The Macro Month Ahead September 2024

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The Fed joins the global rate cut cycle

As September arrives, it marks the transition from the final days of summer to the first signs of autumn. This year, September also brings a partial lunar eclipse and, crucially for investors, a series of central bank meetings. Almost all major central banks are set to hold monetary policy meetings this month, keeping financial markets vigilant amid the potential for a wave of interest rate cuts. However, caution is warranted given the unexpected move by the Bank of Japan, which raised its rate at the end of July, lagging two years behind one of the most significant global rate hike cycles in decades.

Simultaneously, the U.S. presidential campaign enters a critical phase, with the election just two months away. The first debate between Kamala Harris and Donald Trump on September 10th will be highly anticipated, as the Democratic Party's candidate has gained positive momentum over the summer. She is now closely matched with her opponent in key swing states, making this debate pivotal for both candidates.

Investors should brace for a busy month, mindful that September has historically been a challenging period for financial markets.

Adrien Pichoud,

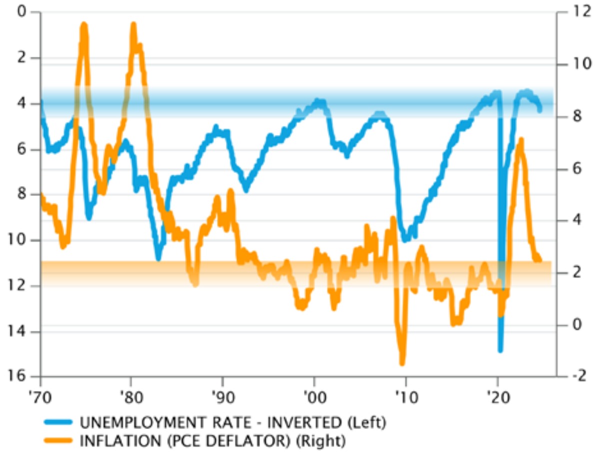
Chief Economist

The Fed starts to lower its interest rate

The moment has finally arrived. After maintaining the Federal Funds rate at its highest level in two decades for over a year, the Federal Reserve is expected to begin lowering its key interest rate at its September meeting **(18/09)**. Inflation has been steadily decelerating since April and is approaching the Fed's 2% target. At the same time, the labour market has shown clear signs of normalisation from the excessively tight conditions of recent years, with the underlying drivers of wage pressures beginning to subside.

With these encouraging trends confirmed in August, the Fed has gained sufficient confidence that the post-Covid inflationary surge is behind us, and that inflation is now on a sustainable trajectory toward the 2% target.

With slowing inflation, the Fed is now around targets on its dual mandate for inflation and employment. The currently restrictive monetary policy needs to be adjusted.

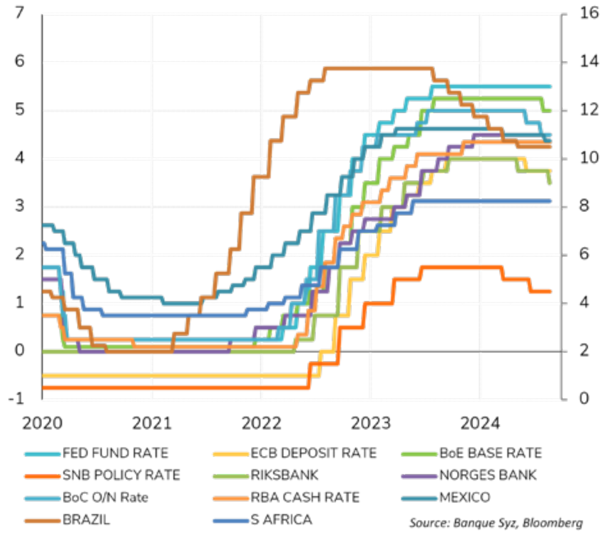


This confidence was stated clearly by the Fed's Chair Jerome Powell at the end of August: *"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data."* The Fed will therefore cut its short-term rate in September and will continue in the ensuing meetings scheduled on November 7th and December 18th this year. The uncertainty now lies in the magnitude of the coming rate cuts (whether the Fed will cut its rate by 25bp or 50bp?) and the terminal level of this cycle, that will likely be reached in 2025 as the Fed extends rate cuts into next year. In that respect, the update of the Fed economic and rate projections to be released in parallel of the rate cut announcement, will provide valuable insights on Fed members' views of medium-term prospects. After a day off for Labour Day **(2/09),** all US economic data will be scrutinised to assess whether the Fed can proceed gradually in normalising its monetary policy or if it must ease monetary policy conditions rapidly due to a deteriorating economic environment. In particular, the August Employment Report **(6/09)** and all job market related data will be closely watched as the Fed no longer *"seek or welcome further cooling in labour market conditions".* Inflation data will be important as well for adjusting expectations around the pace of the rate cut cycle (CPI **11/09**, PPI **12/09**, PCE deflator **27/09**). Considering the rising concerns around a potential slowdown in households' consumption, Retail Sales for August **(17/09)** will also be among the key data to keep an eye on this month.

A flurry of central banks meetings, and potential rate cuts

Almost all major central banks will hold a monetary policy meeting in September. In the current global context of soft economic growth and easing inflationary pressures, a vast majority of them are likely to cut their rate again after having already began in the past few months. The Bank of Canada **(4/09)**, the ECB **(12/09)**, the Bank of England and the Norges Bank **(19/09)**, the Reserve Bank of Australia **(24/09)**, the Riksbank of Sweden **(25/09)** and the Swiss National Bank **(26/09)** all have reasons to lower their key rate. Central banks in large Emerging Markets could also relax their monetary policy stance: the Banco Central do Brazil **(18/09)**, the South Africa Reserve Bank **(19/09)** and the Banco de Mexico **(26/09)** