivers may have a strong influence on the 2Q outcome.

		3Q23	4Q23	1Q24	2Q24
Tue	Spain (flash estimate)				
Jul 30	%q/q, sa	0.5	0.7	0.8	
9:00am	%q/q, saar	2.0	2.7	3.2	<u>3.0</u>
	%oya	2.0	2.1	2.5	
	GDP components (%q/q, saar)				
	Private consumption	5.1	1.1	1.5	
	Government consumption	6.8	4.2	-2.5	
	Fixed capital formation	-2.3	-6.4	10.7	
	Exports	-13.5	11.6	13.6	
	Imports	-10.9	10.0	9.0	

Spanish growth has outperformed activity in the other main economies of the region. We expect GDP growth this quarter to be close to gains seen over 4Q23-1Q24. The spanish PMI stood higher in 2Q than in 1Q but retail sales (1.8% ar) and IP (-0.7% ar) were mixed. The details will be important to monitor. Household consumption was weak in 1Q and a rebound in 2Q looks likely.

Purchasing managers index final					
		Apr	May	Flash Jun	Final Jun
Thu	Euro area				
Aug 1	Manufacturing - headline	45.7	47.3	45.8	<u>45.6</u>
10:00am	Manufacturing - output	47.3	49.3	46.1	<u>45.3</u>
				Flash Jun	Final Jun
Thu	Germany				
Aug 1	Manufacturing - headline	42.5	45.4	43.5	<u>42.6</u>
9:55am	Manufacturing - output	45.4	48.9	45.1	<u>42.2</u>
				Flash Jun	Final Jun
Thu	France				
Aug 1	Manufacturing - headline	45.3	46.4	45.4	<u>44.1</u>
9:50am	Manufacturing - output	46.8	46.9	45.1	<u>44.1</u>
		Apr	May	Jun	Jul
Thu	Italy				
Aug 1	Manufacturing - headline	47.3	45.6	45.7	
9:45am	Manufacturing - output	47.5	46.8	44.6	
		Apr	May	Jun	Jul
Thu	Spain				
Aug 1	Manufacturing - headline	52.2	54.0	52.3	
9:15am	Manufacturing - output	53.6	55.3	52.0	

Industrial production

		Mar	Apr	May	Jun
Fri	France				
Aug 2	Ind production (%m/m, sa)	-0.2	0.6	-2.1	<u>2.2</u>
8:45am	%oya, sa	0.8	1.1	-3.1	
	Manuf prod (%m/m, sa)	-0.3	0.5	-2.7	

French IP fell sharply across categories in May. We expect this decline to be offset in June. The May drop was linked to the timing of bank holidays (more holidays) that the statistical office could not control for properly. A rebound in June is thus expected, with production returning to normal in sa terms.

		Mar	Apr	May	Jun
Fri	Italy				
Aug 2	Ind production (%m/m, sa)	-0.5	-1.0	0.5	
10:00am	%oya, sa	-3.2	-2.8	-3.3	
	Manufacturing (%m/m, sa)	-0.9	-0.9	0.2	

Inflation

Consumer prices					
Euro area (flash)					
Wed					
Jul 31	%oya, unless otherwise stated				
11:00am		Apr	May	Jun	Jul
	HICP	2.4	2.6	2.5	<u>2.5</u>
	Core	2.7	2.9	2.9	<u>2.7</u>
	Core goods	0.9	0.7	0.7	<u>0.6</u>
	Services	3.7	4.1	4.1	<u>4.0</u>
	Energy	-0.6	0.3	0.2	<u>1.4</u>
	Food	2.8	2.6	2.4	<u>2.3</u>
	HICP (%m/m, sa ECB)	0.2	0.2	0.1	<u>0.3</u>
	Core	0.2	0.4	0.2	<u>0.2</u>
	Core goods	-0.1	0.0	0.1	<u>0.1</u>
	Services	0.3	0.6	0.3	<u>0.3</u>
	Energy, nsa	0.3	-1.2	-0.8	<u>1.0</u>
	Food	0.1	0.1	0.3	<u>0.4</u>

Core price pressure faded in June at 0.2%m/m sa. Importantly, this outcome was driven by services which had been sticky in prior months. We took comfort from the June reading as we expect core price gains to remain at a 0.2%m/m for the rest of the year. This would leave core inflation hovering around 2.7%oya by the autumn. With renew price pressure coming from freight prices, it will be important to monitor whether core goods prices are being impacted. Outside the core basket, we expect food price inflation to decline further while energy price inflation should increase.

Tue	Germany (prelim)				
Jul 30	%oya, unless stated otherwise				
2:00pm		Apr	May	Jun	Jul
	HICP	2.4	2.8	2.5	<u>2.5</u>
	CPI	2.2	2.4	2.2	<u>2.3</u>
	%m/m, nsa	0.5	0.1	0.1	<u>0.4</u>
	Core CPI	3.0	3.0	2.9	<u>3.0</u>
	%m/m, nsa	0.3	0.3	0.3	<u>0.4</u>
	Baden Wuerttemberg (%oya)	2.1	2.1	1.9	<u>2.1</u>
	Bavaria (%oya)	2.5	2.7	2.7	<u>2.6</u>
	Brandenburg (%oya)	3.0	2.9	2.6	<u>2.6</u>
	Hesse (%oya)	1.9	1.9	1.8	<u>1.9</u>
	North-Rhine West (%oya)	2.3	2.5	2.2	<u>2.4</u>
	Saxony (%oya)	2.7	3.1	2.8	<u>2.8</u>
Wed	France (prelim)				
Jul 31	%oya, unless otherwise stated				
8:45am		Apr	May	Jun	Jul
	HICP	2.4	2.6	2.5	<u>2.7</u>
	CPI	2.2	2.3	2.2	<u>2.4</u>
	%m/m, nsa	0.5	0.0	0.1	<u>0.3</u>
Wed	Italy (prelim)				
Jul 31	%oya, unless otherwise stated				
11:00am		Apr	May	Jun	Jul
	HICP	0.9	0.8	0.9	<u>1.2</u>
	CPI	0.8	0.8	0.8	<u>1.1</u>
	%m/m, nsa	0.1	0.2	0.1	<u>0.3</u>
Tue	Spain (flash)				
Jul 30	%oya, unless otherwise stated				
9:00am		Apr	May	Jun	Jul
	HICP	3.4	3.8	3.5	<u>2.9</u>
	CPI	3.3	3.6	3.4	<u>2.9</u>
	%m/m, nsa	0.7	0.3	0.4	<u>-0.3</u>
Tue	Belgium CPI				
Jul 30	%oya, unless otherwise stated				
8:00am		Apr	May	Jun	Jul
	CPI	3.4	3.4	3.7	
	%m/m, nsa	-0.5	0.4	0.2	

Import and export price indexes		Mar	Apr	May	Jun
Wed	Germany				
Jul 31	Terms of trade				
8:00am	%m/m, sa	-0.4	-0.3	0.1	
	%oya, sa	2.5	1.4	0.6	
	Export prices				
	%m/m, nsa	0.1	0.4	0.0	
	%oya, nsa	-1.0	-0.2	0.2	
	Import prices				
	%m/m, nsa	0.4	0.7	0.0	
	%oya, nsa	-3.6	-1.7	-0.4	
	Producer prices				
		Mar	Apr	May	Jun
Wed	France				
Jul 31	%m/m, nsa	-1.2	-3.6	-1.4	
8:45am	%oya, nsa	-8.2	-6.7	-6.7	
		Mar	Apr	May	Jun
Wed	Italy				
Jul 31	%m/m, nsa	-0.2	-0.9	0.3	
12:00pm	%oya, nsa	-9.6	-5.9	-3.5	

Demand and labor markets

Unemployment		Mar	Apr	May	Jun
Harmonized measure (Eurostat)					
Thu	Euro area				
Aug 1	Unemployment rate (% , sa)	6.5	6.4	6.4	<u>6.4</u>
11:00am	Unemployment (ch m/m, 000s)	-93.0	-85.0	38.0	<u>30</u>

The Euro area unemployment rate was likely unchanged in June. Despite its latest decline, the composite PMI employment index is still pointing to a solid 1%ar in terms of job creation. But, some softening has taken place and therefore the number of unemployment may nudge up a bit further. At this stage, we do not expect this to suffice to push up the unemployment rate itself.

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		Apr	May	Jun	Jul
Wed	Germany				
Jul 31	Unemployment				
9:55am	Registered (ch m/m, 000s, sa)	12	25	18	<u>20</u>
	000s, nsa	2749.6	2722.5	2726.6	
	%, sa	5.9	5.9	6.0	<u>6.0</u>
	IAB barometer (110=very good, nsa)	98.3	97.1	97.7	<u>97.0</u>
	Vacancies				
	Change m/m, 000s, sa	-9.0	-5.0	-11.0	<u>-10</u>
	Employment				
	IAB barometer (110=very good, nsa)	103.0	102.6	102.3	
		Mar	Apr	May	Jun
	Change m/m, 000s, sa	9	26	20	<u>15</u>

The German labor market has remained relatively resilient in recent months. Unemployment has continued to edge higher, but only because the pace of job creation has not quite kept pace with the growth of the labor force. We suspect that these broad trends remained in place in the July/June report. One area of risk is that significant fall in the composite PMI employment index in July, which now points to a stall in hiring.

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

Review of past week's data

Output and surveys

Consumer confidence (prelim)

	May	Jun	Jul
Euro area (European Commission survey)			
% balance of responses			
Consumer confidence	-14.3	-14.0	<u>-13.5</u> -13.0

While the Euro area PMI declined further this week, Euro area consumer confidence continued to improve. While consumer confidence remains below its long-run average, it has been increasing solidly in recent months. No details are published with the flash report, but households are likely still benefiting from a further recovery in real incomes.

Purchasing managers index flash

	May	Jun	Jul
Euro area			
Manufacturing - headline	47.3	45.8	<u>46.2</u> 45.6
Manufacturing - output	49.3	46.1	<u>47.0</u> 45.3
Services - activity	53.2	52.8	<u>52.8</u> 51.9
Composite - Output	52.2	50.9	<u>51.2</u> 50.1
Composite - Employment	52.0	50.9	<u>51.2</u> 50.0
Composite - New orders	51.6	49.4	<u>50.0</u> 49.2
Composite - Future output	63.1	60.8	<u>61.5</u> 60.0
Composite - Input prices	57.5	57.2	<u>57.5</u> 58.1
Composite - Output prices	52.6	52.4	<u>52.4</u> 52.2

	May	Jun	Jul
Germany			
Manufacturing - headline	45.4	52.2 43.5	50.9 44.0 50.1
Manufacturing - output	48.9	45.1	<u>46.5</u> 42.2
Services - activity	54.2	53.1	<u>53.0</u> 52.0
Composite - Output	52.4	50.4	<u>51.0</u> 48.7

	May	Jun	Jul
France			
Manufacturing - headline	46.4	45.4	<u>45.6</u> 44.1
Manufacturing - output	46.9	45.1	<u>45.3</u> 44.1
Services - activity	49.3	49.6	<u>49.8</u> 50.7
Composite - Output	48.9	48.8	<u>49.0</u> 49.5

National business surveys

	May	Jun	Jul
German IFO survey			
2015=100, sa			
Business climate	89.3	88.6	<u>89.1</u> 87.0
Business situation	88.3	88.3	<u>88.8</u> 87.1
Business expectations	90.3	<u>89.0</u> 88.8	<u>89.5</u> 86.9

Consistent with this week's flash PMI, the German IFO also fell sharply in July, reflecting declines in both current conditions (-1.2pts to 87.1) and business expectations (-1.9pts to 86.9). It also reflected declines across sectors. In manufacturing, the press releases noted also that capacity utilization fell to 6pts below its long-run average. We have had misgivings about the IFO as its level has been unusually low relative to the PMI and relative to outturns in GDP, but the direction of its move in July does match that of the PMI and reinforces the message of a deterioration in growth momentum. In fact, the German economy appears to be sliding back to stagnation. Unfortunately, the reasons for this are not entirely clear-cut.

	May	Jun	Jul	
France (INSEE survey - manufacturing)				
Index				
Composite index	99.2 99.5	98.6 98.9	95.5	
Index of past production	-2.5 -0.7	-5.6 -2.0	-5.4	
Exp. output - personal	4.9 2.7	4.0 1.8	-4.9	
Exp. output - general	-8.7 -9.1	-10.8 -11.6	-18.0	

The French INSEE business climate indicator fell sharply in July and now stands well below the long-term average of 100. The decline was broad based across sectors. A look at the details show that forward looking components of the survey were hit the most, including demand, employment and production expectations. This outcome in our view reflects uncertainty linked to recent political developments. It is not clear who will lead the government and what measures can be passed in a hung parliament. In terms of signal, it is important to note that the INSEE survey was doing better than the PMI. With the INSEE survey down and the PMI up in July, the signal of the two surveys are now aligned. Surveys suggest that the economy is running at a near 1% ar. Our 3Q24 forecast however assumes a 2% ar GDP gain with some boost coming from the Olympics. Nonetheless, political uncertainty is creating downside risks around our forecast.

financing needs moderate even if spending picks up.

Source: European Commission, Eurostat, ECB, FSO, Bundesbank, IFO, INSEE, ISAE, Istat, INE, CBS, BNB, Markit, and J.P. Morgan forecasts

	May	Jun	Jul
Italy (ISAE survey)			
2000=100, sa			
Producer confidence	88.2	88.3	86.8
		86.9	87.6

Financial activity and public finance

Money and credit data

	Apr	May	Jun
Euro area			
M3 (%m/m sa)	0.2	0.3 0.2	0.6
M3 (%oya)	1.3	4.6 1.5	2.2
Loans (%oya) ¹ .	0.9	0.8	1.1
Loans (m/m, €bn) ¹ .	46.5 16.6	3.2 2.3	28.6
Of which			
To households	3.2	2.6 3.0	3.7
To nonfinancial corporates	-5.4 -5.3	5.2 4.3	18.9

¹ Loans to nonbank private sector, adjusted for securitization

Euro area bank lending increased by €19bn to nonfinancial corporates and €4bn to households. The latter is in line with the recent trend, whereas the increase to corporates marks a sudden acceleration. We note however that the 3-month trend is still soft overall and that the increase to nonfinancial corporates looks uneven by country. The pattern also does not fully fit the message sent by the ECB bank lending survey, which pointed to a bigger improvement in loan demand from households. As a result, we interpret today's report with caution. At the same time, elevated saving rates are still keeping external

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Japan

- **Conditions for next BoJ hike have been met, in our view**
- **Expecting BoJ to raise policy rate to 25bp, announce substantial reduction in bond purchases**
- **Services price inflation to accelerate as minimum wage hike and *Shunto* outcomes push earnings higher...**
- **...and recent rise in goods input costs now signaling next wave of cost passthrough pressures**

We look for the BoJ to hike its policy rate 15bp next week, bringing it to 0.25%, as well as flesh out its plan to reduce bond purchases. Here, we expect a significant step down in JGB buying. While this mix marks a more hawkish view than the consensus, recent pushback against our call has centered around two arguments. First, that the yen's recent clawing back of some lost ground has taken the immediate pressure off the BoJ to announce both a rate hike and its QT plan simultaneously. And, second, that in the absence of any concrete media leaks ahead of the meeting to signal otherwise, the BoJ will retain its cautious stance.

At the June meeting, the Board noted that “the Bank will raise the policy interest rate and adjust the degree of monetary accommodation” if activity and prices moved in line with views published in the April *Outlook Report*. Our read of the data since then is that this condition has been met. Against this backdrop, we see next week's meeting as an important litmus test of the BoJ's policy reaction function, a test of whether the BoJ will make policy decisions based on its assessment of the economy and inflation in a forward-looking manner, or will refrain from policy changes unless responding to immediate market pressure.

Figure 1: Japan scheduled earnings and services PPI inflation

%oya, PPI adjusted for 2014 consumption tax hike



Source: BoJ, MHLW, J.P. Morgan

The past week's data flow was generally constructive, with the July flash PMI implying a sharp rebound in services activity and rising input cost pressure. Inflation indicators continue to trend higher. June services PPI inflation rose a sharper-than-expected 3%oya, its fastest underlying pace since the

early 1990s, as labor costs continue to rise (Figure 1). The government confirmed its recommendation for a sharp 5% hike to the minimum wage, the largest on record. And Tokyo CPI suggested underlying prices, particularly services inflation, remain firm. We continue to think that, as the effect of robust *Shunto* wage negotiations broadens across the labor market and minimum wage hikes are realized, firmer wage momentum and signs of a recovery in domestic demand are creating upside risks to 2H24 CPI inflation forecasts.

BoJ's litmus test

While the BoJ has long indicated a policy of raising policy rates in response to rising confidence, we think the recent rise in wage momentum and the signs of consumption recovery since the spring will meet these conditions. Also, since the June meeting, the market is starting to expect a “significant” scale of reduction in BoJ's JGB purchases. For the BoJ, which has already revealed a policy that does not use the balance sheet as a policy tool, the decision on QT likely will not be an obstacle to rate hikes. Nevertheless, as some members appear to prefer to steer policy changes as slowly as possible, the decision may come with some dissents.

We believe this decision will be a touchstone of the BoJ's policy reaction function. Data released since the June meeting were generally positive, pointing to higher confidence in achieving the price target. While real consumption had deteriorated for four consecutive quarters through 1Q24, the latest monthly data sent positive signals that 2Q GDP-based consumption, which will be out in mid-August, is likely to turn to a positive gain. Also, the strong results of the spring wage negotiation are starting to be reflected in actual wage indicators, which likely will feed into a higher minimum wage increase after October. The higher-than-expected wage momentum and signs of a recovery in domestic demand are now posing upside risks to future inflation. Risks for the BoJ to be forced to deliver rapid rate hikes, which the BoJ prefers to avoid the most even in the future, are rising. We think the decision this time likely will be a test of whether the BoJ will make policy decisions based on assessment of the economy and inflation in a forward-looking manner or will not make policy changes unless either responding to general consensus or forced to do so.

Market expectations for the planned reduction in JGB purchases have shifted rapidly since the June meeting, and the current expectation stands around a reduction to JPY3 trillion per month from the current JPY6 trillion over a period of about two years as a core view. Yet market participants' perspectives still diverge widely, which the BoJ may see as desirable in the process of restoring market functionality. The BoJ has successfully communicated to the market a “significant” reduction in its JGB purchases as well as a policy of restoring

market functionality.

In the outlook report, the BoJ likely will lower its growth and core (ex. fresh food) inflation outlook for FY2024. However, both are due to technical factors; the former would be due to a downward revision of 1Q24 GDP, and the latter reflects the planned reintroduction of the energy subsidy for three months during the summer. Thus, we don't expect the BoJ to take these revisions as factors undermining positive prospects. The BoJ likely will refer to domestic consumption rebounds and improved income conditions in the statement, while keeping the outlook for FY2025 and FY2026 largely unchanged.

Discussions at the press conference likely will be widespread, including QT implications, future path of the policy rate, and the successive currency interventions. Governor Ueda likely will pay close attention to his remarks not being seen as dovish, with consideration for the currency market. He likely will reiterate the policy to continue raising the policy rate toward neutral in response to gaining confidence, signaling to the market that additional rate hikes likely will come, albeit at a gradual pace. In this regard, the key issue we may need to pay attention to would be the level of the terminal rate that Governor Ueda has in mind and the time frame to get to that level.

Tokyo CPI keeps the pressure on

Tokyo core prices (ex. food and energy) rose 0.2%/m/m sa, leaving the global standard measure of core inflation up 1.1%oya. This was a touch softer than our forecast, but momentum in underlying prices is turning up. The sequential trend in global core prices accelerated to 0.8%3m/3m saar from a small drop in June, with the fading effect of education subsidies and a rise in several other services price categories leading to a pickup in price momentum.

The BoJ's view of inflation hinges on the interaction between a first force on prices coming from goods inflation, and a second, more important force that reflects services price momentum as a function of labor market and wage dynamics. Dissecting the Tokyo report for July in this way suggests that price pressures remain strong. Core goods prices rose 0.1%/m/m sa and are likely to accelerate further as the lagged impact of higher input costs feeds into consumer prices. Services prices were flat on the month, but excluding the impact of education and other subsidies, rose a firm 1.3%oya. In the details, most categories of services prices printed monthly increases, offset by a drop in education costs; the pickup in services inflation is a message reinforced by the strong (+3.0%oya) rise in the services PPI inflation data released earlier this week.

On an over-year basis, the BoJ's official (2.2%) and preferred (1.5%oya) measures of core inflation were broadly as

expected; the latter came in 10bp below consensus forecasts. Official core CPI (ex. fresh food) inflation has been trending higher, reflecting the temporary removal of energy subsidies which will be re-introduced in August. Indeed, energy prices rose 3.4%/m/m sa for the second consecutive month, adding 0.7%-pts to official over-year core inflation.

Figure 2: Tokyo core CPI

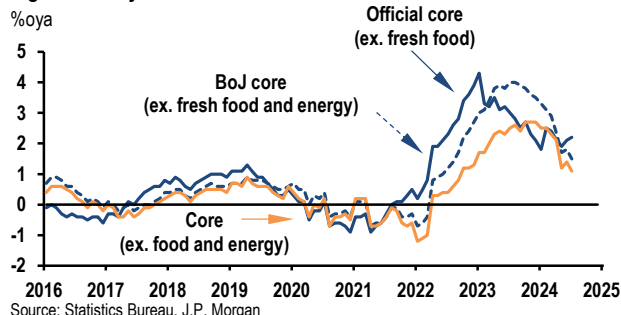
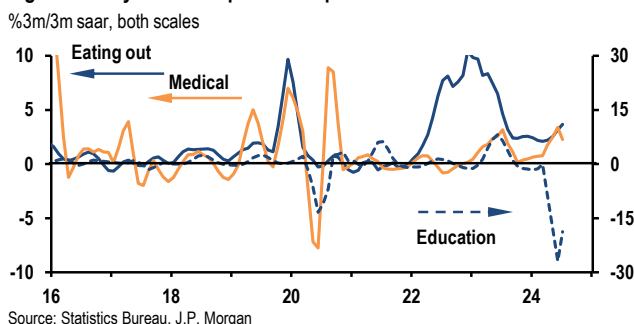


Figure 3: Tokyo services prices composition



PMI highlights sectoral divergence

Japan's all-industry flash PMI rose 2.9 points to 52.6 in July, fully reversing a drop in the prior month and matching its 12-month high. The increase entirely reflected a 4.5 point jump in the services PMI, undoing the plunge in the index reported in June, even as manufacturing slipped. This left the services PMI at 53.9, its highest level since April. The manufacturing PMI fell 0.8 points to 49.2, against our expectation for a modest rise, putting the index below the 50-threshold once again (Figure 4).

The disappointment on the manufacturing PMI contrasts with the more constructive signal from last week's Reuters Tankan survey, as well as the Economy Watchers survey reported before that. Among the sentiment surveys, the PMI manufacturing output index (which fell 0.8 points to 49.7) tends to align most reliably with Japan's production. The trend here suggests that factory output may once again be losing steam (Figure 5). Details were downbeat, with a large decline in future output (-2.2pt) and new orders (-2.6), albeit new export orders (+0.6) edged up slightly. Given divergence among the

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July surveys, we will look to manufacturers' projections reported in next week's June IP report to assess any risks to our 3Q production outlook.

Figure 4: Japan Headline PMI

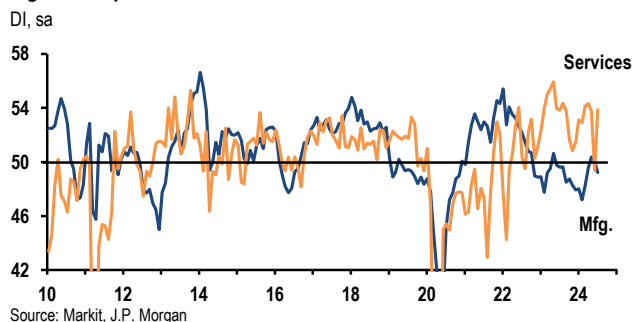
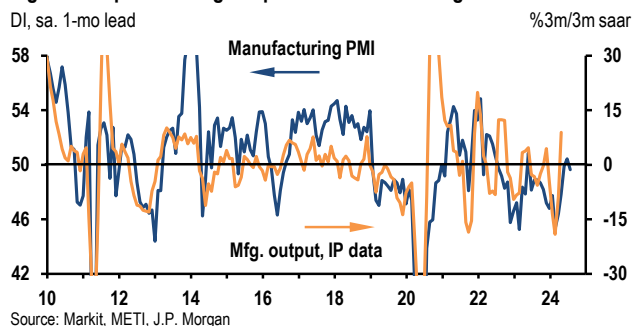


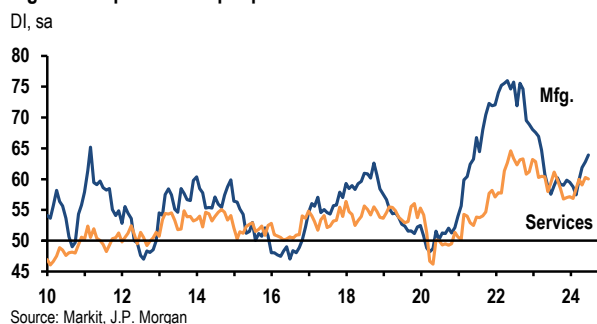
Figure 5: Japan PMI mfg. output and manufacturing IP



The plunge in services activity suggested by last month's PMI now looks like a fade. While there were no details given to explain the unusually volatile profile in the services PMI over the past two months, July data looked robust. There was a large rise in backlogs of work (+3.4pt), alongside a pop in new business (+3.9) and future activity (+0.5) indices, albeit export orders fell (-2.9) for the second consecutive month. We think the recovery in the July services PMI is broadly consistent with our call that consumption growth is gaining pace.

On cost indices, the level of input prices indices remains high in the PMI surveys. While services input price slipped 0.3 points, manufacturing costs rose 1.1 points to 63.9, the index's fourth consecutive monthly rise and its highest since early 2023 (Figure 6). This dynamic looks consistent with our long-standing view that currency depreciation and rising import costs could fuel another wave of goods inflation into 2H as firms continue to pass on input costs into consumer prices.

Figure 6: Japan PMI - Input prices index



Data releases and forecasts

Week of July 29 - Aug 2

Tue	Labor force survey				
Jul 30	Sa				
8:30am		Mar	Apr	May	Jun
	Unemployment rate (%)	2.6	2.6	2.6	<u>2.6</u>
	Job offers ratio	1.28	1.26	1.24	<u>1.24</u>

We look for the unemployment rate to have held steady in June. Labor market conditions remain firm in our view, reflecting continued demand for workers in the services sector.

Wed	Commercial sales				
Jul 31	%m/m, sa				
8:50am		Mar	Apr	May	Jun
	Total retail sales	-1.2	1.2	1.7	<u>2.5</u>
	%oya	1.2	2.4	3.0	<u>6.0</u>

We expect retail sales to have risen by 2.5%/m in June. We expect a strong gain in retail sales, reflecting rising income conditions for households and favorable weather conditions.

Wed	Industrial production				
Jul 31	%m/m sa, base year 2020				
8:50am		Mar	Apr	May	Jun
	Production	4.4	-0.9	2.8	<u>-4.5</u>
	Shipments	4.7	-0.4	3.5	
	Inventories	1.0	-0.2	1.1	
	Inventory/shipments ratio	7.6	-0.7	-0.9	

We expect a large decline in June IP based on manufacturers' projections reported in the prior month, and taking into account the negative impact of the second round of auto sector supply suspension during the month. However, we look for manufacturers to turn more optimistic in their forecasts for output into the summer.

Wed	Housing starts				
Jul 31					
2:00pm		Mar	Apr	May	Jun
	Housing units %oya	-12.8	13.9	-5.3	<u>-0.7</u>
	%m/m, sa	-4.4	15.8	-7.6	<u>-1.0</u>
	Mn units saar	0.76	0.88	0.81	
	Floor space, 6mma* (%m/m, sa)	-1.1	1.3	0.7	

We expect housing starts to have fallen slightly in June.

Wed	Consumer sentiment				
Jul 31	DI, sa				
2:00pm		Apr	May	Jun	Jul
	Consumer sentiment	38.3	36.2	36.4	<u>37.0</u>
	Standard of living	36.1	33.9	33.8	—
	Income growth	41.1	39.9	40.6	—
	Labor market conditions	44.2	42.0	41.7	—
	Durable goods purchases	31.8	29.0	29.6	—

1. The DI asks whether a respondent thinks that now is a good time to purchase durables

We expect consumer sentiment to improve in July, reflecting the recent rise in wages and one-off tax cuts paid in June.

Review of past week's data

Markit manufacturing/ services PMI, flash (Jul 24)

Diffusion index				
	May	Jun	Jul	
Manufacturing (headline)	50.4	50.0	<u>51.0</u>	49.2
Services (business activity)	53.8	49.4	<u>50.0</u>	53.9

Services producer prices (Jul 25)

	Apr	May	Jun	
%oya	2.8	2.7	—	3.0
Ex. international transportation	2.7	2.6	—	3.0

Tokyo consumer prices (Jul 26)

2020-based				
	May	Jun	Jul	
%oya				
Overall	2.2	2.3	<u>2.4</u>	2.2
Core (ex fresh food)	1.9	2.1	<u>2.2</u>	
Ex fresh food and energy	1.7	1.8	<u>1.9</u>	1.5
Ex food and energy	1.2	1.4	<u>1.5</u>	1.1
%m/m, sa				
Overall	0.4	<u>0.4</u>	0.3	<u>0.5</u>
Core (ex fresh food)	0.4	0.4	<u>0.3</u>	
Ex fresh food and energy	0.1	<u>0.4</u>	0.3	<u>0.2</u>
Ex food and energy	0.2	<u>0.2</u>	0.3	<u>0.2</u>

Source: ADA, JCSA, JDSA, JFA, JLM, VMA, Markit, METI, MHLW, MILT, MoF, Reuters, Statistics Bureau, J.P. Morgan forecasts

26 July 2024

Canada

- **The Bank of Canada cut its policy rate 25bp this week**
- **We thought recent firm readings in core inflation would keep the bank on hold in July...**
- **... but dovish communications instead suggest a higher bar to pausing the current easing cycle**
- **We now see 25bp cuts at each meeting through 1Q25, with a final cut in 2Q25 taking the policy rate to 3%**

In central bank watching you win some and you lose some, and we ended up on the wrong side of this week's Bank of Canada decision—although as we noted here last week, it was a very close call and we were not at all surprised that it cut 25bp to 4.5%. What was surprising was the even more dovish tone of the communications, suggesting a higher bar to pausing the current easing cycle. As a result, we shifted our BoC rate path call to incorporate 25bp cuts at each of the upcoming BoC meetings through the end of 1Q25, with a final cut during 2Q25. That implies a policy rate of 3.75% at the end of this year, and 3% by 2H25.

One dovish surprise was the apparent willingness of the Governing Council to look past upside surprises to inflation. Given earlier comments that it didn't want to jeopardize the progress it had already made on inflation, we thought the upside move in the annualized 3-month growth for the Bank's preferred core inflation measures—which pushed them back to the top of the target range—would elicit a pause in July, alongside continued firmness in wage growth and some heightened uncertainty in businesses' inflation expectations. Instead, we learned that, by acknowledging the “uneven” inflation data, the BoC gave itself permission to look past near-term firmness, provided it can still point to some form of excess supply in the economy and slack in the labor market.

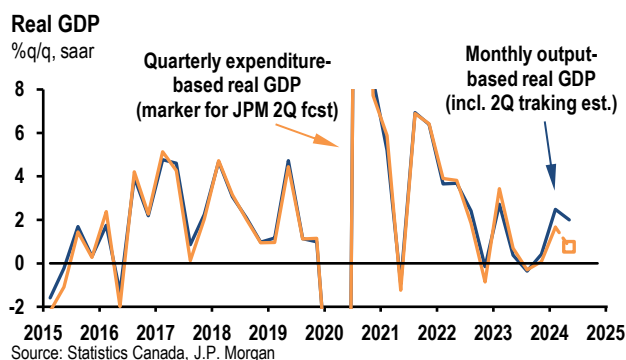
We also had previously interpreted the idea of a “gradual” easing cycle, promoted in earlier remarks, to mean a slower-than-every-meeting pace of cuts; after this week's press conference we think “gradual” is at least as much about the size as the timing of subsequent easing. While the BoC was willing to hike in larger increments on the way up to rein in inflation, short of an unexpected material deterioration in growth and the labor market, we don't look for chunky cuts this cycle. Elevator up, escalator down.

A further dovish surprise came in the form of Governor Macklem stating that “the downside risks are taking on increased weight” in the BoC's policy decisions. That appears to be more than simply a Fed-style rebalancing of risks as inflation gradually returns to target. Rather, it reflects concern that policy may have already done too much—particularly the

drag on consumers from a rising debt service ratio. The increase in the unemployment rate also appears to have motivated greater caution, even though this appears to be largely a reflection of faster growth in the working-age population—mostly through immigration—while job growth remains decent. Interestingly, the BoC seems to think these factors will fade by next year, yet still seems intent on providing a meaningful easing impulse in the near term.

Ne'er cast a clout till May is out

The main data release for next week will be Wednesday's monthly GDP report for May. This is an output-based measure, and recently has been suggesting stronger growth than the headline expenditure-based quarterly GDP figures, with April and the advance estimate for May signaling just below 2.0%ar growth in 2Q. This contrasts with our forecast for 0.8%ar GDP growth last quarter on an expenditure basis (Figure 1). Our nowcaster, which filters the latest data into an estimate of current quarter GDP growth, also points to 2.0%ar growth in 2Q—but note that the monthly GDP data are a key input into the Canada nowcaster, which uses 18 variables in total. Sectors showing relative strength in recent monthly GDP reports include retail and wholesale trade, manufacturing, and mining oil and gas extraction; data on construction have been softer. Our 2Q GDP forecast sees a modest contribution from consumer spending but weak residential investment and a drag from net exports.



At this point, our 2Q GDP forecast remains 75bp below the BoC's forecast that was updated in its July Monetary Policy Report. One downside risk would be a softer trajectory for consumer spending if labor market conditions weaken more than expected. Going forward, the BoC expects a significant recovery in growth as interest rates come down and household and business sentiment lift. If this rebound is not realized, rate cuts could be extended into 2H25 and the terminal policy rate for this easing cycle could slide below the 3% that we predict.

Data releases and forecasts

Week of July 29 - August 2

Wed	Monthly GDP				
Jul 31	sa				
8:30am		Feb	Mar	Apr	May
	Total,%m/m	0.2	0.0	0.3	<u>0.1</u>
	%oya	0.8	0.6	1.1	<u>1.0</u>

Review of past week’s data

New house prices (Jul 24)

Nsa		Apr	May	Jun	
	Total,%m/m	0.2	0.2	<u>-0.1</u>	-0.2
	%oya	-0.1	0.0	<u>-0.0</u>	-0.2

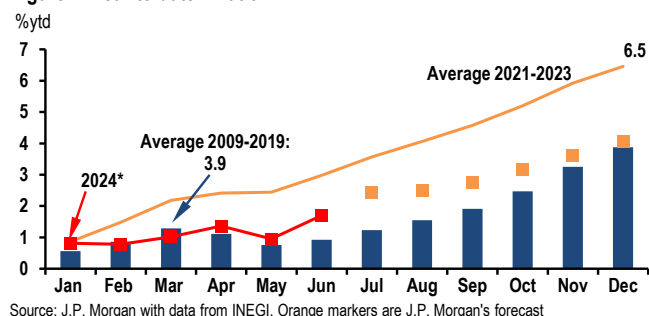
Source: Statistics Canada, Ivey Business School, CMHC, S&P Global, Teranet/National Bank of Canada, CREA, CFIB, Bank of Canada, J.P. Morgan forecasts

Mexico

- Inflation surprises to the upside as non-core continues to challenge inflation convergence
- While we now expect inflation at 4.3% at year-end, core unchanged at 3.7%
- Further persistence in upside shocks to risk core convergence and Banxico's dovish pivot
- Still, tight monetary conditions and growth disappointment since 4Q23 to allow scattered cuts

Headline inflation for the first half of July was surprising and concerning, even considering expectations for a meaningful uptick in the non-core gauge. Headline increased 0.71%2w/2w on the back of both raw food and energy, with relentless increases in fruits and vegetables and steady increases in gasoline and more recently, right after the June election, in liquefied gas. Annual inflation increased to 5.6%, from 4.8% in 1H June. We now expect headline inflation to end this year at 4.3% up from 3.8% (Figure 1).

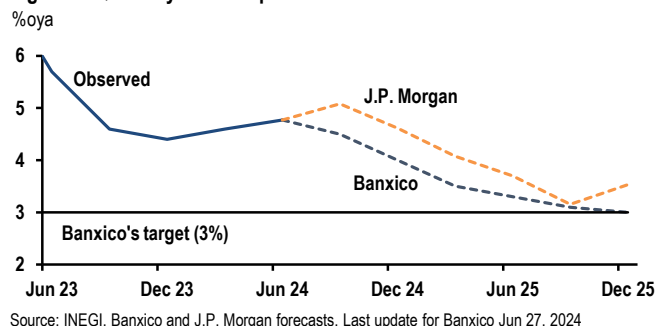
Figure 1: Year-to-date inflation



Core inflation, on the other hand, was well behaved, right in line with our expectations at 0.18% and virtually at 4%oya, back within the variability interval tracked by Banxico. Core goods remains low, and services is showing sequential moderation even if other services was a tad stickier. Of note, restaurant prices remained off the radar again, though telecom prices rebounded a bit after aggressive discounts last month. We are tracking core inflation still at 3.7%, with 3Q eyed virtually unchanged from current levels, at 4%. Banxico still forecasts 3.9% for 4Q but we expect a modest correction down, to 3.8% probably (Figure 2).

Altogether, this week's report is another head-scratcher for Banxico ahead of the August 8 meeting. Not surprisingly, we are losing conviction regarding the 25bp cut even after the dovish June statement. The major surprise in inflation this week could act as a deterrent for most members as in the end, headline inflation is the targeted gauge and the sheer size of the 1H Jul shock to raw food was well above previous upsets.

Figure 2: Quarterly inflation path: Headline inflation



While core dynamics are encouraging, the longer food prices remain high, the greater the risks of contamination into core prices, particularly when accompanied by energy. Similarly, the resumption of the currency weakness in the last couple of weeks could strengthen the hawks' narrative. On the bright side, the weakness in economic activity should limit the pass-through.

If at some point we believed there was a significant risk for back-to-back cuts in August and September, we now see the risk tilted for only one cut in 3Q followed by another in December—provided the ongoing shock in non-core is contained. The high level of the real ex-ante policy rate and the need to gradually release MXN pressure should be enough to deliver scatter cuts for the time being, in our view.

Incoming information will be important to fine-tune our short-term call on monetary policy. Next week, the 2Q24 flash GDP for Mexico and the non-farm payroll for the US will be key; on the very same day of Banxico's decision, August 8, final July inflation will be released. The political economy landscape is proving equally important. First, the increasing chances of an early discussion (mid-August) of the 20-point agenda in Congress could confirm that Morena party is serious about a meaningful institutional re-shape. Second, bilateral themes are now being discussed in the open in the context of the regional elections, from USMCA to migration and tariffs. Both should increase market uncertainty and volatility in local assets.

GDP: May shoots not enough for 2Q lift

The May GDP print came in a touch above our expectations (0.75% samr vs 0.6%). The deviation, however, was accounted for by the volatile agricultural component, up 0.4% (instead of down as we expected). We already knew IP was up 0.7% on a big, third consecutive increase in construction spending, which is seeing renewed strength after an early-year lull. Its strength was enough to more than offset the slack in manufacturing, which came in flat in the month. Things remain volatile and could rotate as US demand picks up and

domestic demand gradually unwinds but overall, the year-to-date performance remains disappointing.

The relevant details this week lay on the services side, and here upbeat news met our expectations after some earlier disappointment. Services output was up 0.8%*m/m*, right in line with our expectations. From a glass half-full perspective, details were encouraging, with most categories up in the month. The few exceptions were mostly consumer-related.

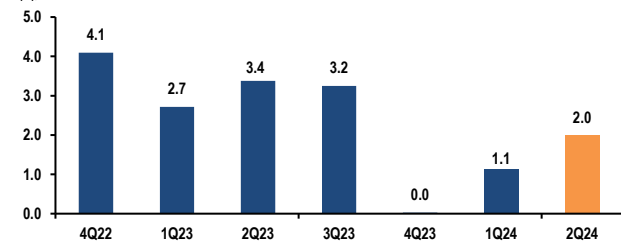
The read-through is somewhat positive: first, we are comfortable about consumers' standing and trust it should remain in good shape going forward. By contrast, business-related services, on which we are less upbeat, grew briskly, though there is reason to be cautious going forward (mostly on political uncertainty). Consistent with the dichotomy just described, retail sales were up just 0.1%*m/m* while wholesale sales jumped 3.3% (though these latter are very volatile).

While this week's data are a breath of fresh air, they do not change the fact that 2Q GDP growth is tracking fairly far below our 3.5%*ar* forecast ahead of next week's flash release, which we now expect at 2%*saar*.

Mixed trade balance data for June out this week also point in the direction of a modest rebound last quarter. External demand remains lukewarm even if growing non-oil intermediate imports are sending some encouraging news. It looks like momentum heading into 3Q is not bad (far from our earlier optimism) and at the very least should leave our 1.7%*ar* forecast on a feasible trend.

At any rate, growth disappointment since late 2023 suggests caution—particularly in the context of Mexico's political business cycle, with the presidential transition taking place in October, and as anti-trade rhetoric gains traction in the region.

Figure 3: GDP
%*q/q*, *saar*



Source: INEGI and J.P. Morgan forecasts. Data for 2Q24 is forecast

Against this backdrop, we continue to see downside risks to growth this year and next and we plan to revisit our 2H24 outlook once the Flash GDP report is out next week. We forecast growth at 1.8%*y/y* and 1.3% for 2024 and 2025, respectively.

It will be worth monitoring the potential rebalancing in the sources of growth in the second half of the year, as US imports have started shifting from services (i.e., tourism, among them) to goods. This could lead to weaker demand for food, lodging, and recreation services and potentially, a pick-up in factory exports. The counterpart to this from a price perspective should be a rebalancing toward cooler core services inflation and a somewhat firmer core goods inflation rate, as we noted before.

Data releases and forecasts

Week of July 29- August 2

Thu Aug 1 13:00pm	IMEF PMI survey				
	Index, <i>sa</i>				
		Apr	May	Jun	Jul
	Manufacturing	49.0	49.1	49.5	49.6
	Non-manufacturing	50.2	50.4	51.0	49.5

Review of past week's data

Economic activity index (IGAE)

%*oya*, unless noted

	Mar	Apr	May	
% <i>oya</i>	2.4	5.3	4.7	1.6
% <i>m/m</i> , <i>sa</i>	-0.4	-0.7	0.6	0.7

Retail sales

	Mar	Apr	May	
% <i>oya</i>	-1.7	3.2	4.8	1.8
% <i>m/m</i> , <i>sa</i>	0.0	0.5	4.4	1.1

Consumer prices

	Jun 1H	Jun 2H	Jul 1H	
%2w/2w	0.21	0.53	0.36	0.71
Core	0.17	0.13	0.18	0.18
% <i>oya</i>	4.78	5.17	5.24	5.61
Core	4.17	4.08	4.02	4.02

Trade balance

	Apr	May	Jun	
Balance (US\$ bn)	-3.7	2.0	-4.4	-1.0
Exports (US\$ bn)	51.3	55.7	55.4	48.9
% <i>oya</i>	11.4	5.4	6.3	-5.7
Imports (US\$ bn)	55.1	53.7	53.7	49.9
% <i>oya</i>	15.4	1.4	3.7	-3.6

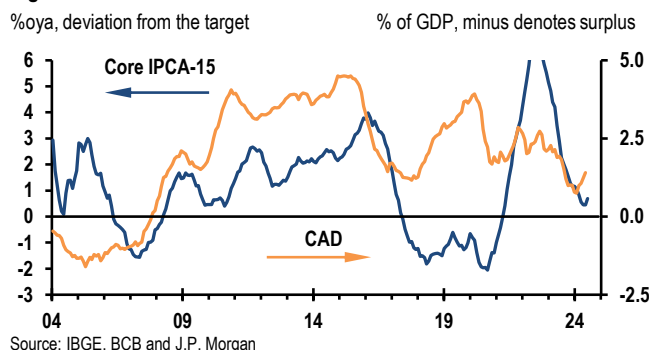
Source: INEGI, Banxico, IMEF and J.P. Morgan forecasts

Brazil

- We expect COPOM to keep rates at 10.5% next week
- The Board will meet under the pressure of the FX depreciation and deteriorated inflation expectations
- We still don't think BCB will initiate a hiking cycle
- But fiscal concerns to linger for longer

Once the business cycle enters into an overheating phase, it starts creating domestic imbalances, such as high inflation, and external imbalances to the economy. Though the labor market is tight, Brazil's recent inflation and current account balance trends do not characterize overheating in our view. This week's July CPI preview (IPCA-15) was higher than expected, but core CPI hovered around 3.5% in 1H24, and the current account deficit rose to 1.4% of GDP—below the historical average and well off the highs above 4% seen in 2013-2015 despite the phasing out of an abnormally high trade balance last year (Figure 1).

Figure 1: Inflation and current account deficit

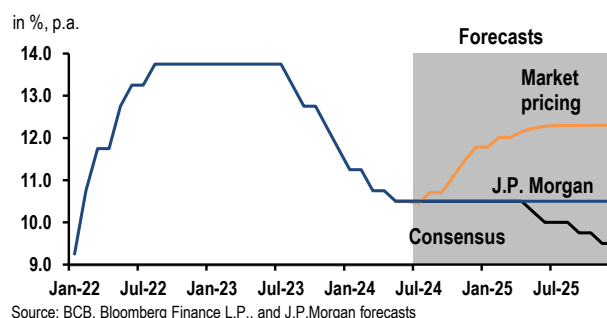


Still, divergence between actual data and expectations, with exchange rate depreciation and market pricing hikes as early as September, puts BCB in a tough spot (Figure 2). [GDP growth remains strong](#) with tight labor markets, partly a [result of the large fiscal stimulus of the last years](#), and the exchange rate is depreciating amid fears [about debt-to-GDP sustainability](#) and the global backdrop. In this sense, fiscal policy stands out as the main driver behind the recent souring mood, one that did not improve after July's [bimonthly review](#). This combination is leading to a rise of inflation expectations despite the moderate inflation in the first half of the year.

At this point, we don't think BCB will make a U-turn and initiate a hiking cycle. The central bank's forecasts will likely move up further next week, but the scenario with a stable SELIC rate is likely to show inflation three- to four-tenths above the target next year, and at or slightly below the target in 2026. With the central bank's 1.5-year monetary horizon increasingly giving some importance to the 2026 forecasts

and global central banks starting to ease condition, BCB will have some leeway to keep the policy rate at the restrictive level of 10.50% to wait and see how this deviation between data and expectations will play out over coming quarters.

Figure 2: SELIC rate path for 2024-2025



Against this scenario, we anticipate that the COPOM will reinforce the message of caution and moderation, without ruling out any possible rate moves in the future. A key point to watch is the assessment of the balance of risks. In the May meeting, "some members" saw the balance of risks tilted to the upside whereas in the June meeting the "majority" decided to maintain this symmetric balance. We read this evolution as suggesting that a rising number of COPOM members are seeing more upside than downside risks. The majority's opinion on how balance of risks will be characterized may be a harbinger of what BCB is inclined to do in the next meetings.

Higher-than-expected CPI preview

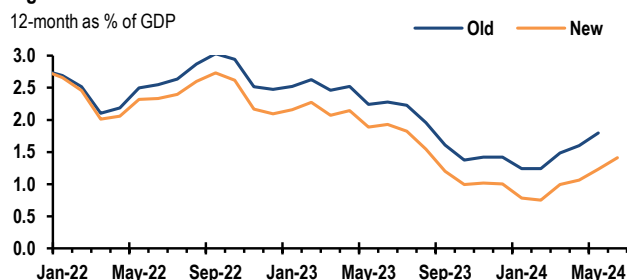
Inflation was generally quite benign in 2Q but started off 3Q with a significant upside surprise. The July IPCA-15 (CPI preview) came out at 0.30%/m/m, nsa, 6bp above our call and 8bp above consensus, with the core IPCA-15 rising 0.34% instead of the 0.27% we forecasted—notably with higher core services CPI, too. As a result, headline IPCA-15 accelerated from 4.1% to 4.4%, with the core metric accelerating for the first time in two years to 3.7%oya. Seasonally adjusted, core IPCA-15 was consistent with more than 4%/m/m saar for the first time in three months, driving the 3-month average to 3.9%3m/3m saar. Core services were particularly high in the month, mostly due to volatile banking services and car insurance, but labor-intensive services moderated to one of the lowest levels of this cycle.

CAD to end 2024 around 1.5%

The country registered a current account deficit (CAD) of US\$4.0 billion in June, moving up from 1.2% to 1.4%, while FDI rose to 3.1% of GDP, from 2.9% in May (Figure 1). The bulk of the current account deterioration so far this year was concentrated in lower exports (especially soy)—after the record high crop last year—and in the rise of the deficit of

other services, particularly in telecommunication and intellectual property services this year. BCB changed the methodology significantly with revisions to the balance of payments information, particularly bringing the current account deficit down by about 0.6%-pt of GDP, with the [anticipated](#) exclusion of cryptoassets from the trade balance being the most consequential one. Between this and other updates, we are now seeing the current account deficit at 1.5% of GDP this year and 1.6% in the next—wider than where we started 2024, but at a historically low level.

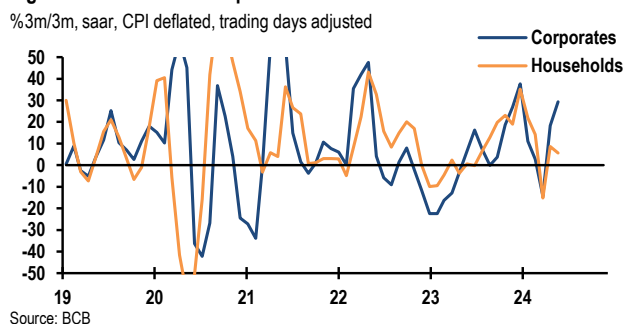
Figure 3: Current account deficit revision



Credit ending 2Q on a better note

Following a mixed report in May, June's report revealed a more encouraging backdrop. Credit concessions grew driven by corporates, whereas households' new loans decreased (Figure 4). Taking a step back and looking at the overall picture, we find that access to credit improved for both companies and households in contrast with the previous year, pushing their broad stocks to 54.1% and 35.5% of GDP and the outstanding financial credit to new highs.

Figure 4: New loans to corporates and households



Lending rates decreased 0.2pp, reaching 27.6% per year versus 28.0% at the start of 2Q. However, funding rates continue to increase, reflecting market pricing of potential Selic hikes over coming quarters. Arrears also fell, reaching the lowest level in 2024, while NPLs fell a tenth to 3.2% at an aggregate level. Household indebtedness fell two-tenths in May, and average income commitment decreased four-tenths to 25.7%.

Data releases and forecasts

Week of July 29 - August 2

Mon	Fiscal sector				
Jul 29					
7:30am		Mar	Apr	May	Jun
	BRL bn, minus denotes surplus				
	Primary	-1.2	-6.7	63.9	<u>40.0</u>
	12-month sum, as % of GDP				
	Primary	2.3	2.4	2.5	<u>2.4</u>
	Nominal	9.1	9.5	9.6	<u>9.6</u>
	Net debt, % of GDP	61.4	61.5	62.2	<u>61.7</u>
Tue	Wholesale prices (IGP-M)				
Jul 30					
7:00am		Apr	May	Jun	Jul
	%m/m	0.31	0.89	0.81	<u>0.54</u>
	%oya	-3.04	-0.34	2.45	<u>3.76</u>
Wed	National unemployment rate				
Jul 31					
8:00am		Mar	Apr	May	Jun
	Rate, 3-month average (nsa)	7.9	7.5	7.1	<u>6.8</u>
Wed	COPOM meeting				
Jul 31					
4:30pm		Apr	May	Jun	Jul
	Selic rate	10.75	10.50	10.50	<u>10.50</u>
Fri	Industrial production				
Aug 2					
8:00am		Mar	Apr	May	Jun
	%m/m, sa	1.1	-0.8	-0.9	<u>2.5</u>
	%oya	-2.8	8.4	-1.0	<u>1.3</u>

Review of past week's data

Current account balance

	Apr	May	Jun	
Current account (CA)	-2.9	-3.4	-3.6	-4.0
CA, 12-month sum	-35.7	-40.1	-26.6	-31.5
CA, 12-month sum, %GDP	-1.6	-1.8	-1.2	-1.5
Foreign direct investment	3.9	3.0	4.0	6.3

Consumer prices (IPCA-15)

	May	Jun	Jul	
%m/m	0.44	0.39	0.24	0.30
%oya	3.70	4.06	4.38	4.45

Sources: IBGE, FGV, BCB, and J.P. Morgan forecasts

Argentina

- **The LEFIs made their debut this week, with policy rate unchanged**
- **Parallel FX market volatility eased after recent announcements**
- **Milei's government support continues to show relative resiliency...**
- **...while real wages and pension recover from March lows**

The new regulation notes issued by the Treasury (LEFIs) made their debut this week. The banks subscribed ARS10.8bn, finally putting an end to the BCRA's remunerated liabilities, with the Treasury now responsible for the cost of liquidity absorption. The BCRA also decided to keep the policy rate unchanged at 40% (nominal annual rate), with an effective increase of about 300bp seen in the rate as the gross income tax (paid by BCRA instruments) is not charged on Treasury instruments (note LEFIs are tied to policy rate).

Meanwhile, in the parallel FX market, after weeks of strong volatility, the FX gap remained relatively muted at around 40%, with around US\$190mn intervention in our estimates. In the official FX market, the BCRA sold US\$48mn through Thursday, compared to purchases of US\$44mn the prior week. We estimate net reserves stood at US\$3.6bn on July 15 (when including BOPREAL), declining from US\$1.1bn at June-end.

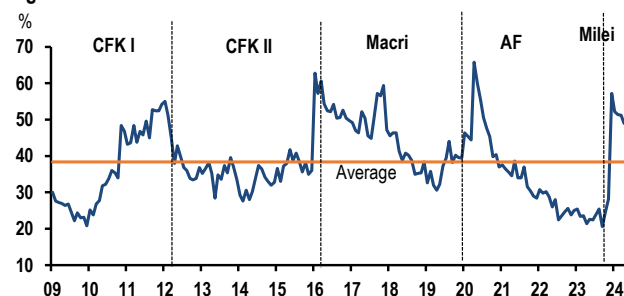
To appease market concerns on reserves accumulation and external debt repayment capacity ahead, both President Milei and Minister Caputo anticipated this week that they are negotiating repo loans with banks to service January 2025 capital payments in case of no market access. The announcement came after Secretary of Finance stated last week that they have deposited at a fiduciary account the interest debt service (US\$1.8bn) for January 2025 bonds.

Approval and confidence indicators

As highlighted last week, the Milei administration has put reducing inflation at the top of the agenda, not only as an economic goal but as the main political mandate of his administration. Achieving sustainable disinflation is a necessary condition for the recovery in real wages and pensions, two key variables that have historically correlated very closely with government approval. We thus take stock below on the recent performance of government approval and consumer confidence indicators, as a barometer of the evolution of social support.

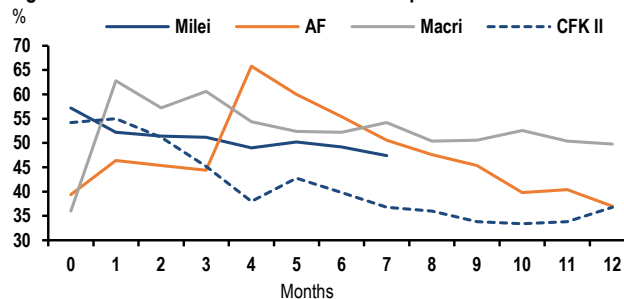
Regarding the government confidence index published by Universidad Di Tella (a good proxy of government approval), the July index shows a monthly decline of 3.7% to 47.4%, accumulating a 9.8%-pt decrease since President Milei took office in December (Figure 1). When compared to the same period in the previous three administrations, we see the confidence level is below those of Presidents Macri and Alberto Fernandez's administrations by month seven of their respective mandates, and above CFK's (Figure 2). That said, Milei's support has proved more stable (even amid the strong fiscal adjustment in place), varying the least in this period when compared to the three other administrations.

Figure 1: Government Confidence Index



Source: Di Tella and J.P. Morgan

Figure 2: Government Confidence Index - Comparison



Source: Di Tella and J.P. Morgan

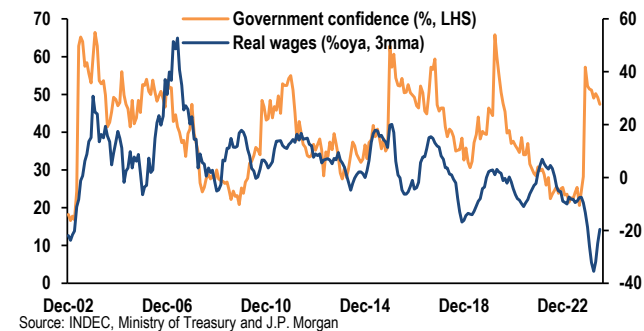
Meanwhile, the consumer confidence indicator has seen a 5% rebound in July, on top of the 4% increase seen in the second quarter of the year. In July, consumer confidence is 22% above the lows seen in November 2018, though 13% below the 2001-2023 period average. Worth noting, the rebound in consumer confidence is related to the observed recovery in real wages and pensions since April, up by 4.9% (May) and 79.4% (June), respectively, when compared to the record low levels seen in March. On an over-year basis, contraction pace eased to -27.5% and 19.5%, respectively (Figure 3).

Figure 3: Consumer confidence index



In all, history shows a strong correlation between real wages and government approval (Figure 4). That said, this correlation didn't prove as strong during the first months of the Milei administration, as the real wage drop was not followed by an equivalent decline in the government's image. Resiliency in government support is to be tested in the months ahead, if inflation deceleration faces headwinds or if the incipient economic activity rebound does not prove sustainable.

Figure 4: Real wages and government confidence



The authors wish to thank Juan Goldin, of the Latin America Economics Research team, JPMorgan Chase Bank Sucursal Buenos Aires, for his contribution to this report.

Data releases and forecasts

Week of July 29 - August 2

Fri Aug 2	Tax revenues				
		Apr	May	Jun	Jul
	%oya, real terms	-12.8	11.8	-13.5	—

Review of past week's data

No data releases.

Source: INDEC, BCRA, and J.P. Morgan

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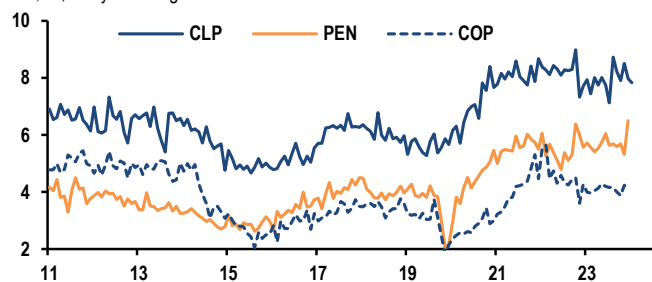
Andeans

- Exports have increased in Colombia and Peru in 2Q24, but contracted in Chile
- The main commodity prices continue to be paramount to gauge the overall export performance
- Imports do seem to be bouncing back, especially in Colombia and Peru
- Trade balances remain in surplus in Peru and Chile, while the deficit in Colombia has widened

The Andeans merchandise trade data sets (through June for Chile, and May for Colombia and Peru) show that exports have increased in 2Q24, boosted by higher prices. The notable exception is Chile, where exports contracted by 2.2%q/q, sa, in the quarter, though coming on the heels of a very strong 8.6% increase in 1Q24. In all, both Chile and Peru have seen exports increasing this year when compared to the levels reported in 2023, up by 4% and 1.6%, respectively, mainly driven by the headwinds in the terms of trade. Meanwhile, Colombia's exports continue to stagnate (Figure 1).

Figure 1: Merchandise exports

US\$bn, sa by J.P. Morgan



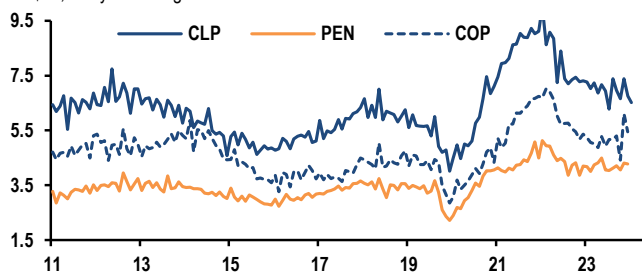
As mentioned above, the main commodity prices continue to be paramount to gauge the overall export performance, as volumes have proved rather flattish except in Peru. For the latter, volumes have trended higher in 2023, with new mines coming on line and the stabilization following the social unrest early last year. Chile's commodity exports in volumes have been stagnant for years, with the potential for lithium to arrest the downward trajectory. Meanwhile, Colombia's oil production continues to prove unable to regain pre-pandemic levels, with volumes down by about 30%. Worth noting, non-traditional exports volume has increased by almost 40% when compared to pre-pandemic levels. But this increase is not enough to offset the decrease in oil volumes, with total exports volumes 20% below the historical average.

On the imports side, the evolution since 2023 has proved aligned to the business cycle phase. Imports have shown a severe adjustment lower in Chile and Colombia, with a more

moderate correction in Peru. This adjustment relates to the overheated domestic demand in Chile and Colombia in 2021-2022. Since then, tighter monetary conditions and narrower fiscal imbalances (though still overall expansive fiscal policy) have driven imports lower. Imports do seem to be bouncing back, especially in Colombia and Peru, showing gains in 2Q24 of around 17%q/q and 4%q/q, sa, respectively. Meanwhile, imports in Chile decreased in 2Q, down by 1.7%q/q, sa, though coming on the heels of a 3% increase in 1Q (Figure 2).

Figure 2: Merchandise imports (CIF)

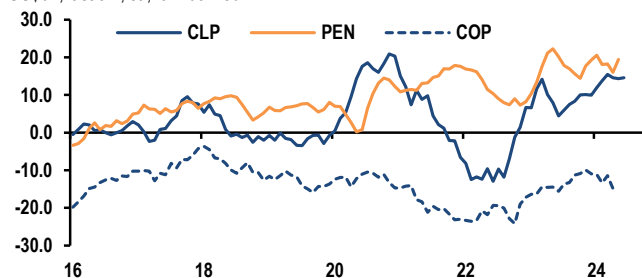
US\$bn, sa by J.P. Morgan



Against this backdrop, the merchandise trade balances continue to navigate surplus waters in Peru and Chile, while the deficit in Colombia has widened in 2Q. When adjusting for seasonality, the last 3-m annualized balances are running at US \$19.4bn in Peru and US\$14.6bn in Chile, equivalent to 6.8% and 4.4% of the forecasted 2024 GDP, respectively. Colombia's deficit runs at US\$14.8bn, or 3.4% of the forecasted 2024 GDP (Figure 3).

Figure 3: Merchandise trade balance

US\$bn, last 3m, sa, annualized

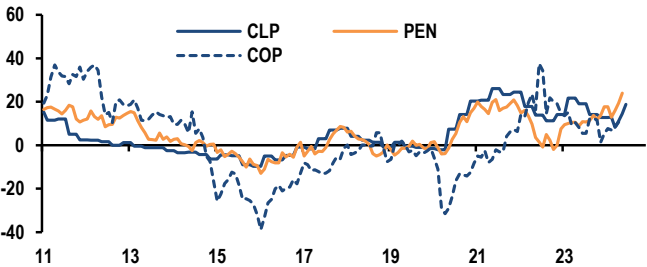


Ahead, we expect the main commodity prices to continue to support exports, while growth in imports volumes firms. On prices, our base case assumes the terms of trade will remain above the last 20-year average. The terms of trade have navigated above the long-term average since 2023, and have improved in all three countries in 2Q, on the impulse of copper (Chile and Peru) and oil (Colombia) (Figure 4). On volumes, we expect exports to show moderate gains, yet to

underperform imports on firmer growth.

Figure 4: Terms of Trade

% deviation from 2005-24 avg



Source: Central Banks and J.P. Morgan

In all, we project annual merchandise balances will print in the black for Chile and Peru, while in deficit for Colombia. That would be consistent with current account deficits of 3.4% of GDP for Chile, 2.6% for Colombia, and 0.3% for Peru.

The authors wish to thank Juan Goldin, of the Latin America Economics Research team, JPMorgan Chase Bank Sucursal Buenos Aires, for his contribution to this report.

Colombia

Data releases and forecasts

Week of July 29 - August 2

Wed Jul 31	Policy rate				
		Apr	May	Jun	Jul
	%	12.25	11.75	11.25	<u>10.75</u>
Wed Jul 31	National Unemployment				
		Mar	Apr	May	Jun
	%, sa	10.80	10.50	10.30	<u>10.40</u>

Review of past week's data

No data releases.

Source: DANE and J.P. Morgan estimates

Chile

Data releases and forecasts

Week of July 29 - August 2

Wed Jul 31	Policy rate				
		Apr	May	Jun	Jul
	%	6.50	6.00	5.75	<u>5.75</u>

Retail sales

Wed Jul 31		Mar	Apr	May	Jun
	%oya	1.0	3.7	1.5	<u>2.3</u>

Manufacturing

Wed Jul 31		Mar	Apr	May	Jun
	%oya	0.4	2.5	2.3	<u>1.5</u>

Unemployment

Wed Jul 31		Mar	Apr	May	Jun
	%	8.44	8.34	8.23	<u>8.4</u>

Economic activity

Thu Aug 1		Mar	Apr	May	Jun
	%oya	0.5	3.5	1.1	<u>1.8</u>
	%m/m, sa	-0.6	-0.3	-0.4	

Review of past week's data

No data releases.

Source: INE, BCCh, and J.P. Morgan estimates

Peru

Data releases and forecasts

Week of July 29 - August 2

Thu Aug 1	CPI				
		Apr	May	Jun	Jul
	%oya	2.4	2.0	2.3	<u>2.1</u>
	%m/m	-0.1	-0.1	0.1	<u>0.2</u>

Review of past week's data

No data releases.

Source: INEI, BCRP, and J.P. Morgan estimates

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United Kingdom

- **Flash PMI rose from 52.3 to 52.7 in July, an encouraging signal on growth momentum into 3Q**
- **We look for a 25bp rate cut next week, but in a very tight 5-4 vote. Subjectively, we put the odds at 60%**
- **A cut would come despite, rather than because of, data developments since May...**
- **...but the MPC would frame the decision as a response to broader perceptions of moderating inflation risk**

The flash composite PMI rose from 52.3 to 52.7 in July. We estimate the survey to be loosely consistent with growth of around 1.5% annualised. More importantly, however, it reverses part of the decline seen since the April print and sends a more favourable message about growth momentum into 3Q. The details were encouraging, with a large gain in new orders and the future year ahead output reading up from 70.4 to 74.7. Employment was also up two points to 52.3. By sector, services rose three-tenths, while manufacturing output was up by just over a percentage point. Despite the strength in activity, the output price component continued to moderate. The prices-charged piece within the services sector fell from 56.1 to 55.0, a new post-2022 low. The PMI output price reading has recently been highlighted by the MPC as an alternative barometer of underlying domestic inflation pressures, and so will send an encouraging message even as service inflation itself continues to run high.

Figure 1: PMI composite

Standard deviations away from long run mean



Source: S&P Global

Preview of next week's meeting

We look for a 25bp rate cut at next week's meeting, although the call appears closer than it did several weeks back. The case for lower rates is far from clear. Several measures of inflation persistence remain extremely strong and more so than expected, notably across various measures of wages and services prices that the BoE's guidance places a particular emphasis on. And, with GDP growth accelerating to run at a strong 2.0-2.5% pace in 1H24, it's hard to see why there should be any rush to ease.

Indeed, there is added weight to the argument that equilibrium rates are much higher than the BoE may have previously had in mind. It will be interesting to see if the BoE continues to argue that "the restrictive stance of monetary policy is weighing on activity in the real economy". Nevertheless, we still just about think the MPC will cut. That's based on the June meeting having downplayed data surprises to hint at an August cut, and the absence of material surprises since then.

The MPC's doves have been less vocal of late in arguing there is a serious growth risk from the current policy setting, or that underlying inflation in the UK has moved back in line with the global trend (note UK services inflation and wage growth are both currently running at 7-8% on a 3m/3m annualized basis). For the doves that have spoken lately, the argument has shifted to more nuanced explanations. But there are areas in the data that do argue for a cut.

The overall intensity of the inflation problem has declined. That is not a new development, but the broad trend is still towards a moderation of underlying pressures. There is also increasingly clear evidence of a loosening in the labour market, with the V/U ratio now below its pre-pandemic level. The MPC includes measures such as these in its assessment of inflation persistence. Some second tier indicators of forward looking pricing intentions and expectations have also continued to moderate, and the MPC placed a significant weight on these when attempting to set up for a June cut at the last forecast meeting in May.

The vote looks close

For this meeting, data analysis has its limitations. If rates are lowered in August, it looks likely to happen on a close 5-4 vote. There is a clear spread of views on the MPC owing to different ways of reading the data. The call is therefore just as much about second guessing the human judgement of one or two swing voters on the committee. The added complication is that one middle ground voter (Broadbent) has just left, and is replaced by another member who we know little about (Lombardelli). Perhaps with little strong priors, and at her first meeting, there will be a tendency to side with other governors who appear ready to cut. But it is very hard to have confidence in making a judgement when the outcome is so tight.

We assume the five in favour of a cut will be Dhingra, Ramsden, Breeden, Lombardelli and Bailey. If the BoE doesn't cut rates, we think the vote might not look as close as may be expected. For example, let's say Lombardelli has a strong view to hold. Would Bailey still want to vote for a cut and be the first Governor to be outvoted since Mervyn King (who didn't mind so much)? Would Breeden be swayed to wait? A potential vote for unchanged does not necessarily imply a 5-4

split the other way around.

Timing and the Autumnal Equinox

Before leaving the committee, Deputy Governor Broadbent had remarked that a rate cut was possible at "some time over the summer". This left the impression of a June or August cut if the data played to script. Other members may not share that guidance. But if they do then according to the Greenwich Museums website the MPC has until 1:44pm BST on 22nd September to cut rates. Fortunately, the September MPC meeting falls on the 19th of the same month and, so, deferring a cut next week also leaves open the option of easing before the end of summer.

One reason we do expect a cut next week is due to the way the MPC configured a separate part of its guidance. In June, it said: "As part of the August forecast round, members... will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding." This made it clear that the MPC had already decided the risks were receding, and merely needed to strengthen its confidence in making this judgement. An additional and more subtle interpretation of the same guidance is that the MPC is already discounting measures of inflation persistence, i.e. as evidenced in various elements of the current price data, and is instead forming its judgement based on a more opaque and subjective assessment of risk. That perhaps creates more leeway for the BoE to cut in the face of strong data.

As more forward looking elements of the data (e.g. surveys such as the DMP, labour market tightness, inflation expectations) continue to head broadly in the right direction, the MPC could claim the risks are still fading. This philosophy may have some parallels with how Lagarde described the ECB's reaction function at its last meeting, reminding that the ECB is "data" rather than "data point" dependent. There was also a similar line in Huw Pill's recent speech when he remarked "we have to be realistic about how much any one or two data releases can add to our assessment". It so happens that he appears to have reached the judgement to delay a cut next week, given he described "upside risk to my assessment of inflation persistence". But the point is that individual data surprises per se need not have caused a similar reassessment from other members. This seems to have been the message from the June minutes.

Guidance: a cautious easing bias

We expect the MPC will make only small changes to its forward guidance next week. It will continue to argue that rates "will need to remain restrictive for sufficiently long" and that rates will hence need to be "restrictive for an extended period of time". It will be even more important to maintain this guid-

ance if it does cut in the face of still strong underlying inflation. Leaving this guidance intact would leave the impression that the rate cutting cycle will be slow.

Against this backdrop it was a surprise in May to see Bailey make a rare interjection in his opening remarks at the press conference, stating that the BoE could ease over the coming quarters "possibly more so than currently priced in market rates". Year ahead market rates have changed little since then, partly validated by macro outturns that caused the BoE itself to back off easing as quickly as it had in mind at the time. Three-year ahead expectations are now around 25bps lower than in May, at closer to 3.5%. We would be surprised if the Governor makes the same intervention again.

The BoE's existing guidance is already implicitly configured to indicate that the debate is about when the next cut should come, rather than if. But if it does cut, perhaps the guidance could be tweaked to indicate a clearer easing bias. For example, the statement could say the MPC will "continue to review the need for further easing" as opposed to saying it will "keep under review for how long [rates] should be maintained at [the] current level". Doing so would be a clearer message that rates could fall again next quarter.

Assuming a cut next week, we expect one further cut this year, in November. If the BoE doesn't cut next week, then September would be the default assumption for the next easing, perhaps with another in December. But there is also a lot of data to come prior to the September meeting. We expect to see a pickup in headline inflation, and both growth and underlying inflation could continue to surprise on the upside. Labour demand might also firm in response to stronger growth. The optics around cutting in September could become harder.

If the MPC is confident that rates no longer need to be left at such high levels for much longer, it might as well make a move next week. We also think the backdrop of most other central banks cutting makes a difference. And would the centre ground waverers feel comfortable with a further rise in market rate expectations coming from the uncertainty created by another pause? It might be difficult to commit credibly to a September cut.

BoE forecast revisions

Table 1 below shows our expectations for what the BoE will show in its updated forecasts next week. Near-term inflation will have to be revised up. That's not so much reflecting firmer services inflation – because goods pricing has provided an offset to keep headline broadly in line with the BoE's prior forecast – but, instead, relates to a likely rise in the Ofgem energy cap in October. Our forecast shows headline inflation

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around 2.7% by year-end.

Table 1: BoE forecasts

%, based on market rates assumption and modal forecasts, unless stated

	May				August (expected)			
	2024	2025	2026	2027	2024	2025	2026	2027
GDP (FY)	0.4	1.0	1.2	-	1.2	1.3	1.2	-
CPI ¹								
Mkt rates	2.0	2.6	1.9	1.6	2.1	2.9	1.9	1.6
Constant rates	2.0	2.2	1.3	0.9	2.1	2.4	1.2	1.0
U-rate (EOP)	4.4	4.7	4.8	4.8	4.3	4.6	4.7	4.7

Source: J.P. Morgan. 1. Refers to the quarter covered by the month shown in bold, for each year

We expect minimal BoE forecast changes due to market interest rate moves, with an upgrade to growth reflecting more positive data recently, as well as some assumed carry over into 2H24. We assume this will have a small upward impact on the BoE's medium-term inflation projection, although we expect the BoE will continue to project a productivity lift so that the inflation consequences are mostly neutralized.

The read forward from higher underlying services inflation to the BoE's medium-term inflation forecast could also be offset by the loosening labour market. Overall, we continue to expect inflation in two years' time to be shown below 2%, in a subtle hint that the majority on the MPC continues to see rates heading down a bit more quickly than shown in recent market pricing.

Possible hints on QT

The BoE is due to make an announcement on the pace of QT at its September meeting this year. Last year, it gave some advance hints about its decision, via a speech from Deputy Governor Ramsden and a box in the August MPR. The BoE entered a quiet period due to the recent election, which may have prevented more planned commentary on the issue. It is possible the BoE offers some steer next week. We continue to think the BoE will [not stop active sales](#) in September, and we see a good chance it slows the pace of sales whilst still allowing redemptions to naturally lift the overall QT pace for the year ahead.

Data releases and forecasts

Week of July 29 - Aug 2

Mon	Money supply				
Jul 29	Sa				
9:30am		Mar	Apr	May	Jun
	M4 ex IOFCs (%m/m)	0.5	0.3	0.1	
	M4 ex IOFCs (%3m/3m, ar)	3.3	4.5	3.6	
	M4 (%m/m)	0.7	0.0	-0.1	
	M4 (%oya)	0.4	0.6	0.3	
	M4 lending (%m/m) ¹	0.9	0.1	-0.1	
	M4 lending (%oya) ¹	0.6	1.0	1.0	
	¹ Excludes the effect of securitization.				
Mon	Net lending to individuals (BoE release)				
Jul 29	£ bn, average				
9:30am		Mar	Apr	May	Jun
	Consumer credit (ch, m/m)	1.4	0.8	1.5	
	Mortgage approvals (000s, sa)	61.1	60.8	60.0	
	Secured lending (ch, m/m)	0.2	2.2	1.2	
Mon	CBI survey of distributive trades				
Jul 29	% balance				
11:00am		Apr	May	Jun	Jul
	Volume of retailer sales	-44	8	-24	
Wed	Nationwide house price index				
Jul 31	Sa				
8:00am		Apr	May	Jun	Jul
	%m/m	-0.4	0.4	0.2	
	%oya	0.6	1.3	1.4	
	%3m/3m saar	3.4	1.4	0.1	
Thu	PMI survey final, manufacturing				
Aug 1	% balance, sa				
9:30am		Apr	May	Flash Jun	Final Jun
	Overall index	49.1	51.2	51.4	
	Output	49.4	53.4	54.2	<u>54.2</u>
Thu	BoE policy decision, minutes and monetary policy report				
Aug 1					
12:00pm	Bank rate cut 25bps to 5.00%, in a 5-4 vote. See main text.				

Review of past week's data

PMI survey flash

% balance, sa

	May	Jun	Jul
Manufacturing			
Overall index	51.2	50.9	51.8
Output	53.4	53.3	52.0 54.4
Services business activity	52.9	52.1	52.6 52.4
Composite			
Output	53.0	52.3	52.5 52.7

CBI industrial trends

% balance

	Jan	Apr	Jul
Domestic deliveries			
Expected	-5	3	6
Reported	-17	-9	-5
Domestic orders			
Expected	-3	8	6
Reported	-20	-6	-15
Optimism	-3	9	-9

Source: Rightmove, CBI, BBA, BCC, GFK, BRC Markit, SMMT, RICS, Land Registry, ONS, BoE, and J.P. Morgan forecasts

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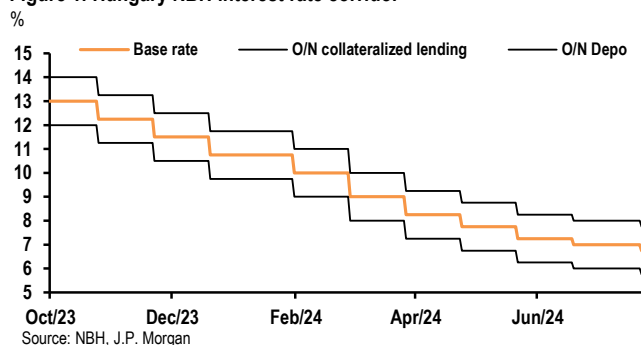
Emerging Europe

- **Hungary: NBH cuts again, getting closer to a pause**
- **Türkiye: CBRT on hold at 50%, set to sterilize via FX swaps**
- **Russia: CBR hiked 200bp to 18.0%**

Hungary: NBH cuts again, closer to a pause

The NBH cut its base rate by another 25bps to 6.75% (Figure 1), in line with our forecast and with the majority of analysts (a quarter of analysts surveyed expected unchanged rates). This was the fifteenth consecutive meeting in which the Monetary Council (MC) cut rates, which remain above the CNB's and the NBP's, but are now matching the NBR's.

Figure 1: Hungary NBH interest rate corridor

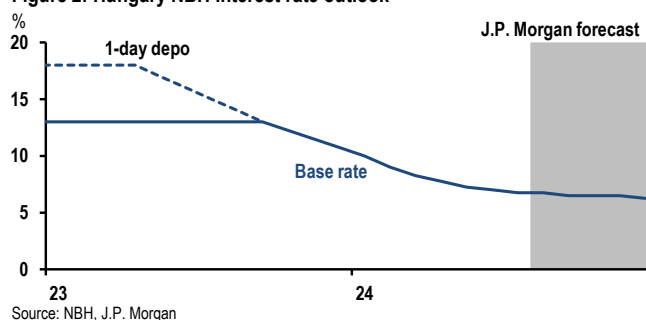


The press release revisits the usual themes, emphasizing the contrast between benign headline CPI and lack of progress on core disinflation recently, especially in services. But the press conference signals long rate-cutting sequence could be paused soon. Specifically, Virag said that upcoming rate decisions would be between no change or small rate reductions, and that market pricing for 1-2 further (25bp) rate cuts this year appears realistic, with the Bank's room to maneuver tied to the evolution of "risk perceptions" on Hungary (i.e. what is the Forint doing). Virag also said that several board members strongly argued for unchanged rates.

We continue to expect two further rate cuts this year, but now see them in Sep/Dec. Timing the remainder rate cuts of the year will be a hard task, probably not even the decision maker knows, as it will depend on the Forint, the upcoming CPI prints and global market sentiment. Up until now, we expected the next few rate cuts to arrive sequentially in August and September before a decent pause in the cycle. Although that is still possible, we think the probability of a pause already in August has increased, given a sequence of upside surprises in core inflation (Figure 2), driven in particular by services, which in our view raises the question of whether rates should be cut at all at this point. The communication from the meet-

ing suggests the Council is also less keen on decisive easing, and this confirms that pauses are more likely. We expect two 25bp rate cuts this year, at the quarterly report meetings of September and December.

Figure 2: Hungary NBH interest rate outlook



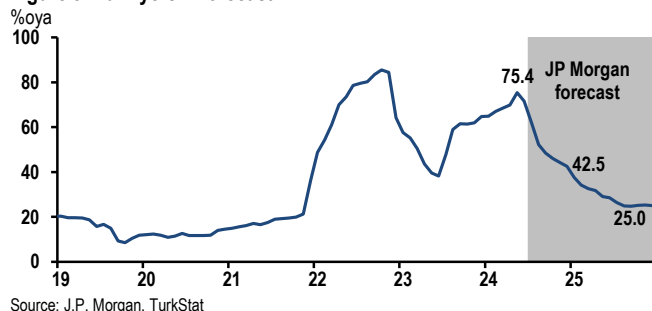
Türkiye: CBRT set to sterilize via FX swaps

The CBRT kept the policy rate on hold at 50%, in line with our expectation and market consensus. The CBRT noted that monthly inflation will rise temporarily in July due to one off factors, but underlying inflation is expected to be limited in July. The central bank reiterated that it remains highly attentive to inflation risks. It also emphasized that recent indicators confirm that domestic demand continues to slow down, albeit still at inflationary levels. We maintain our end-2024 policy rate forecast of 45% as we expect the CBRT to cut its policy rate by 250bp each in November and December, but risks are for no rate cuts this year.

We expect headline inflation to pick up to 3.5% m/m in July, up from 1.6% in June due to temporary effects. The CBRT acknowledged the temporary uptick in monthly inflation in July driven by the electricity price hike, automatic tax adjustments on motor fuel, alcohol, tobacco as well as supply-side factors in unprocessed food prices. We estimate that the electricity price hike of 38% and automatic tax adjustments will add 1.5%-pt into July inflation. When it comes to supply-side factors in unprocessed food, we believe that the CBRT refers to the impact of drought on fresh fruit and vegetable prices this month.

Despite a monthly inflation uptick in July, CPI is expected to fall towards 62.2% oya in July, from 71.6% in June on the back of strong favorable base effects. We expect a natural gas price hike of 38% next month, which will add 1%-pt into August inflation. CPI is likely to fall towards 52.3% oya in August, from 62.2% oya in July on the back of strong favorable base effects. We maintain our end 2024 inflation forecast at 42.5% as the fiscal policy is likely to be more supportive of disinflation through reduced government spending, direct tax measures, and no minimum wage hike in 2H24 (Figure 3).

Figure 3: Türkiye CPI forecast



Source: J.P. Morgan, TurkStat

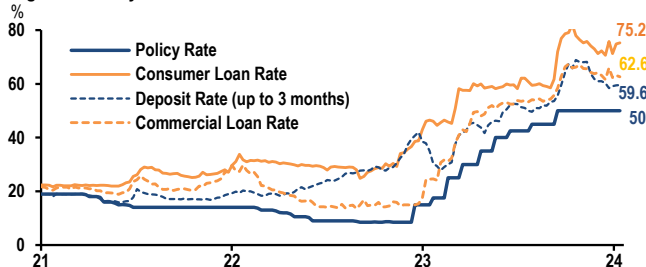
The CBRT is set to sell FX and gold as part of sterilization of excess lira liquidity via FX and gold swap auctions. The average deposit rate up to 3 months increased to 59.6% as of 12 July, from 58.4% on 21 June (Figure 4). As lira credit conditions remained tight for both corporates and consumers, the Turkish lira credit growth remained subdued in July. More importantly, the CBRT lowered the monthly FX loan growth cap from 2% to 1.5% last weekend. We expect total credit growth to be supportive of a slowdown in domestic demand, and hence current account and disinflation in 2H24. To mop up excess lira liquidity in the banking system, the CBRT is set to hold FX and gold swap auctions to sell FX & gold and buy Turkish lira. We find it supportive for the lira as it will keep interbank lira rates and deposit rates elevated. This was needed to see the continuation of de-dollarization among Turkish residents and KKM unwinds going forward.

The FX-protected lira deposit accounts (KKM) unwinding will likely accelerate in coming weeks. FX-protected lira deposit accounts (KKM) declined from their peak of \$127.6bn, or 26% of total deposits, in August 2023 to \$59.4bn, or 11.7% of total deposits, as of 12 July 2024. The CBRT lowered the maximum interest rate for KKM accounts from 40% to 35% last week. More importantly, Finance Ministry is planning to remove tax incentives on KKM for corporates and individuals at the end of this month. Thus, we expect an acceleration of the KKM unwinds in coming weeks.

The CBRT's FX reserves continued to rise in July, and the CBRT eliminated its FX swaps with domestic banks. The CBRT's net FX position (i.e. net foreign assets excluding FX swaps) improved by unprecedented \$89bn since end-March to \$14.8bn as of 22 July. This was mainly driven by sharp reverse currency substitution among Turkish residents and to a lesser extent foreign inflows (\$25bn inflows into offshore FX swaps, \$10.5bn into local government bonds despite an outflow of \$1.4bn from equities) between 29 March and 12 July. The CBRT reduced its FX swap with domestic banks from \$58.5bn on 1 April 2024 to only \$0.1bn as of 22 July. We see this as positive as it will strengthen the monetary

transmission going forward. The CBRT's gross FX reserves reached all time high of \$153.8bn as of 12 July. The CBRT's FX reserves are likely to increase further in the coming months thanks to ongoing foreign portfolio inflows and current account surpluses despite the expected acceleration in KKM unwinds.

Figure 4: Türkiye credit conditions



Source: J.P. Morgan, CBRT

Russia: Hawks on the wing, again

The CBR delivered on market expectations and hiked the policy rate a large 200bp to 18.0% (JPMe 17.0%). Yet, the CBR's guidance was more hawkish than anticipated. Their near-term outlook now assumes elevated odds of another hike in coming months, with the CBR's macro forecasts putting the policy rate at 18.0-20.0% by year-end. In addition, the average level of policy rate expected by the CBR in the medium-term was raised by 4%-pt, to 14-16% in 2025 and 10-11% in 2026. To cement longer-term rate expectations at higher levels, the CBR's estimate of neutral real rate (R^*) was raised to ~4% from ~2.5% previously – increased call on local savings, higher risk premia, relaxed fiscal policy and higher global R^* all contributed to the revision.

The logic behind policy tightening has been well flagged in recent weeks. The economy is overheated and there are limited signs of cooling yet, despite prior policy tightening. Indeed the CBR raised its 2024 GDP forecast by 1%-pt to 3.5-4.0% (JPMe 3.5%). The tight labor market is putting pressure on wages, hence inflation. Credit growth has been running well above CBR expectations. Inflation momentum increased in 2Q; the CBR raised its end-24 inflation forecast by more than 2%-pts to 6.5-7.0% oya (JPMe 6.5%).

All in, upside growth and inflation surprises and disappointment about economy's lack of reaction to previous policy tightening led to a realization that policy should be tightened further. That the CBR would act was clear already a few weeks ago; the only uncertainty was the scale of the hike. A large hike coupled hawkish guidance should help a more efficient transmission into the longer-end rates and, hopefully, a more meaningful impact on economic dynamics in coming months.

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We now expect the CBR to keep the policy rate at 18% through year-end and commence a cutting cycle from early 2025. We revised our end-25 rate forecast up to 12.0% from 11.0% previously, yet our rate trajectory corresponds to the low end of CBR's expected range (as do our growth and inflation forecasts). Our suspicion is also that the recent tightening might prove somewhat excessive – it may well be that the lack of apparent impact of previous hikes on the economy in 1H24 was due to increased transmission lags, effects of subsidized lending programs and aftershocks of fiscal expansion of 2022-23. Risks to our 2025 growth forecast (1.2%) may therefore be skewed somewhat to the downside.

Data releases and forecasts

Week of July 29 - August 2

Czech Republic:

Tue	Real GDP, preliminary				
Jul 30	%oya unless otherwise stated				
9:00am		3Q23	4Q23	1Q24	2Q24
	Real GDP, nsa	-0.4	0.0	0.3	<u>0.5</u>
	%q/q saar	-1.5	1.1	0.9	<u>2.0</u>
Thu	PMI				
Aug 1	Index				
9:00am		Apr	May	Jun	Jul
	PMI, Manufacturing	44.7	46.1	45.3	<u>45.2</u>
Thu	CNB rate decision				
Aug 1	25bps cut to 4.50%				

After a sequence of 50bp cuts wrapped in increasingly hawkish rhetoric, the CNB sent a quite forceful signal that in coming meetings the pace of easing was likely to slow, to 25bps or in the extreme, even a pause could be considered (though we consider this to be highly unlikely at this stage). Since then, a very benign CPI print meant the door for a 50bp move is still slightly open, but public remarks by CNB board members suggest a 25bp cut is more likely. We expect the CNB to slow the easing pace to 25bp/meeting from August, reaching the end of 2024 at 4%.

Source: CNB, Local sources, J.P. Morgan Forecasts

Hungary:

Tue	Real GDP, preliminary				
Jul 30	%oya, unless otherwise stated				
9:00am		3Q23	4Q23	1Q24	2Q24
	Real GDP	-0.4	0.0	1.1	<u>2.0</u>
	%q/q saar	3.6	0.1	3.1	<u>1.25</u>

Thu	External trade, final				
Aug 1	EUR mn				
9:00am		Mar	Apr	May	Jun
	Trade balance	1570	1750	1146	—
	Ytd	3843	5592	6738	—
	Ytd a year ago	1120	1496	2715	—
	Exports, %oya	-14.0	9.2	-8.8	—
	Imports, %oya	-19.3	-2.9	-9.0	—

Source: NBH, Local sources, J.P. Morgan Forecasts

Israel:

Tue	State of the economy indicator				
Jan 23	%m/m, sa				
		Mar	Apr	May	Jun
	Composite index	0.2	-0.1	0.0	<u>0.2</u>

Source: BoI, Local sources, J.P. Morgan Forecasts

Poland:

Wed	Consumer prices, preliminary				
Jul 31	%oya, unless otherwise stated				
2:00pm		Apr	May	Jun	Jul
	All items	2.4	2.5	2.6	<u>4.3</u>
	%m/m, nsa	1.1	0.1	0.1	<u>1.4</u>
Thu	PMI				
Aug 1	Index				
9:00am		Apr	May	Jun	Jul
	PMI, Manufacturing	45.9	45.0	45.0	<u>45.0</u>

Source: NBP, Local sources, J.P. Morgan Forecasts

Russia:

Wed	Real economy indicators				
Jul 31	Real terms, %oya				
7:00pm		Mar	Apr	May	Jun
	Construction	1.9	4.5	7.0	<u>4.5</u>
	Agriculture	2.5	1.4	1.0	<u>2.0</u>
	Transportation	0.0	-1.8	-0.2	<u>0.1</u>
	Retail sales	10.8	8.2	7.5	<u>6.8</u>
	Unemployment, %nsa	2.7	2.6	2.6	<u>2.7</u>
	Industrial output	4.0	3.9	5.3	<u>1.9</u>

Thu	PMI surveys				
Aug 1					
9:00am		Apr	May	Jun	Jul
	PMI, Manufacturing	54.3	54.4	54.9	<u>54.0</u>
	PMI, Services	50.5	49.8	47.6	<u>48.5</u>

Source: CBR, Local sources, J.P. Morgan Forecasts

Türkiye:

Wed	Foreign trade				
Jul 31	US\$ bn, except as noted				
10:00am		Apr	May	Jun	Jul
	Trade balance	-9.9	-6.5	-6.4	—
	Exports	19.2	24.1	18.6	—
	%oya	-0.1	11.3	-10.6	—
	Imports	29.1	30.6	25.0	—
	%oya	4.1	-10.4	-4.1	—

Source: CBRT, Local sources, J.P. Morgan Forecasts

Review of past week's data

Hungary:

NBH rate decision
25bps cut to 6.75%

Average gross wages
%oya

	Mar	Apr	May	
Gross wages, nominal	13.9	13.5	—	14.8
Industry	12.2	10.6	—	14.8
Public sector	17.4	19.7	—	18.5

Source: NBH, Local sources, J.P. Morgan

Poland:

Retail sales
%oya, unless otherwise stated

	Apr	May	Jun	
Retail sales (nominal)	4.3	5.4	—	4.7
Real, CPI-adjusted	4.1	5.0	—	4.4
%m/m, sa	-0.3	-3.5	-0.4	3.3
				1.5

Industrial output
%oya

	Apr	May	Jun	
Industrial output	3.9	5.3	—	1.9
Mining	-1.7	-0.3	—	-3.1
Manufacturing	8.3	9.1	—	4.6
Electricity, gas, steam	-0.8	4.2	—	4.1

Source: NBP, Local sources, J.P. Morgan

Russia:

CBR rate decision
200 bps hike to 18.00%

Industrial output
%oya

	Apr	May	Jun	
Industrial output	3.9	5.3	2.5	1.9
Mining	-1.7	-0.3	—	-3.1
Manufacturing	8.3	9.1	—	4.6
Electricity, gas, steam	-0.8	4.2	—	4.1

Source: CBR, Local sources, J.P. Morgan

Türkiye:

CBRT rate decision
%

	May	Jun	Jul
CBRT 1-week repo rate	50.00	50.00	50.00

Capacity utilization
%

	May	Jun	Jul	
Total manufacturing	76.3	76.3	—	75.9
Durables	74.3	75.0	—	72.9
Nondurable	73.5	73.6	—	72.7

Source: CBRT, Local sources, J.P. Morgan

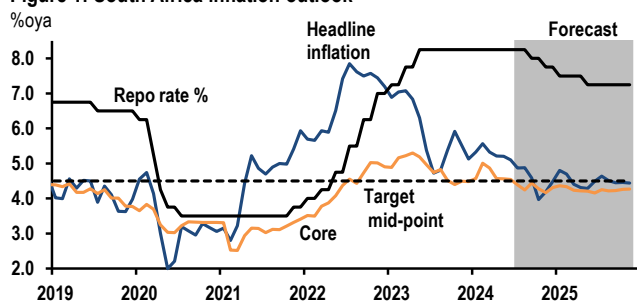
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South Africa

- **June inflation eases to 5.1% with core inflation surprising to the downside**
- **Housing costs and domestic workers' wages remain well-contained**
- **This clears one of the hurdles for a September cut**

June headline and core inflation slowed one-tenth to 5.1%oya and 4.5%, respectively (Figure 1). Core inflation marginally undershot consensus expectations on subdued housing costs, which are only surveyed once a quarter. OER inflation dropped to 2.8%oya in June (from 3.3% in May) against market expectations of a continued drift higher. Other components of core inflation were similarly benign: vehicle inflation eased further to 5.1%oya (from 5.4% in May) as used vehicle prices declined 0.1% m/m nsa and new vehicles prices were flat on the month. Domestic workers' wages rose, which are surveyed quarterly, only moderately ticked higher to 3.9%oya in June, remaining well below headline inflation and reflecting lacklustre wage growth of the broader economy.

Figure 1: South Africa inflation outlook



As expected, non-core inflation was soft and is expected to ease further in coming months. Helped by a sizeable petrol price cut, private transport inflation declined to 7.3%oya in June (from 8.7%oya in May) and probably should fall to 4.9% in July and outright deflation of 5.7% in October. At the same time, food prices gained just 0.3% last month to be up 4.1%oya (from 4.3% in May). We expect a marginal further decline in food inflation in 2H24, before drifting higher next year.

Our expectations are for a first interest rate cut in September to 8% with a total easing cycle of 100bps, yet this remains conditional on FX. To be sure, the near-term inflation outlook continues to improve incrementally. At its recent MPC meeting, the SARB highlighted several upside risks to the outlook, including services inflation and FX. We think the June inflation report goes some way towards addressing the first of these concerns. That said, the currency remains a continued

risk; we think provided that the rand does not depreciate materially in coming weeks (i.e. up to USD/ZAR 18.50/18.75), the MPC's inflation risk assessments likely shifts back to balanced (from the current upside risk view), enabling a 25bp repo rate cut in September.

Data releases and forecasts

Week of July 29 - Aug 2

Mon Jul 29 8:00am	Monetary and credit aggregates %oya, except as noted				
		Mar	Apr	May	Jun
	M3	6.8	5.7	4.7	—
	M0	2.6	2.9	-0.8	—
	Private sector credit	4.8	3.6	4.2	—
	%m/m nsa	2.0	-1.3	0.5	—
	Credit to households	3.7	3.4	3.4	—
	Total domestic credit	6.0	6.5	7.6	—
Wed Jul 31 2:00pm	Trade balance R bn, except as noted				
		Mar	Apr	May	Jun
	Trade balance	8.9	9.7	20.1	—
	Exports	162.1	168.8	178.4	—
	%m/m	1.3	4.1	5.7	—
	Imports	153.2	159.1	158.3	—
	%m/m	5.1	3.9	-0.5	—
Thu Aug 1 11:00am	Barclays BER PMI Index				
		Apr	May	Jun	Jul
	PMI (% weights)	54.0	43.8	45.7	—
	Business activity (25)	57.2	38.1	36.3	—
	New sales orders (30)	55.6	37.8	37.9	—
	Suppliers' performance (15)	57.4	55.4	56.1	—
	Inventories (10)	50.7	44.5	51.9	—
	Employment (20)	49.4	43.5	46.3	—
	Memo: prices paid	72.4	66.9	64.5	—
	Business expectations	55.7	57.6	68.1	—
	PMI nsa	49.1	44.8	43.2	—

Review of past weeks' data

Consumer prices

%oya, except as noted

	Apr	May	Jun
CPI	5.2	5.2	5.1
%m/m, sa	0.3	0.2	0.1
Core	4.6	4.5	4.5

Source: Statssa, SARB, Haver Analytics, J.P. Morgan

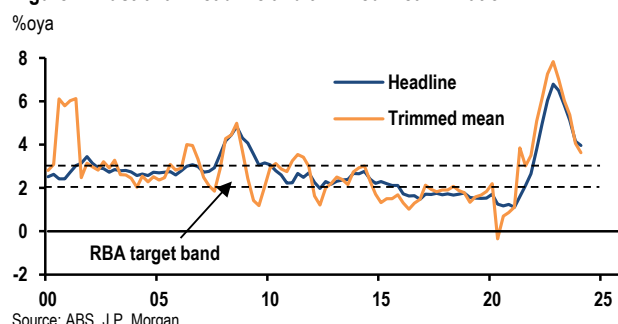
Australia and New Zealand

- We expect Australian headline CPI increased 1%q/q nsa in 2Q24, lifting the annual rate to 3.8%oya
- Trimmed mean inflation is forecast at 0.9%q/q sa, an outcome sufficient to keep the RBA on hold in August
- Retail volumes likely contracted 0.4%q/q sa in 2Q, while the suite of housing indicators remain soft
- We anticipate Australia's terms of trade declined 5.5%q/q sa in 2Q24

It was a quiet week for data in the Antipodeans, with no material prints to change our thinking on the macro-economic outlook. The Judo Bank PMI delivered mixed results with the manufacturing survey ticking slightly higher, while the services PMI slipped 0.4-pts to 50.8. The Australian PMI data have only a weak relationship with underlying activity and official real GDP growth, but in general we agree with the trajectory of the PMI series which is starting to show signs of stabilization following a period of steady deterioration.

The data flow picks up in the coming week, headlined by the all important 2Q CPI print. We look for headline inflation to increase 1%q/q nsa, an outcome consistent with the RBA's standing forecast and enough to see the annual rate climb two-tenths to 3.8%oya, remaining above the central bank's target band (Figure 1). We expect relatively broad-based inflation pressures across the basket with housing, food, insurance and alcohol/tobacco prices to increase commensurate with the headline print. Based on the tracking data, we forecast clothing/apparel inflation to outperform, while at the other end of the spectrum communication prices were likely soft. The breadth of the inflation impulse means our forecast for trimmed mean is only slightly lower than the headline print at 0.9%q/q sa, which on rounding would see the annual rate hold at 4%oya.

Figure 1: Australian headline and trimmed mean inflation

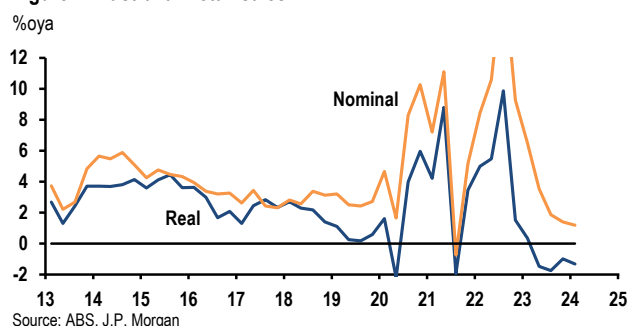


On the activity side, the upcoming housing data will be mixed but in general maintain the soft tone from earlier in the year. Building approvals are expected to climb 1%q/q sa, a decent

outcome considering the prior month's 5.5%q/q sa gain, but less impressive when viewed in per capita terms, with approvals scaled for population growth still tracking very close to multi-decade lows. New housing loan commitments are expected to flatline in June, with the uptick in private sector credit (J.P. Morgan forecast: 0.4%q/q sa) mostly a function of business credit growth.

Finally, June's retail report will provide a timely update on the health of the household sector. Spending growth surpassed expectations in May, with the stats bureau noting that earlier than normal discounting spurred sales growth. We expect this activity dragged forward spending normally reserved for June and therefore anticipate a degree of moderation in sales growth. Deflating the monthly retail prints by the relevant parts of the CPI basket implies another negative quarter for retail volumes (-0.4%q/q), an ominous sign for household consumption which remains soft in both aggregate and per capita terms.

Figure 2: Australian retail sales



Australia

Data releases and forecasts

Week of July 29 - Aug 2

Tue	Building approvals	Mar	Apr	May	Jun
Jul 30					
11:30am	%m/m, sa	0.7	1.9	5.5	<u>1.0</u>

We think Australian building approvals rose 1%q/q in June. Dwelling approvals rose at a brisk 5%q/q pace in May, but we think part of this reflects a post-COVID seasonal dynamic. Approvals have risen steadily after falling sharply in January, but are still below the 4Q23 average. Our bias remains that approvals should increase further from here, given demand supply imbalances in the housing market.

Wed	Private sector credit	Mar	Apr	May	Jun
Jul 31					
11:30am	%m/m, sa	0.5	0.5	0.4	<u>0.4</u>

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We expect Australian private sector credit to increase 0.4%/m in June, in line with May's rise. Housing credit growth has remained extremely stable in recent months, and the new loan commitment data are consistent with another 0.4%/m gain. Business credit growth has been stronger over 1H24, although stepped down in May, and we anticipate a similar rise this month as last.

Wed	Headline CPI				
Jul 31		23Q3	23Q4	24Q1	24Q2
8:45am	%q/q, nsa	1.2	0.6	1.0	<u>1.0</u>

Wed	Trimmed mean				
Jul 31		23Q3	23Q4	24Q1	24Q2
11:30am	%q/q, sa	1.2	0.8	1.0	<u>0.9</u>

We expect headline inflation increased 1%/q in the June quarter, an outcome consistent with the annual rate ticking modestly higher to 3.8%oya. Housing-related inflation, the largest subgroup which accounts for approximately one-quarter of the total CPI basket, is forecast to increase 1.1%/q with rents and home purchase/maintenance costs still running meaningfully above the pre-2020 average. Government rebates continue to lower household out-of-pocket electricity costs, though the impulse is likely to be lower than earlier in the financial year given subsidy allocations have been progressively used up by eligible households. Food and alcohol prices are up 1.2%/q and 1.4%/q, respectively, while the tracking data suggest clothing and footwear inflation increased closer to 3%/q. With respect to core inflation, we expect trimmed mean rose 0.9%/q, which if realized would see the annual rate climb to 4.0%oya.

Wed	Retail sales				
Jul 31		Mar	Apr	May	Jun
11:30am	%m/m, sa	-0.4	0.1	0.6	<u>0.2</u>

Wed	Retail volumes				
Jul 31		23Q3	23Q4	24Q1	24Q2
11:30am	%q/q, sa	-0.2	0.4	-0.4	<u>-0.4</u>

Last month's retail sales data printed ahead of market expectations (Actual: 0.6%/m; consensus forecast: 0.3%/m) with sales buoyed by earlier than normal end of financial year promotions and sales events. It's not clear the extent to which this activity will cannibalize sales turnover for June, but in general we view last month's pace of spending as unsustainable given current income/saving dynamics and forecast a moderation toward 0.2%/m in the coming week's print.

Thu	Terms of trade				
Aug 1		23Q3	23Q4	24Q1	24Q2
11:30am	%q/q, sa	-5.7	1.2	0.0	<u>-5.6</u>

We forecast Australia's terms of trade declined 5.6%/q in 2Q24. The fall mainly reflects weakness in export prices (-5.3%/q). The tracking data imply that declines in the price of non-rural commodities should impart a significant drag on export prices, with modest downside also coming from rural and metals export prices. We expect import prices modestly declined over the quarter (-0.5%/q), on the back of the appreciation of AUD/USD and weaker commodity prices.

Thu	Trade balance				
Aug 1		Mar	Apr	May	Jun
11:30am	A\$bn, sa	4.3	6.0	5.8	<u>5.5</u>

Australia's trade balance on goods fell A\$0.25bn in May to A\$5.75bn, mostly on a rise in fuel imports. We expect a decline of the same magnitude in June, putting the balance at A\$5.5bn. The RBA's commodity price index declined again over June, which should drag on exports.

Fri	Housing finance				
Aug 2		Mar	Apr	May	Jun
11:30am	%m/m, sa	3.9	4.8	-1.7	<u>0.0</u>

We anticipate the value of Australian new housing loan commitments remained flat through June. Growth in new loan commitments was strong through 1Q24, although declined in May. In our view, last month's declines are in keeping with broader softening in the housing market data (e.g., auction clearance rates and sales turnover) and we expect new loan commitment to step down relative to the heady pace at the start of the year.

Review of past week's data

No data releases of note.

New Zealand

Data releases and forecasts

Week of July 29 - Aug 2

No data releases of note.

Review of past week's data

No data releases of note.

Sources: ABS, Stats NZ, J.P. Morgan forecast

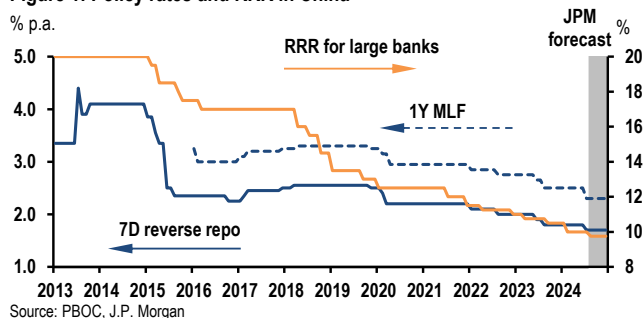
Greater China

- **China: the PBOC cut 7-day reverse repo rate by 10bps on Monday, and cut the MLF rate by 20bps on Thursday**
- **Further takeaways from the Decision of the 3rd Plenum**
- **Hong Kong: June CPI ticked up to 1.5%o/y; exports below expectations; revising down 2024 GDP forecast to 2.8%/y**
- **Taiwan: June export orders disappointed after recent strength; still expect constructive 2H outlook**
- **Industrial activities moderated after the recent bounce; domestic demand on steady growth trend**

The PBOC announced a 10bp cut in the 7-day reverse repo rate (from 1.8% to 1.7%) on July 22nd (Figure 1). 1y and 5y loan prime rates, and SLF rates were also cut by 10bp. The PBOC's rate cut is unexpected, though not a surprise. We had expected a 10bp rate cut in the current quarter, but the announcement came in slightly earlier than we thought. On July 25th the PBOC lowered the 1-year rate on medium-term lending facility (MLF) by 20bps to 2.3% and provided 200 billion yuan via MLF operation, in an unexpected move.

Meanwhile, following the LPR cuts, major SOE banks in China announced deposit rate cuts today, with a 10bp cut for 3-month, 6-month and 1-year time deposits, and a 20bp cut for time deposits of 2-year, 3-year and 5-year duration.

Figure 1: Policy rates and RRR in China



The rate cut decision is a counter-cyclical policy action in response to latest development in the Chinese economy: 2Q GDP growth came in weaker than expected and the growth momentum slowed. Meanwhile, the more important catalyst that triggered the earlier-than-expected rate cut comes from the external front: benign inflation readings in the US in recent months improved the clarity of the Fed rate outlook, which led to lower UST yields and mitigated CNY depreciation pressure as USD started to soften.

The timing of the MLF rate cut is unusual - it is the second MLF operation this month (following the regularly scheduled operation on 15 July), compared to the central bank's normal practice of conducting MLF operation once a month. Regarding policy signals from the central bank, PBOC governor Pan recently stated in a speech that China's monetary policy will shift from quantitative measures to price-based measures, and the interest rate policy will shift the focus to the 7-day reverse repo rate as the only key policy rate. Thus, there are general expectations that the role of the MLF rate as a key policy rate will be gradually phased out going forward. Besides, one possible reason for the 20bp MLF rate cut could be the intention to fix the yield curve and to bring 1Y MLF at par with 10Y CGB yield (at 2.26%).

Going forward, we still expect the PBOC will maintain a small-step and cautious approach in its interest rate policy. We expect the PBOC will also cut the RRR (by 25bp) in the following months. Nonetheless, we doubt credit growth will pick up meaningfully in the near term. Our forecasts of year-end TSF growth and loan growth have been revised down to 8.1% and 8.4% recently.

The Decision of the 3rd Plenum

The 3rd Plenum of the 20th CPC Party Congress was held on July 15-18, during which the Decision on Further Comprehensively Deepening Reform and Promoting Chinese-style Modernization (referred to as the 'Decision' hereafter) was approved. The Decision fills the missing details in the Communiqué and provides a comprehensive reform agenda for the next five years.

Building a high-level socialist market economy remains the first priority in reform agenda. The Decision reiterates that the "market plays a decisive role in resource allocation", and also mentions the "need to better maintain orders in the market and remedy market failures". This nuance change seems to shift the balance from lifting of restrictions on the market to maintaining a balance with effective regulation, as we have observed in recent years. The discussion on SOEs and non-SOEs is overall encouraging. A new element is "to formulate a private sector promotion law", "remove barriers to market access, work to see that the competitive areas of infrastructure are open to market entities in a fair manner, and improve the long-term mechanism by which private enterprises participate in major national projects". These policy initiatives, if they can be implemented in policy actions, can help restore confidence among the private sector.

Promoting innovation (new-quality productive forces) stands out as the most important new development compared to 2013. The Decision provides an extensive list of sectors, e.g., next-generation information technology, artificial intelli-

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gence, aviation and aerospace, new energy, new materials, high-end equipment, biomedicine and quantum technology. There is detailed guidance to promote full integration between the real economy and the digital economy.

Equitable or inclusive development is another important new development. The Decision reiterates the importance of integrated urban and rural development in China's modernization. On new urbanization, the Decision states provision of basic public services based on place of permanent residence rather than place of *hukou* registration, and people who have moved to cities from rural areas will enjoy the same rights as registered local citizens with regard to social insurance, housing support, and access to compulsory education of their children. A key element is rural land reform. Rural households will be allowed to put houses in their legal ownership to good use by leasing them out, contributing them in the form of shares, and engaging in cooperative ventures. Equitable development also involves improvement of the social welfare system. The Decision states the aim "to increase the share of personal income in the distribution of national income", to improve income distribution via reforms in primary distribution, re-distribution and third-distribution or compensation system reform in the SOE sector.

Security includes both safe China and national security. It is worth pointing out that "Security" here is not narrowly linked to national security or self-sufficiency in technology (including China's mechanisms for countering foreign sanctions, interference and long-arm jurisdiction); it has a broader meaning of "safe China", such as community-level governance, the response system for major public emergencies, the capacity for disaster prevention, mitigation and relief, the mechanisms for identifying and addressing workplace safety risks, food and drug safety, as well as cyber-security and the safety system under AI.

Fiscal policy reform. Amid growing concerns about local government fiscal constraints and the LGFV debt problem, the Decision stresses deepening of fiscal reform. It highlights the establishment of a fiscal structure under which revenues and expenditures of central and local governments are clearly defined and better-aligned.

In our view, re-aligning the expenditure and revenue structure between the central and local governments is the right move to alleviate the imbalance between the central and local governments spending responsibility and income shares. Shifting the consumption tax collection towards the consumption end, with a growing share going to local governments, could incentivize local governments to focus on consumer spending. However, fiscal reform may be associated with an increase in fiscal revenue, i.e. higher fiscal burden for the

economy, which may hinder economic recovery. In addition, the Decision lacks details of stricter discipline of fiscal expenditure, including prevention of new increases in local government hidden debt.

In the near term, it will be worth watching whether the expanded scope of use, or relaxation of criteria, for special local government funds can be implemented soon, and whether the government will roll out new measures to mitigate fiscal difficulties of local governments, or shift the direction of fiscal support from investment to consumption.

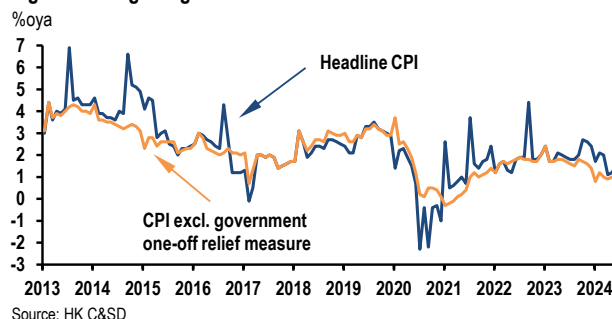
New housing system. Discussion of housing policy in the Decision is limited, and appears mainly in the section on social welfare. The Decision stresses speeding up the establishment of a housing system that supports both rentals and purchases, with a new model for real estate development.

In our view, growth of China's public and rental housing market is critical to address the housing market problems in the medium term. Replacement home demand for new urban residents provides significant room for the development of the public and rental housing market going forward. This could partially offset the structural decline in commodity housing. Development of public housing is an indirect form of government transfer to the household sector, an effective way to encourage consumption by beneficiary households and boost domestic demand, so as to mitigate the demand supply imbalance and deflation pressure in the economy.

Hong Kong: June CPI inflation ticked up

Hong Kong SAR's headline CPI inflation came in above expectations at 1.5%oya in June, compared to +1.2%oya in May (Figure 2). Seasonally adjusted, we estimate that headline CPI rose 0.4%m/m sa in June (vs +0.2%m/m sa in May). In the breakdown, food prices rose modestly compared with the previous month, while housing (rental) prices remained flat. We estimate that core CPI grew 1.3%oya in June, remaining flat in m/m sa terms.

Figure 2: Hong Kong headline CPI



More than 45% of Hong Kong's merchandise imports are from Mainland China. China's CPI inflation remained soft in June, as headline CPI rose 0.2%o/a (or 0.0%/m/m sa). Further breakdown shows a moderate sequential uptick in food prices and modest easing in energy prices. Domestically, housing prices' contribution (rental) to year-on-year CPI inflation seems to have cooled since April, as compared with the previous six months. The imbalance in cross-border travel activities worsened in June vs May, and continued in the first 21 days of July, weighing on HK's domestic demand. Overall, we think inflation should stay moderate in the near term.

June exports below expectations

Hong Kong's June merchandise exports came in below expectations, rising 10.7%o/a to HK\$373.5bn, following 14.8%o/a growth in May (Figure 3). Seasonally adjusted, we estimate that the city's exports fell 1.3%/m/m sa in June, after rising 0.1%/m/m sa in May. Meanwhile, imports rose 9.0%o/a to HK\$429.2bn. Seasonally adjusted, we estimate the city's imports rose 1.5%/m/m sa in June, following the 1.4%/m/m sa gain in May. Monthly merchandise trade activities realized a deficit of HK\$55.7bn. For 2Q24 as a whole, merchandised exports rose 12.5%o/a (or +13.8%/q/q saar by our estimate), while imports rose 7.4%o/a (or -1.2%/q/q saar).

Figure 3: Hong Kong merchandise trade



HK's FX reserves edged down \$0.9bn in June, staying at an abundant level. Hong Kong's FX reserves have fallen from the peak level of US\$449bn in November 2021. The official FX reserves of HK were recorded at US\$416.3bn in June down from US\$417.2bn in May. The city's FX reserves equaled 8.1 months of imports as of June 2024, ~39.2% of M2 money supply as of May 2024, and ~137% of short-term external debt as of 4Q23, remaining abundant according to the IMF's guidelines for reserve adequacy.

Revising down our GDP forecast

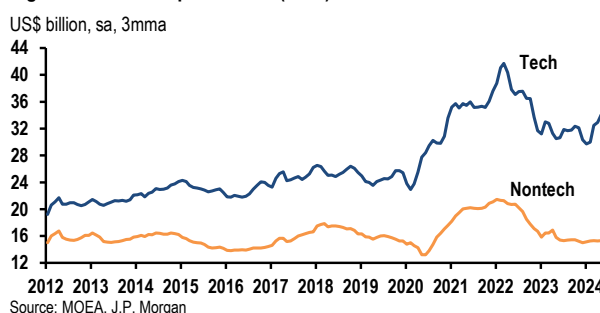
Recent economic indicators signaled weakness in the Hong Kong economy. Total economy PMI has been falling since March, and remained below 50 in May and June, suggesting weakening trend in economic activities. Meanwhile, housing

prices (as indicated by the CCL index), which are considered a barometer for HK economic sentiment, have been on the downtrend since April, and have completely wiped out the gains since the announcement of removing all additional stamp duties. Domestic consumption is also weak, as the retail sales volume has been declining in m/m sa terms in the past three months by our estimate. On cross-border activities, the number of inbound visitors from the Mainland fell in 2Q vs. 1Q in both absolute number terms and relative-to-pre-pandemic level terms. Overall, we expect 2Q24 real GDP to remain flat in %q/q saar terms (or +2.7%o/a), and the full-year 2024 forecast now stands at 2.8%/y (previously: 3.2%/y).

Taiwan: June export orders disappointed

Taiwan's June export orders came in below expectations, following the strong growth in earlier months. Seasonally adjusted, we estimate that export orders fell 5.5% m/m sa in June, with the sequential trend growth moderating to 11.9% 3m/3m saar. Tech orders slowed significantly in June, falling 8.2% m/m sa, paying back the solid gain in the previous two months (Figure 4), with slowing orders for electronics products as well information and communication products. Non-tech orders also fell 2.1% m/m sa in June (or growing 4.8% 3m/3m saar). Meanwhile, it is worth noting that machinery orders seem to have picked up in recent months, rising 23.6% 3m/3m saar in June, consistent with constructive outlook on the global capex trend.

Figure 4: Taiwan export orders (level)



Orders by source of demand suggest slowing demand from major markets in June, including orders from the US (-4.9% m/m sa) and Europe (-2.2% m/m sa). Orders from China/HKSAR also eased (-4.5% m/m sa in June), while orders from ASEAN region came off notably (-21.0% m/m sa) from a high base.

Taiwan tech export orders have underperformed actual tech exports since early 2023, reflecting the boost of AI-related tech demand (largely produced in Taiwan manufacturing plants), while a significant share of Taiwan's export orders involves other traditional tech products manufactured off-

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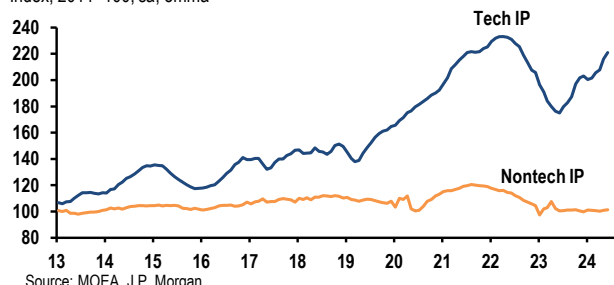
shore. The slowing in Taiwan's June export orders suggests that the outlook for non-AI tech demand may still be rather volatile in the near term.

June industrial activities moderated

Taiwan's June IP report came in line with our expectations, rising 13.2%oya, compared to 15.7%oya in May. Seasonally adjusted, IP fell 3.9% m/m sa in June, following the jump of 6.9% m/m sa in May, with still strong sequential trend growth at 17.2% 3m/3m saar. Tech-related IP fell 4.4% m/m sa in June, following the jump of 10.8% m/m sa in May (or growing 33.8% 3m/3m saar, Figure 5). Non-tech IP fell 3.3% m/m sa (or growing 3.0% 3m/3m saar). Following general weakness since early 2022, machinery and equipment manufacturing IP has ticked up lately, rising 24.4% 3m/3m saar in June, consistent with constructive outlook on global capex.

Figure 5: Taiwan tech and nontech manufacturing IP (level)

Index, 2011=100, sa, 3mma



Regarding the inventory cycle, following aggressive inventory de-stocking by Taiwan tech manufacturers last year, manufacturing (tech) inventory started to trend up since 4Q23, with the inventory-to-shipment ratio stabilizing around the level last seen in mid-2022. Consistent upward momentum in the external sector seems to be feeding to the domestic front. Regarding the labor market, total employment shows steady growth at 1.6% 3m/3m saar in June. On another constructive note, retail sales rose 2.2% m/m sa (with notable sequential growth at 12.9% 3m/3m saar).

China

Data releases and forecasts

Week of July 29 - August 2

Wed Jul 31 9:30am	Purchasing managers index Index	Apr	May	Jun	Jul
	Overall (Caixin)	51.4	51.7	51.8	<u>51.7</u>
	Output	53.1	54.3	54.6	
	Overall (NBS)	50.4	49.5	49.5	<u>49.4</u>
	Output	52.9	50.8	50.6	

Review of past week's data

Loan prime rates (22 Jul)

%	May	Jun	Jul	
1-year LPR	3.45	3.45	<u>3.45</u>	3.35
5-year LPR	3.95	3.95	<u>3.95</u>	3.85

Policy rate (25 Jul)

%	May	Jun	Jul	
1-year MLF rate	2.5	2.5	<u>2.5</u>	2.3

Hong Kong

Data releases and forecasts

Week of July 29 - August 2

Wed Jul 31 4:30pm	Real GDP % change	23Q3	23Q4	24Q1	24Q2
	%oya	4.2	4.3	2.7	<u>2.7</u>
	%q/q saar	0.8	0.8	9.5	<u>0.0</u>
Thu Aug 1 4:30pm	Retail sales volume % change	Mar	Apr	May	Jun
	%oya	-8.7	-16.5	-12.9	<u>-13.6</u>
	%m/m sa	-3.8	-4.1	-1.4	<u>-0.5</u>

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Global Economic Research
Greater China
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J.P.Morgan

Review of past week's data

Consumer prices (22 Jul)

% change	Apr	May	Jun	
%oya	1.1	1.2	<u>1.1</u>	1.5
%m/m sa	-0.4	0.2	<u>0.1</u>	0.4

Merchandise trade (25 Jul)

HK\$ bn	Apr	May	Jun	
Balance	-10.2	-12.1	<u>-32.8</u>	-55.7
Exports	378.7	375.9	<u>381.5</u>	373.5
%oya	11.9	14.8	<u>13.1</u>	10.7
Imports	388.9	388.1	<u>414.2</u>	429.2
%oya	3.7	9.6	<u>5.2</u>	9.0

Industrial production (23 Jul)

% change	Apr	May	Jun	
%oya	14.5	16.1	<u>13.9</u>	13.2
%m/m sa	1.8	6.9	<u>-3.6</u>	-3.9

Source: NBS, China Customs, Hong Kong Census and Statistics Department, Taiwan Ministry of Economic Affairs, DGBAS, MoF, J.P. Morgan forecasts

The long-form nomenclature for references to China; Hong Kong; and Taiwan within this research material is Mainland China; Hong Kong SAR (China); and Taiwan (China).

Taiwan

Data releases and forecasts

Week of July 29 - August 2

Wed	Real GDP				
Jul 31	% change				
4:00pm		23Q3	23Q4	24Q1	24Q2
	%oya	2.1	4.8	6.6	<u>6.0</u>
	%q/q saar	8.5	10.0	1.1	<u>4.5</u>
Thu	S&P Global Taiwan PMI Mfg				
Aug 1	Index, sa				
8:30am		Apr	May	Jun	Jul
	Overall	50.2	50.9	53.2	<u>52.8</u>
	Output	51.4	52.6	54.9	

Review of past week's data

Export orders (22 Jul)

% change	Apr	May	Jun	
%oya	10.8	7.0	<u>12.3</u>	3.1
%m/m, sa	5.1	1.5	<u>0.2</u>	-5.5

Labor market survey (22 Jul)

%	Apr	May	Jun	
Unemployment rate, sa	3.39	3.35	<u>3.33</u>	3.34
Unemployment rate, nsa	3.36	3.34	<u>3.35</u>	3.39

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Korea

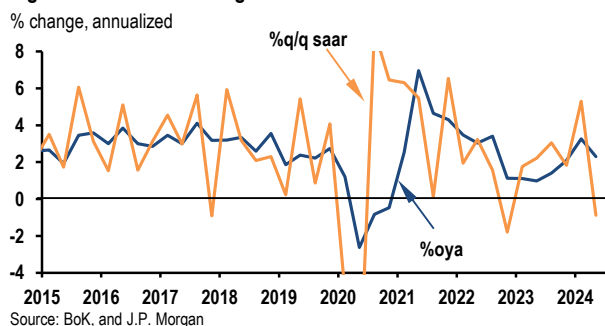
- **Real GDP contracted 0.9%q/q, saar in 2Q**
- **Consumer sentiment improved in July**

Real GDP contracted 0.9%q/q, saar in 2Q2: we expected pay-back after the 1Q gain, but this was sharper than expected. That said, the details suggest that 3Q GDP growth should rebound, and we revised up our 3Q growth forecast to 4.0%q/q, saar (previously 1.8%). The June monthly activity data and the 2Q GDP print suggest sluggish retail sales and services activity, but the trend in IP looks likely to have held up through June. In terms of policy implications, we still expect stronger annual GDP growth (2.7%/y) than the Bank of Korea (2.5%), and the BoK is not likely to materially change forward guidance due to this data point.

Payback in 2Q GDP growth

Real GDP contracted 0.9%q/q, saar in 2Q24 (JPM +0.5% growth), as the payback after strong 1Q growth (+5.3%q/q, saar) was sharper than expected (Figure 1). Both domestic demand and net exports modestly undershot our expectations in 2Q after the strong 1Q. Private consumption contracted 0.9%q/q, saar. According to the BoK, 2Q private consumption was dragged down by goods demand (consistent with sluggish monthly retail sales) while services demand provided only a partial buffer. In our view, upbeat consumer sentiment and trends in household incomes suggest a rebound in 3Q consumption growth.

Figure 1: Korea real GDP growth



On top of the (likely temporary) consumption sluggishness, fixed investment contracted 4.9%q/q, saar in 2Q24, as both business equipment (-8.3%) and construction (-4.2%) investment contracted. The decline mainly reflects the quarterly volatility of the data. The construction investment contraction was milder than our expectation, and business equipment investment growth will likely rebound in 3Q.

For net exports, real goods and service exports rose 3.6%q/q, saar and imports rose 4.7%, and the net exports' contribution

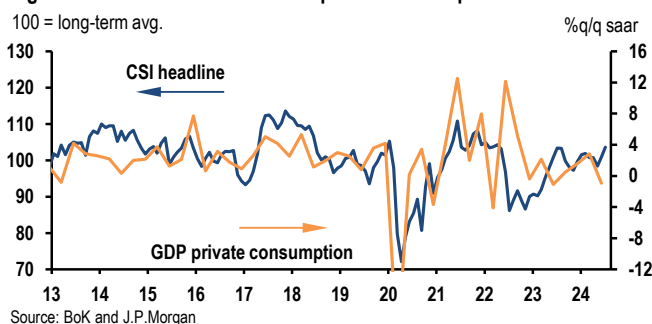
to the overall (non-annualized) GDP growth was -0.1%pt. Real exports growth in the national account data undershot trend exports volume growth by June (11.4%3m/3m, saar), and we believe that the tech sector growth impulse and monthly exports volume growth trend imply that real exports growth will hold up in 3Q.

In all, while 2Q GDP growth was a bit disappointing, a material slowdown in real GDP growth in 2Q was widely expected after 1Q's unsustainable 5.3% growth. Looking ahead, we expect stronger 3Q GDP growth of 4.0%q/q, saar (upgraded by 2.2%pt), and the revised quarterly growth path implies 2.7%/y annual growth for 2024 (vs. BoK 2.5% and JPM's previous expectation of 2.8%). The 2Q real GDP result should not affect the BoK's growth projection materially, and we don't expect a major change in the policy guidance due to this data point.

Upbeat consumer sentiment in July

Consumer sentiment index rose 2.7pt further to 103.6 on top of 2.5pt recovery in June, recording the highest level since April 2022. The CSI improved broadly across the sub-indices to return to the levels in 2Q22 and 3Q23, as the falls in the indices in 4Q23 were temporary. While the sluggish CSI in 2H22-1H23 hinted a slowing of private consumption growth in 4Q22-3Q23, the current CSI level implies a gradual recovery of consumption growth (Figure 2). In the details, consumers' inflation expectation fell amid a sharp fall in interest rate outlook, and the consumer sentiment has improved, likely as consumers see lesser headwind from inflation and interest rates.

Figure 2: Consumer sentiment and private consumption



The gradual moderation in the consumers' assessment on the inflation outlook should be a welcome signal for the BoK and encourage gradual normalization of the tight policy stance. But concerns about financial imbalances are growing. The house price outlook index rose strongly by 14pts from May to reach the highest level since November 2021, suggesting caution on household leverage growth going forward.

Data releases and forecasts

Week of July 29 - August 2

Wed	Industrial production				
Jul 31	% change				
8am		Mar	Apr	May	Jun
	%oya	1.0	6.2	3.5	2.1
	%m/m, sa	-3.1	2.4	-1.2	0.8
Wed	Shipments and inventories				
Jul 31	%oya				
8am		Mar	Apr	May	Jun
	Shipments	-3.1	3.6	0.1	-7.6
	Inventories	-3.5	-7.9	-8.4	-1.9
Wed	Composite leading indicator				
Jul 31	2020=100				
8am		Mar	Apr	May	Jun
	Index	114.3	114.9	115.1	115.6
Wed	Service activity				
Jul 31	% change				
8am		Mar	Apr	May	Jun
	%oya	0.9	2.3	2.3	-0.3
Wed	Consumption goods sales				
Jul 31	% change				
8am		Mar	Apr	May	Jun
	%oya	-3.4	-2.2	-3.1	-5.1
	%m/m, sa	1.1	-0.8	-0.2	-0.5
Thu	Customs trade				
Aug 1	US\$ bn, nsa				
9am		Apr	May	Jun	Jul
	Trade balance	1.5	4.9	8.0	4.3
	Exports	56.2	58.0	57.1	59.9
	Imports	54.7	53.2	49.1	55.6

Thu	Purchasing Managers Index				
Aug 1	Index, sa				
9.30am		Apr	May	Jun	Jul
	PMI - Manufacturing	49.4	51.6	52.0	51.5
Fri	Consumer prices				
Aug 2	% change				
8am		Apr	May	Jun	Jul
	%oya	2.9	2.7	2.4	2.3
	%m/m, nsa	0.1	0.1	-0.2	0.0

Review of past week's data

Producer prices				
% change	Apr	May	Jun	
%oya	1.9	2.3	2.7	2.5
Stage of processing price index				
% change	Apr	May	Jun	
%oya	1.8	2.2	3.5	3.7
Consumer survey				
100=long-term average, nsa	May	Jun	Jul	
Index	98.4	100.9	101.5	103.6
FKI business survey				
100=neutral reading, sa	May	Jun	Jul	
One-month outlook	95.0	96.5	97.0	99.1
Current conditions	92.7	98.5	97.0	94.6

Real GDP 1st estimate

% change

	4Q23	1Q24	2Q24	
%q/q, sa	0.5	1.3	0.4	-0.2
%q/q, saar	1.8	5.3	0.5	-0.9
%oya	2.1	3.3	2.7	2.3

Sources: BoK, Customs Office, Markit, NSO, and J.P. Morgan forecasts

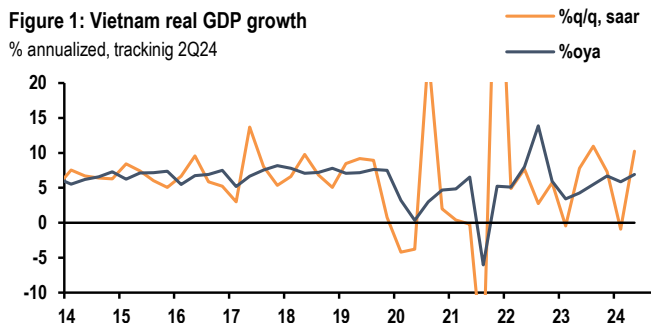
ASEAN

- Vietnam sees solid 2Q24 GDP growth after slight contraction 1Q
- Robust IP growth amid slight pull-back in exports
- Minimum wage hike and public sector's wage increase may pose upside risk to CPI
- SBV responds to dollarization pressures via reserve selling and OMO rate hikes

Vietnam's GDP grew 10.3%/q/q, saar, in 2Q24, broadly aligning with our view that the previous quarter's contraction was temporary and a recovery should follow in 2Q24 (Figure 1). The 2Q expansion was broad-based across external and domestic-oriented sectors. The pick-up in trade is underpinned by tech, consistent with the still resilient DM demand backdrop, although we could see some moderation in 2H24 (Figure 2). 2Q also saw a sharp recovery from the construction (15.8%/q/q, saar) and services (10%/q/q, saar) sectors respectively.

Figure 1: Vietnam real GDP growth

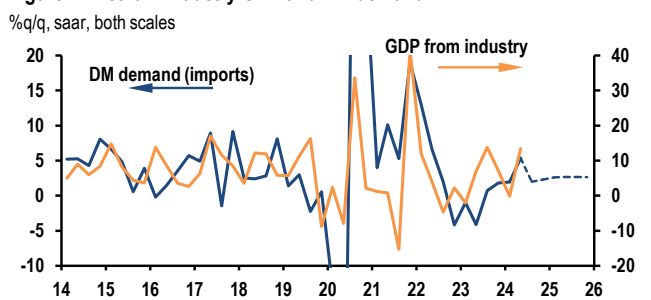
% annualized, tracking 2Q24



Source: GSO and J.P. Morgan

Figure 2: Vietnam Industry GDP and DM demand

%q/q, saar, both scales



Source: GSO, J.P. Morgan forecasts

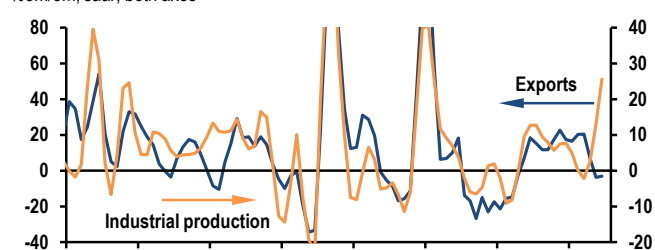
We expect GDP growth to moderate to a trend-like pace (2H24: 6.3%/q/q, saar), bringing full-year growth to 6.0%, with the risks broadly balanced between tailwinds from the tech-driven exports upswing and headwinds from the SBV's recent tightening measures in the interbank market.

Robust IP amid slight dip in exports

IP rose 1.7%/m/m, sa in June (May: 3.6%/m/m, sa). The underlying trend expanded to 25.6%3m/3m, saar (May: 13.0%3m/3m, saar). Customs exports contracted 2.1%/m/m, sa and 3.1%3m/3m, saar, a slight pullback from the robust 15-20%ar pace during 2H23-1Q24 (Figure 3).

Figure 3: Vietnam IP and customs exports

%3m/3m, saar, both axes



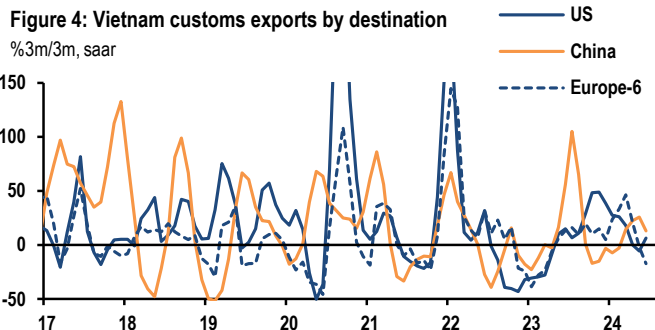
Source: GSO and J.P. Morgan

In the details, non-tech exports declined 1.2%/m/m, sa and the trend worsened from -10.5%3m/3m, saar in May to -16.1%3m/3m, saar in June. Tech exports also showed some deceleration and fell 3.0%/m/m, sa, but with a stronger underlying trend (20.5%3m/3m, saar).

By destination, we continue to see a sharp divergence, where strong shipments to US (6.2%3m/3m, saar in June; Figure 4) contrast with weaker shipments to Asia ex China and Western Europe.

Figure 4: Vietnam customs exports by destination

%3m/3m, saar



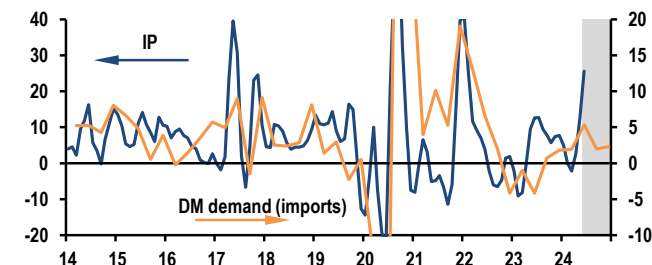
Source: GSO and J.P. Morgan

In 2Q24, outside of tech, exports have run at odds with the robust expansion in IP. Looking ahead to 2H24, we expect IP to moderate in tandem with a softening in external demand (Figure 5).

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Figure 5: Vietnam IP and DM demand

%3m/3m, saar, both axes



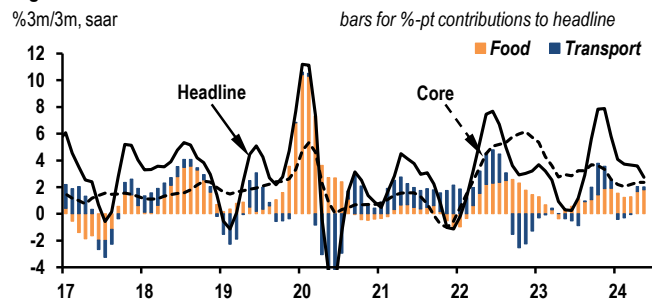
Source: GSO and J.P. Morgan

Inflation continues downward trend

Headline CPI eased to 4.3%oya in June (May: 4.4%oya), and was up 0.1% m/m, sa, mainly due to already anticipated base effects. On a trend sequential basis, headline CPI and core CPI moderated to 2.6%3m/3m, saar and 2.3%3m/3m, saar respectively. The ongoing deceleration in headline CPI is largely driven by transport prices even as food prices remain steady (Figure 6). Overall prices averaged 4.1%oya in 1H24, well within the central bank's annual inflation target of 4%-4.5%.

Figure 6: Vietnam CPI inflation

%3m/3m, saar



Source: GSO and J.P. Morgan

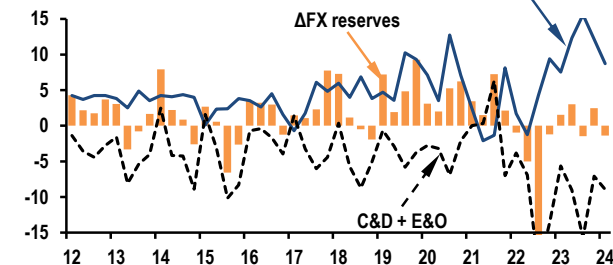
While we continue to expect inflation to stay within the target, the government's recent decision to increase base salaries for state employees by 30% (see [link](#)), pensions for retiree by 15%, and minimum wage by 6% (see [link](#)) from 1st July poses upside risk to GDP and inflation.

SBV still focused on FX stability

Despite record high basic balances, Vietnam's BOP and FX have been under pressure since the start of the year, with resident outflows accelerating via formal and informal channels (Figure 7). In our view, the hawkish re-pricing of the Fed policy rate path in early 2Q was a significant driver, as strong US\$ expectations become more anchored among residents.

Figure 7: Vietnam balance of payments

USD bn, quarterly, 4Q23 is the latest available

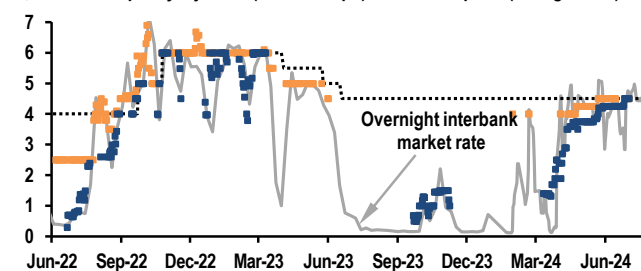


Source: SBV and J.P. Morgan forecasts

In response to the resurgence in dollarization behavior, SBV has engaged in FX reserves selling and de facto monetary tightening in the interbank market. However, there are potential limitations to these two measures. First, the pace of reserve drawdown has picked up. We estimate that the SBV holds reserves of about US\$82bn against US\$30bn average imports in 1H24, equivalent of 2.7 months of goods imports (decreasing from 3.3 months of goods imports in May). Second, the overnight OMO rate has already reached the upper-bound of the interest rate corridor, i.e., the main refinancing rate (Figure 8). Further tightening will likely require an outright policy rate hike, which the SBV may not be comfortable with, given the pass-through to real economy lending rates and that the current credit growth run-rate (10.4%3m/3m, saar; Figure 9) is behind target (14-15%).

Figure 8: Vietnam money market rates and SBV OMO

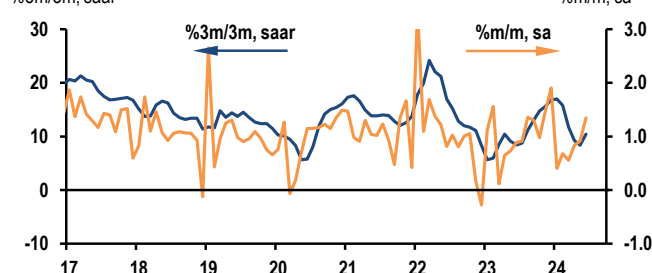
%p.a. Liquidity injection (Reverse repo) Absorption (Outright sale)



Source: SBV and J.P. Morgan

Figure 9: Vietnam credit growth

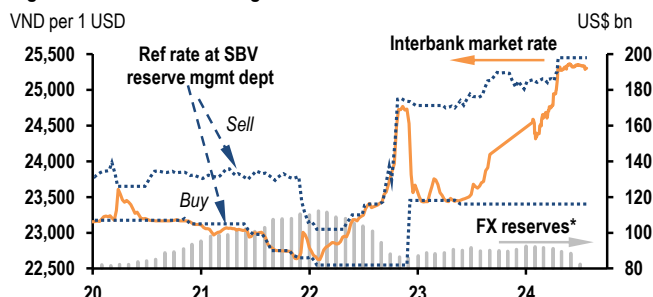
%3m/3m, saar



Source: SBV and J.P. Morgan

For now, the USDVND has stabilized close to 25.5k, following renewed expectations of Fed easing (Figure 10).

Figure 10: USDVND exchange rate



Political transition ahead

Communist Party of Vietnam (CPV) secretary general Trong's passing on July 19 has renewed concerns of political uncertainty. Recently appointed President To Lam will be the interim party chief until the permanent appointment is made in the next Party Congress in January 2026. In our view, we may see a step-up in power consolidation via party disciplinary measures but spillovers into the corporate sector should be limited, unlike the 2022 episode. We think that government officials are acutely aware of the importance of a business-friendly climate amidst elevated geopolitical uncertainty.

ASEAN

Indonesia

Data releases and forecasts

Week of Jul 29 - Aug 02

Thu	Consumer prices				
1-Aug	% change				
11:00am		Apr	May	Jun	Jul
	Total, %oya	3	2.8	2.5	<u>2.3</u>
	%m/m, sa	0.1	-0.1	-0.3	<u>0.1</u>

Review of past week's data

No data released.

Malaysia

Data releases and forecasts

Week of Jul 29 - Aug 02

No data releases.

Review of past week's data

Consumer prices (Jul 24)

% change	Apr	May	Jun	
%oya	1.8	2.0	<u>2.6</u>	2.0
%m/m, sa	0.2	0.3	<u>0.7</u>	0.2

Malaysia's June consumer prices rose 0.2%m/m, sa, leaving headline CPI below expectations at 2.0%oya.

Philippines

Data releases and forecasts

Week of Jul 29 - Aug 02

No data releases.

Review of past week's data

No data released.

Singapore

Data releases and forecasts

Week of Jul 29 - Aug 02

Fri	Purchasing managers index				
2-Aug	Index				
9:00pm		Apr	May	Jun	Jul
	PMI	50.5	50.6	50.4	<u>50.5</u>
	PMI—electronics	50.9	51.1	51.2	<u>51.3</u>

Review of past week's data

Consumer prices (Jul 23)

% change	Apr	May	Jun	
%oya	2.7	3.1	<u>2.8</u>	2.4
%m/m, sa	0.8	0.0	<u>0.2</u>	-0.2

Singapore's core CPI (which excludes private road transport and accommodation) eased from 3.1%oya in May to 2.9%oya in June, a touch softer than expectations.

Industrial production (Jul 26)

% change	Apr	May	Jun	
%oya	1.2	2.9	<u>4.0</u>	-3.9
%m/m, sa	7.5	17.7	<u>0.0</u>	-3.8

Singapore's June manufacturing production came in weaker than expected, down 3.9%oya and down 3.8%m/m, sa.

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Thailand

Data releases and forecasts

Week of Jul 29 - Aug 02

Wed	Manufacturing production				
31-Jul	% change				
10:30am		Mar	Apr	May	Jun
	%oya	-6.3	2.5	-2	<u>-1.2</u>
	%m/m, sa	-4.8	8.7	-3.1	<u>0.1</u>
Wed	Private investment index				
31-Jul	% change				
2:30pm		Mar	Apr	May	Jun
	%oya	-2.4	6.4	-3	<u>0.4</u>
	%m/m, sa	-1	3.1	-2.9	<u>0.7</u>
Wed	Private consumption index				
31-Jul	% change				
2:30pm		Mar	Apr	May	Jun
	%oya	0.3	2.2	1.2	<u>1.9</u>
	%m/m, sa	-0.9	1.4	0.3	<u>0.2</u>
Wed	Merchandise trade				
31-Jul	US\$ bn, nsa				
2:30pm		Mar	Apr	May	Jun
	Trade balance	1	0.3	2.8	<u>1.1</u>
	Exports, %oya	-10.2	5.8	7.8	<u>-2.7</u>
	Imports, %oya	5.2	6.4	-2.3	<u>5.1</u>

Review of past week's data

No data released.

Vietnam

Data releases and forecasts

Week of Jul 29 - Aug 02

No data releases.

Review of past week's data

No data released.

Source: Central Bureau of Statistics, Indonesia; Department of Statistics, Malaysia Coordination Board and National Statistics Office, Philippines, Singapore Statistics Department, Office for Industrial Economics, Thailand; Bank of Thailand; General Statistics Office of Vietnam; J.P. Morgan forecasts

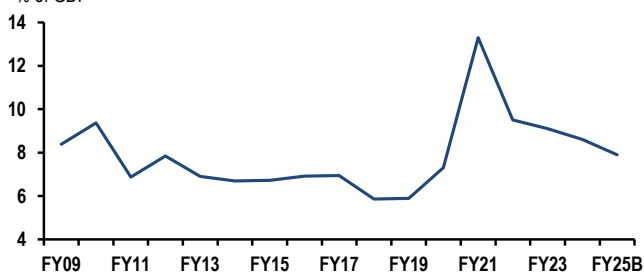
India

- The budget pegged the FY25 deficit at 4.9% of GDP...
- ...lower than the interim budget target of 5.1%
- The consolidation came with an incommensurate drag on the economy
- Budget focused on much-needed economic plumbing

India's budget doubled down on fiscal consolidation, targeting a fiscal deficit of 4.9% of GDP in 2024-25, lower than the interim budget's target of 5.1% of GDP. Recall, the Center's deficit printed at 5.6% of GDP last fiscal year, again lower than envisaged. Consequently, the Center is on course to reduce the deficit by a non-trivial 1.5% of GDP across two years. The combined deficit (Center and States) is therefore pegged at 7.9% of GDP this year (Figure 1) and the broader public sector borrowing requirement at 8.5% of GDP, the lowest in five years.

Furthermore, the revenue assumptions in the Budget are very conservative. After a realized tax buoyancy of 1.4 last fiscal (gross taxes growing at 13.5% on nominal GDP growth of 9.6%), the assumed buoyancy is just 1 this year (taxes are budgeted to grow at 10.8% on nominal GDP growth of 10.5%). So, it's possible that this year's deficit could be even lower in the final analysis.

Figure 1: Combined deficit of centre and states
% of GDP



Source: MoF, RBI

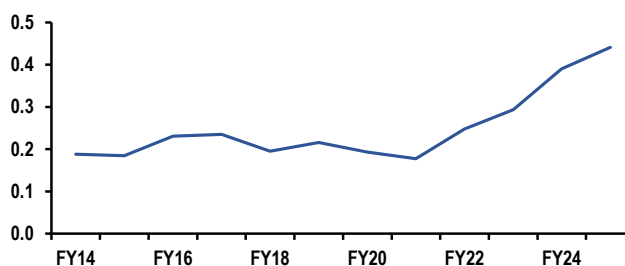
The combination of entering this year with unexpectedly large cash balances (~0.5% of GDP) and a lower-than-envisaged deficit (0.2% of GDP) meant that deficit financing was lower by a large 0.7% of GDP (Rs2.1tn) compared to the interim budget. Of this, however, dated borrowing was reduced by only Rs0.1tn, while short-end T-Bill issuance was reduced by Rs1tn. This is likely explained by the fact that demand for long-dated bonds is likely to be augmented by India's being included in the J.P. Morgan Bond Index, and therefore authorities did not feel the need to rationalize longer-dated borrowing sharply.

Where did the extra resources go?

The increased consolidation was possible because, as we [previously flagged](#), the Budget had an extra 0.4% of GDP in revenues than had been budgeted back in February. In the event, half of that (0.2% of GDP) was used to reduce the deficit further, and the other half (0.2% of GDP) was deployed toward increased revenue expenditures. To be sure, revenue expenditures – as a percentage of GDP – are still expected to decline from 11.8% of GDP last fiscal to 11.4% of GDP this year, though less sharply than presumed back in February.

In contrast, capex continues to rise, to 3.4% of GDP this year – as laid out back in February – from 3.2% of GDP last year. Stepping back, central capex has doubled, from 1.7% of GDP to 3.4% of GDP, over the last five years. As a consequence, the quality of discretionary expenditure (measured as the ratio of capital to revenue expenditures, ex interest) has doubled, from 0.2 in 2020 to 0.4 in 2024 (Figure 2).

Figure 2: Ratio of Capex to Revenue expenditure*



Source: RBI, Budget docs, J.P. Morgan; * excl interest payments

Table 1: Central Government Budget (% of GDP)

	FY24 A	FY25 Interim	FY25 Final
Net Tax Revenues	7.9	7.9	7.9
Gross Taxes	11.7	11.7	11.8
Direct Tax	6.5	6.7	6.8
Indirect Tax	5.2	5.0	5.0
Non-tax Revenues	1.4	1.2	1.7
RBI dividend	0.3	0.3	0.6
Asset Sales	0.2	0.2	0.2
Total Receipts	9.4	9.4	9.8
Revenue Expenditure	11.8	11.2	11.4
Interest	3.6	3.6	3.6
Subsidies	1.5	1.3	1.3
Revenue Expenditure (x int,sub)	6.7	6.3	6.5
Capital Expenditure	3.2	3.4	3.4
Total Expenditure	15.0	14.5	14.8
Fiscal Balance	-5.6	-5.1	-4.9
Adjusted Fiscal Balance*	-5.9	-5.8	-5.6

* adjusts for asset sales and non-contractionary part of RBI dividends Source: Budget docs, J.P. Morgan

Consolidation with some compression

As previously discussed, there were two implications of the RBI dividend this year. First, the sheer size (0.6% of GDP). Second, that much of it was non-contractionary in nature because it accrued from interest on foreign bonds and FX

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revaluation gains. To understand the underlying fiscal stance, and therefore the impact of deficit consolidation on aggregate demand, it is important to adjust the fiscal deficit for asset sales and the non-contractionary element of the RBI dividend, which Table 1 above does. What it reveals is that even as the Center's headline deficit reduces by 0.7% of GDP, the "adjusted-deficit" declined by less than half, at 0.3% of GDP. So, the economic compression is less than that implied by the headline consolidation.

Financial vigilance

Concerned that asset prices may be running above underlying economic fundamentals, authorities revamped the capital gains tax regime across both short-term and long-term holdings. Some notable changes within this are the increase in shorter-term capital gains from 15% to 20% (excluding the surcharges) on listed equities. The long-term capital gains tax was increased from 10% to 12.5% (excluding the surcharge) for listed equities and some other financial assets. Real estate also saw some changes. While long-term capital gains taxes were reduced from 20% to 12.5%, the inflation indexation was done away with, such that effective tax rates for older properties have likely increased. Finally, the Securities and Transaction Tax (STT) was increased, likely to curb the surge in the Futures and Options (F&O) volumes witnessed in recent months.

Addressing the plumbing

As we have repeatedly emphasized, a key concern across the last two decades has been a rising capital intensity of manufacturing at a time when India is experiencing its demographic transition. Redressing the balance between capital and labor is therefore crucial for employment prospects and, in turn, consumption going forward. In a bid to address this, the government introduced several "Employment Linked Incentive" schemes, wherein the government will offer incentives to employees and employers, conditional on increasing employment. The specifics of each of the schemes differ (incentives for first-time employees in the formal sector, employer and employee incentives for the substantial hiring of first-time employees in the manufacturing sector, employer incentives for hiring more generally), but the gist remains the same. Of course, incentives will work only if workers exceed a minimum threshold of employability and can genuinely compete with capital, for which skilling and education are so crucial. On this account, the Budget announced new skilling and internship programs, alongside skilling and education loans.

Separately, the budget speech invoked the need to undertake factor-market reforms encompassing land, labor and capital in conjunction with the states, and then laid out areas that need-

ed to be covered. Additionally, customs duties across several sectors have been reduced or done away with (e.g., mobile phones and associated parts, some medical equipment, critical minerals, capital goods for use in solar energy, some inputs into leather and textile production and exports, metals). A foundational theorem in trade theory is that an import tariff is equivalent to an export tax. To the extent that import tariffs continue to be rationalized, the collateral benefit will be to boost export competitiveness. To be sure, redressing the capital-labor balance and undertaking factor market reforms will not be trivial and involve a thousand small steps across the center, states and industry. However, the fact that authorities have emphasized these themes in this week's Budget is an encouraging first step, in our view. Now, much will depend on implementation and the associated follow-through.

Data releases and forecasts

Week of July 29 to August 2

Thu	Manufacturing PMI				
01-Aug	Index				
		Apr	May	Jun	Jul
	Index	58.8	57.5	58.3	

Review of past week's data

Tue	Fiscal balance				
23-Jul	% of GDP				
		FY22	FY23	FY24	FY25BE
	Fiscal Balance	-6.7	-6.4	-5.6	-4.9

Source: Central Statistical Organization, RBI, Ministry of Commerce, and J.P. Morgan forecasts.

US economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul Dallas Fed manufacturing (10:30am) Jul	30 Jul FHFA HPI (9:00am) May S&P/Case-Shiller HPI (9:00am) May JOLTS (10:00am) Jun 8.0mn Consumer confidence (10:00am) Jul 100.0 Housing vacancies (10:00am) 2Q Dallas Fed services (10:30am) Jul	31 Jul ADP employment (8:15am) Jul Employment cost index (8:30am) 2Q 1.0% Pending home sales (10:00am) Jun 1.5% FOMC meeting (2:00pm) Jul Announce 10-year note <u>\$42bn</u> Announce 3-year note <u>\$58bn</u> Announce 30-year bond <u>\$25bn</u>	1 Aug Productivity and costs (8:30am) 2Q pre 2.2% Unit labor costs 1.0% Initial claims (8:30am) w/e Jul 27 235,000 Manufacturing PMI (9:45am) Jul final 49.5 ISM manufacturing (10:00am) Jul 49.0 Construction spending (10:00am) Jun -0.3% Light vehicle sales Jul 16.3mn	2 Aug Employment (8:30am) Jul 150,000 Unemployment rate 4.1% Average weekly hours 34.2 Factory orders (10:00am) Jul
5 Aug Services PMI (9:45am) Jul final ISM services (10:00am) Jul Senior loan officer survey (2:00pm) 3Q San Francisco Fed President Daly speaks(5:00pm)	6 Aug International trade (8:30am) Jun Auction 3-year note <u>\$58bn</u>	7 Aug Consumer credit (3:00pm) Jun Auction 10-year note <u>\$42bn</u>	8 Aug Initial claims (8:30am) w/e Aug 3 Wholesale trade (10:00am) Jun Auction 30-year bond <u>\$25bn</u>	9 Aug
12 Aug Federal budget (2:00pm) Jul	13 Aug NFIB survey (6:00am) Jul PPI (8:30am) Jul	14 Aug CPI (8:30am) Jul	15 Aug Retail sales (8:30am) Jul Import prices (8:30am) Jul Initial claims (8:30am) w/e Aug 10 Empire State survey (8:30am) Aug Philadelphia Fed manufacturing (8:30am) Aug Industrial production (9:15am) Jul NAHB survey (10:00am) Aug Business inventories (10:00am) Jun TIC data (4:00pm) Jun Announce 10-year TIPS (r) <u>\$16bn</u> Announce 30-year TIPS (r) <u>\$16bn</u> Announce 20-year bond <u>\$16bn</u>	16 Aug Housing starts (8:30am) Jul Business leaders survey (8:30am) Aug Consumer sentiment (10:00am) Aug preliminary Chicago Fed President Goolsbee speaks(1:25pm)
19 Aug Leading indicators (10:00am) Jul	20 Aug	21 Aug Auction 20-year bond <u>\$16bn</u>	22 Aug Initial claims (8:30am) w/e Aug 17 Manufacturing PMI (9:45am) Aug flash Services PMI (9:45am) Aug flash Existing home sales (10:00am) Jul KC Fed survey (11:00am) Aug Announce 2-year note <u>\$69bn</u> Auction 30-year TIPS (r) <u>\$8bn</u>	23 Aug New home sales (10:00am) Jul

Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Euro area economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul Belgium GDP prelim (11:00am) 2Q	30 Jul Euro area EC cons. Conf. (11:00am) Jul GDP flash (11:00am) 2Q <u>1.5%q/q, saar</u> Germany GDP prelim (10:00am) 2Q <u>1.25%q/q, saar (0.3%, sa)</u> HICP & CPI prelim (2:00pm) Jul <u>0.4%q/m, nsa (2.5%oya)</u> France GDP prelim (7:30am) 2Q <u>1.0%q/q, saar</u> Cons. of mfg goods (7:30am) Jun Italy GDP prelim (10:00am) 2Q Spain GDP prelim (9:00am) 2Q HICP & CPI prelim (9:00am) Jul <u>-0.3%q/m, nsa (2.9%oya)</u> Belgium CPI Jul	31 Jul Euro area MFI interest rates (10:00am) Jun HICP flash (11:00am) Jul <u>0.3%q/m, sa (2.7%oya)</u> Germany Import price index (8:00am) Jun Employment (9:55am) Jul Unemployment (9:55am) Jul <u>6.0%, sa</u> France HICP & CPI prelim (8:45am) Jul <u>0.3%q/m, nsa (1.2%oya)</u> PPI (8:45am) Jun Italy HICP & CPI prelim (11:00am) Jul PPI (12:00pm) Jun Netherlands CPI prelim (6:30am) Jul	1 Aug Euro area PMI Mfg final (10:00am) Jul headline: 45.6, output: 45.3 Unemployment rate (11:00am) Jun 6.4%, sa Germany PMI Mfg final (9:55am) Jul headline: 42.6, output: 42.2 France PMI Mfg final (9:50am) Jul headline: 44.1, output: 44.1 Italy PMI Mfg final (9:45am) Jul Spain PMI Mfg final (9:15am) Jul	2 Aug France Industrial production (8:45am) Jun <u>2.2%q/m, sa</u> Monthly budget situation (8:45am) Jun Italy Industrial production (10:00am) Jun
5 Aug Euro area PMI Serv. & Cmp final (10:00am) Jul PPI (11:00am) Jun Germany PMI Serv. & Cmp final (9:55am) Jul France PMI Serv. & Cmp final (9:50am) Jul Italy PMI Serv. & Cmp final (9:45am) Jul Spain PMI Serv. & Cmp final (9:15am) Jul	6 Aug Euro area Retail sales (11:00am) Jun Germany Mfg orders (8:00am) Jun Italy Foreign trade (11:00am) Jun Netherlands CPI (6:30am) Jul	7 Aug Germany Foreign trade (8:00am) Jun France Foreign trade (8:45am) Jun	8 Aug Germany Industrial production (8:00am) Jun	9 Aug Germany HICP & CPI final (8:00am) Jul France ILO unemployment (7:30am) 2Q Unemployment (7:30am) 2Q Italy HICP & CPI final (10:00am) Jul
12 Aug	13 Aug Germany ZEW bus. survey (11:00am) Aug Spain HICP & CPI final (9:00am) Jul	14 Aug Euro area Employment prelim (11:00am) 2Q GDP final (11:00am) 2Q Industrial production (11:00am) Jun France HICP & CPI final (8:45am) Jul	15 Aug	16 Aug Euro area Foreign trade (11:00am) Jun
19 Aug	20 Aug Euro area Balance of Payments (10:00am) Jun HICP final (11:00am) Jul Construction output (11:00am) Jun Germany PPI (8:00am) Jul	21 Aug	22 Aug Euro area PMI Mfg, Serv. & Cmp flash (10:00am) Aug EC cons. Conf. (4:00pm) Aug ECB monetary policy account (1:30pm) Jul Germany PMI Mfg, Serv. & Cmp flash (9:30am) Aug France PMI Mfg, Serv. & Cmp flash (9:15am) Aug	23 Aug France INSEE bus. conf. (8:45am) Aug

Highlighted data are scheduled for release on or after the date shown. Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

Japan economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul	30 Jul Job offers to applicants ratio (8:30am) Jun <u>1.24</u> Unemployment rate (8:30am) Jun <u>2.6%</u> BoJ Monetary Policy Meeting	31 Jul Total retail sales (8:50am) Jun <u>2.5%</u> m/m, sa IP prelim (8:50am) Jun <u>-4.5%</u> m/m, sa Consumer sentiment (2:00pm) Jul <u>37.0</u> Housing starts (2:00pm) Jun <u>-1.0%</u> m/m, sa BoJ Monetary Policy Meeting <u>+15bp</u> BoJ outlook report BoJ Governor Ueda's press conference	1 Aug PMI manufacturing final (9:30am) Jul	2 Aug Auction 3-month bill
5 Aug PMI services final (9:30am) Jul Minutes of Jun 13, 14 BoJ Monetary Policy Meeting (8:50am)	6 Aug All household spending (8:30am) Jun Employers' survey (8:30am) Jun Auction 10-year note	7 Aug Coincident CI prelim (2:00pm) Jun Consumption activity index (2:00pm) Jun	8 Aug Bank lending (8:50am) Jul Current account (8:50am) Jun Economy watchers survey (2:00pm) Jul Summary of Opinions of Jul 30-31 BoJ Monetary Policy Meeting (8:50am) Auction 6-month bill Auction 30-year note	9 Aug M2 (8:50am) Jul Auction 3-month bill
12 Aug <i>Holiday: Japan</i>	13 Aug Corporate goods prices (8:50am) Jul	14 Aug Auction 5-year note	15 Aug GDP prelim (8:50am) 2Q IP final (1:30pm) Jun	16 Aug Tertiary sector activity index (1:30pm) Jun Auction 3-month bill
During the week: Nationwide department store sales (16-22 Aug)				
19 Aug Private machinery orders (8:50am) Jun Auction 1-year note	20 Aug	21 Aug Trade balance (8:50am) Jul	22 Aug PMI manufacturing prelim (9:30am) Aug PMI services prelim (9:30am) Aug	23 Aug Nationwide core CPI (8:30am) Jul Auction 3-month bill

Note: Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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Canada economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul	30 Jul	31 Jul Monthly GDP(8:30am) May <u>0.1%</u>	1 Aug S&P Global manufacturing PMI(9:30am) Jul	2 Aug
5 Aug Civic Holiday Markets closed	6 Aug International trade(8:30am) Jun S&P Global services PMI(9:30am) Jul	7 Aug Ivey PMI(10:00am) Jul BOC Summary of Deliberations(1:30pm)	8 Aug	9 Aug Labor Force Survey(8:30am) Jul
12 Aug Building permits(8:30am) Jun	13 Aug	14 Aug	15 Aug Wholesale sales(8:30am) Jun New vehicle sales(8:30am) Jun Existing home sales(9:00am) Jul	16 Aug Housing starts(8:15am) Jul International transactions in securities(8:30am) Jun Manufacturing sales(8:30am) Jun
19 Aug Monthly credit aggregates(8:30am) Jun	20 Aug CPI(8:30am) Jul New housing price index(8:30am) Jul Teranet/National Bank HP Index(8:30am) Jul	21 Aug IPPI(8:30am) Jul	22 Aug	23 Aug Retail sales(8:30am) Jun

Source: Private and public agencies and J.P. Morgan. Further details available upon request. All existing home sales are tentative.

Latin America economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul Brazil Primary budget balance Jun -BRL\$2.4bn	30 Jul Brazil IGP-M Jul <u>3.76%oya</u> ; 0.54%m/m	31 Jul Brazil U-rate Jun <u>6.8%3mma</u> Chile Industrial production May <u>1.5%oya</u> Unemployment May <u>8.40%</u> Retail sales May <u>2.3%oya</u> Overnight Rate target Jul <u>5.75%</u> (on hold) Colombia Unemployment Jun <u>10.40%</u>	1 Aug Argentina Tax Collections Jul Brazil PMI Manufacturing Jul Mexico Remittances Jun <u>US\$5.6bn</u> ; <u>0.3%oya</u> IMEF manufacturing index Jul <u>49.6pts</u> IMEF nonmanufacturing index Jul <u>50.2pts</u> Peru CPI Jul <u>2.1%oya</u> ; 0.2%m/m Uruguay National Unemployment rate Jun <u>8.30%</u>	2 Aug Paraguay CPI Jul <u>4.6%oya</u> ;0.2%m/m Brazil FIPE CPI Jul IP Jun <u>1.3%oya</u> ; 2.5%m/m, sa Mexico GFI May <u>8.4%oya</u> ; 1.2%m/m, sa Unemployment Jun
During the week: Colombia Overnight lending rate Jul (31-4 Aug) <u>10.75% (50bp cut)</u> Brazil BCB meeting Jul (31-4 Aug) <u>10.5% (on hold)</u>				
5 Aug Argentina Vehicle sales Jul Vehicle production Jul Colombia Exports Jun Uruguay CPI Jul	6 Aug Mexico Auto report Jul Brazil Trade balance Jul	7 Aug Brazil IGP-DI Jul Chile Trade balance Jul	8 Aug Mexico CPI Jul Biweekly CPI Jul Core CPI Jul Biweekly core CPI Jul Banxico meeting Aug Chile CPI Jul Argentina Construction Jun Industrial Production Jun Peru Reference rate Aug Colombia CPI Jul	9 Aug Mexico IP Jun Brazil IPCA Jul
During the week: Brazil Auto production Jul (6-7 Aug) Chile Vehicle Sales Total Jul (6-11 Aug) Brazil Vehicle sales Jul (8-9 Aug) Mexico ANTAD same-store sales Jul (11-18 Aug)				
12 Aug Uruguay Industrial production Jun	13 Aug Brazil PMS Jun	14 Aug Brazil Retail sales Jun Colombia IP Jun Retail sales Jun Argentina CPI Jul	15 Aug Peru Economic Activity Jun National Unemployment rate Jul Colombia Economic Activity Jun GDP 2Q	16 Aug Uruguay BCU rate decision Aug Argentina Budget balance Jul Brazil IGP-10 Aug Economic Activity Jun Colombia Trade balance Jun
19 Aug Chile GDP 2Q Current Account Balance 2Q	20 Aug Mexico Retail sales Jun Argentina Trade balance Jul	21 Aug Argentina Economic activity Jun	22 Aug Paraguay BCP rate decision Aug Mexico GDP monthly proxy Jun Biweekly CPI Biweekly core CPI	23 Aug Peru GDP 2Q
During the week: Brazil Tax collections Jul (20-26 Aug)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request.

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UK and Scandinavia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul United Kingdom M4 & M4 lending final (9:30am) Jun Net lending to individuals (9:30am) Jun CBI distributive trades survey (11:00am) Jul Sweden Retail sales (8:00am) Jun GDP monthly indicator (8:00am) Flash GDP (9:00am) 2Q -1.0%q/q, saar (0.5%oya)	30 Jul Sweden Wage stats (8:00am) May Economic Tendency survey (9:00am) Jul	31 Jul United Kingdom Lloyds business barometer (12:01am) Jul CBI growth indicator (12:01am) Jul IDR pay settlements (7:00am) Jul Nationwide HPI (8:00am) Jul Blue and pink books (9:30am) 2024	1 Aug United Kingdom PMI Mfg final (9:30am) Jul BoE monetary policy report (12:00pm) Decision maker panel survey (2:00pm) Sweden PMI Mfg (8:30am) Jul 54.0%bal, sa Norway Credit indicator growth (8:00am) Jun PMI Mfg (10:00am) Jul	2 Aug Norway Labour directorate unemployment (10:00am) Jul 2.0%, sa
During the week: Nationwide HPI Jul (30-5 Aug)				
5 Aug United Kingdom New car regs (9:00am) Jul PMI Services final (9:30am) Jul Sweden PMI Services (8:30am) Jul 51.3%bal, sa	6 Aug United Kingdom BRC retail sales monitor (12:01am) PMI Construction (9:30am) Jul	7 Aug United Kingdom S&P/REC jobs report (12:01am) Aug Halifax HPI (7:00am) Jul Sweden Budget Balance (8:00am) Jul Norway IP Mfg (8:00am) Jun Building statistics (10:00am) Jul	8 Aug United Kingdom RICS HPI (12:01am) Jul	9 Aug Sweden Industrial production & orders (8:00am) Jun PVI (9:30am) Jun Household consumption (9:30am) Jun Norway CPI (8:00am) 0.4%q/m, nsa (2.6%oya, nsa) PPI (8:00am)
12 Aug	13 Aug United Kingdom Labour market report (7:00am) Jul Sweden PES unemployment (6:00am) Jul	14 Aug United Kingdom CPI (7:00am) Jul ONS HPI (9:30am) Jun Sweden CPI (8:00am) Jul Norway Consumer confidence (8:30am) 3Q	15 Aug United Kingdom Business investment prelim (7:00am) 2Q Industrial production (7:00am) Jun Index of services (7:00am) Jun Trade balance (7:00am) Jun Construction output (7:00am) Jun Monthly GDP (7:00am) Jun Quarterly GDP prelim estimate (7:00am) 2Q Sweden Prospera inflation expectations (8:00am) Aug Norway Trade balance (8:00am) Jul Norges Bank rate announcement (10:00am) Aug Investments in oil and gas (10:00am) 3Q	16 Aug United Kingdom Retail sales (7:00am) Jul
During the week: CBI industrial trends (18-24 Aug)				
19 Aug United Kingdom Rightmove HPI (12:01am) Aug	20 Aug Sweden Riksbank rate announcement (9:30am) Aug Riksbank monetary policy report (9:30am) Aug	21 Aug United Kingdom Public sector finances (7:00am) Jul	22 Aug United Kingdom PMI Mfg (9:30am) PMI Services (9:30am) Norway GDP (8:00am) 2Q Monthly GDP (8:00am) Jun	23 Aug United Kingdom Gfk cons. conf. (12:01am) Aug Norway Credit indicator growth (8:00am) Sweden LFS unemployment rate (9:30am) Jul
During the week: CBI distributive trades (21-27 Aug)				

Times shown are local. Source: Private and public agencies and J.P. Morgan. Further details available upon request

Emerging Europe/Middle East/Africa economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul South Africa Private sector credit (8:00am) Jun	30 Jul Hungary GDP prelim (8:30am) 2Q 1.25 % q/q <u>saar</u> Czech Republic GDP flash (9:00am) 2Q 2.0% q/q <u>saar</u> South Africa Budget (2:00pm) Jun Israel State of the economy index Jun 0.2 % m/m, <u>sa</u>	31 Jul Saudi Arabia GDP prelim (9:00am) 2Q Hungary PPI (8:30am) Jun Turkey Foreign trade (10:00am) Jun Poland CPI prelim (10am) Jun 4.3 % <u>oya</u> Serbia GDP prelim (12:00pm) 2Q South Africa Trade balance (2:00pm) Jun Russia Retail sales, Unemployment & Investment (7:00pm) Jun Kazakhstan Current account prelim 2Q Kenya CPI Jul 5.0 % <u>oya</u> Ukraine Current account Jun	1 Aug Russia Manufacturing PMI (9:00am) Jul Hungary Trade balance final (8:30am) Jun PMI (9:00am) Jul Turkey PMI (10:00am) Jul Poland PMI (9:00am) Jul 45.0 <u>index</u> Czech Republic PMI (9:30am) Jul 45.2 <u>index</u> CNB rate decision (2:30pm) Aug 25 bps cut to 4.50 % Nigeria PMI (9:45am) Jul South Africa Barclays PMI (11:00am) Jul Vehicle sales Jul Kazakhstan CPI Jul 8.2 % <u>oya</u>	2 Aug
5 Aug Hungary Trade balance (8:30am) Jun Turkey CPI (10:00am) Jul	6 Aug Romania Retail sales (9:00am) Jun Hungary Retail sales (8:30am) Jun Czech Republic Industrial output (9:00am) Jun Trade balance (9:00am) Jun Kenya CBK rate decision Aug	7 Aug Egypt FX reserves (1:00am) Jul South Africa Gross reserves (8:00am) Jul Hungary Industrial output (8:30am) Jun Romania NBR rate decision Aug Ukraine FX reserves Jul	8 Aug Egypt CPI (1:00am) Jul Hungary CPI (8:30am) Jul Serbia NBS rate decision (12:00pm) Aug South Africa Manufacturing output (1:00pm) Jun	9 Aug Romania Trade balance (9:00am) Jun Turkey Industrial output (10:00am) Jun Ukraine CPI (3:00pm) Jul Russia CPI (7:00pm) Jul GDP flash (7:00pm) 2Q Kazakhstan FX reserves Jul
During the week: Kazakhstan Retail sales Jul (10-12 Aug)				
12 Aug Romania CPI (9:00am) Jul Czech Republic CPI (9:00am) Jul Serbia CPI (12:00pm) Jul Russia Foreign trade (4:00pm) Jun Belarus CPI Jul	13 Aug Turkey Current account (10:00am) Jun Czech Republic Current account (10:00am) Jun Israel Trade balance (1:00pm) Jul Romania Current Account Jun	14 Aug Romania GDP flash (9:00am) 2Q Poland CPI (10:00am) Jul GDP prelim (10:00am) 2Q South Africa Retail sales (1:00pm) Jun Zambia BOZ rate decision Aug Ghana CPI Jul	15 Aug Saudi Arabia CPI (9:00am) Jul Israel CPI (6:30pm) Jul Kazakhstan Industrial output Jul GDP prelim 2Q Nigeria CPI Jul	16 Aug Czech Republic PPI (9:00am) Jul Poland Core inflation (2:00pm) Jul
During the week: Israel GDP flash 2Q (18 Aug) Qatar GDP (12-19 Aug) Poland Current account Jun (12-16 Aug) Angola CPI Jul (12-19 Aug) Oman CPI Jul (15-22 Aug) Qatar CPI (15-18 Aug) Poland Budget balance Jul (16-30 Aug) Kuwait CPI (18-20 Aug)				
19 Aug	20 Aug Israel Unemployment rate (1:00pm) Jul Turkey CBRT rate decision (2:00pm)	21 Aug South Africa CPI (10:00am) Jul Poland PPI (10:00am) Jul Russia PPI (7:00pm) Jul	22 Aug Poland Retail sales (10:00am) Jul	23 Aug Hungary Unemployment (8:30am) Jun
During the week: Israel State of the economy index Jul (20-25 Aug) Bahrain CPI (24-28 Aug)				

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Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Jul <i>Holiday: Thailand</i>	30 Jul Australia Building approvals (11:30am) Jun <u>1.0%</u> m/m	31 Jul New Zealand Building permits (10:45am) Jun NBNZ business confidence (1:00pm) Jul South Korea IP (8:00am) Jun <u>2.1%</u> oya Australia Pvt. sector credit Jun <u>0.4%</u> m/m CPI (11:30am) 2Q <u>1.0%</u> q/q Retail sales May <u>0.2%</u> m/m China PMI mfg.(NBS) (9:30am) Jun <u>49.4</u> Thailand IP (11:00am) Jun <u>-1.2%</u> oya Trade balance Jun <u>US\$1.1bn</u> PCI (2:30pm) Jun <u>1.9%</u> oya PII (2:30pm) Jun <u>0.4%</u> oya Taiwan GDP flash (4:00pm) 2Q <u>6.0%</u> oya Hong Kong GDP flash (4:30pm) 2Q <u>2.7%</u> oya	1 Aug South Korea Trade balance (9:00am) Jul <u>US\$4.3bn</u> PMI mfg. (9:30am) Jul <u>51.5</u> Taiwan PMI mfg. (8:30am) Jul <u>52.8</u> Australia Trade balance (11:30am) Jun <u>A\$5.5bn</u> China PMI Mfg. (9:45am) Aug <u>51.7</u> Indonesia CPI (11:00am) Jul <u>2.3%</u> oya India PMI mfg. final (10:30am) Aug Hong Kong Retail sales (4:30pm) Jun <u>-13.6%</u> oya	2 Aug South Korea CPI (8:00am) Jul <u>2.3%</u> oya Australia PPI (11:30am) 2Q Singapore PMI (9:00pm) Jul <u>50.5</u>
During the week: Vietnam Exports Jul (29-31 Jul) Vietnam CPI Jul (29-31 Jul) Vietnam Industrial output Jul (29-31 Jul)				
5 Aug New Zealand ANZ commodity price (1:00pm) Jul Thailand CPI (10:30am) Jul Indonesia GDP (11:00am) 2Q	6 Aug Philippines CPI (9:00am) Jul Trade balance (9:00am) Jun Australia ANZ job advertisements (11:30am) Jul RBA official rate announcement Taiwan CPI (4:00pm) Jul	7 Aug South Korea Current account balance (8:00am) Jul China Trade balance Jul Foreign Exchange Reserves Jul	8 Aug Philippines GDP (10:00am) 2Q Taiwan Trade balance (4:00pm) Jul	9 Aug China PPI (9:30am) Jul CPI (9:30am) Jul <i>Holiday: Singapore</i>
During the week: China Money supply/TSF Jul (9-15 Aug)				
12 Aug India CPI (5:30pm) Jul IP (5:30pm) Jun	13 Aug South Korea Import price index (6:00am) Jul Export price index (6:00am) Jul Money supply (12:00pm) Jun	14 Aug South Korea Unemployment rate (8:00am) Jul New Zealand RBNZ official rate announcement (2:00pm) Aug India WPI (12:00pm) Jul	15 Aug China IP (10:00am) Jul FAI (10:00am) Jul Retail sales Cumulative (10:00am) Jul Indonesia Trade balance (11:00am) Jun Philippines BSP monetary policy meeting <i>Holiday: India, South Korea</i>	16 Aug Singapore NODX (8:30am) Jul Malaysia Current acct. Balance (12:00pm) 2Q GDP final (12:00pm) 2Q Hong Kong GDP (4:30pm) 2Q Unemployment rate (4:30pm) Jul
During the week: India Trade balance Jun (12-15 Aug)				
19 Aug Thailand GDP (9:30am) 2Q Malaysia Trade balance (12:00pm) Jun	20 Aug South Korea Consumer survey (6:00am) Aug Taiwan Export orders (4:00pm) Jul Hong Kong CPI (4:30pm) Jul	21 Aug South Korea PPI (6:00am) Jul FKI Business Survey (6:00am) Jul Thailand BOT monetary policy meeting Indonesia BI monetary policy meeting <i>Holiday: Philippines</i>	22 Aug Indonesia Current acct. Balance (10:00am) 2Q Malaysia CPI (12:00pm) Jul India PMI mfg. (10:30am) Aug Taiwan Unemployment rate (4:00pm) Jul South Korea BOK monetary policy meeting	23 Aug Singapore CPI (1:00pm) Jul Taiwan IP (4:00pm) Jul

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
27 - 02 August	29 July	30 July	31 July	01 August	02 August
	Sweden GDP (2Q)	- Czechia GDP (2Q) - Euro area EC cons conf (Jul, fnl) GDP (2Q, prl) - Germany HICP (Jul, prl) - Hungary GDP (2Q) - Japan U-rate (Jun) - United States Case-Shiller HPI (May) CB cons conf (Jul) FHFA HPI (May) Housing vacancies (2Q) JOLTS (Jun)	- Australia CPI (2Q) - Brazil COPOM mtg: no chg - Chile CBC mtg: no chg - China NBS PMI (Jul) - Colombia BanRep mtg: -50bp - Euro area HICP (Jul, prl) - Japan BoJ mtg: +15bp Cons snt (Jul) IP (Jun) Retail sales (Jun) - Korea IP (Jun) - Poland CPI (Jul) - Taiwan GDP (2Q) - United States ADP employment (Jul) ECI (2Q) FOMC mtg: no chg Pend. home sales (Jun)	- Czechia CNB mtg: -25bp - Euro area U-rate (Jun) - Indonesia CPI (Jul) - Korea Trade balance (Jul) - United Kingdom BoE mtg: -25bp - United States Light vehicle sales (Jul) ISM mfg (Jul) Prod and costs (2Q, prl) - Global Mfg PMI (Jul)	- Brazil IP (Jun) - Korea CPI (Jul) - United States Employment (Jul) Factory orders (Jul)
03 - 09 August	05 August	06 August	07 August	08 August	09 August
China Money supply/TSF (Jul, released Aug. 9-15)	- Indonesia GDP (2Q) - Thailand CPI (Jul) - Türkiye CPI (Jul) - United States ISM services (Jul) SLOOS (2Q) - Global All-ind PMI (Jul)	- Australia RBA mtg: no chg - Brazil Trade balance (Jul) - Euro area Retail sales (Jun) - Germany Mfg orders (Jun) - Philippines CPI (Jul) - Taiwan CPI (Jul) - United States Trade balance (Jun)	- China FX reserves (Jul) Trade balance (Jul) - Japan CAI (Jun) - Romania NBR mtg: no chg - United States Consumer credit (Jun)	- Chile CPI (Jul) - Colombia CPI (Jul) - Germany IP (Jun) - Hungary CPI (Jul) - India RBI mtg: no chg - Mexico Banxico mtg: -25bp CPI (Jul) - Peru BCRP mtg: -25bp - Philippines GDP (2Q) - Taiwan Trade balance (Jul) - United States Wholesale trade (Jun)	- Brazil IPCA (Jul) - Canada Labor force survey (Jul) - China CPI (Jul) - Germany HICP (Jul, fnl) - Mexico IP (Jun) - Norway CPI (Jul) - Russia CPI (Jul) GDP (2Q)

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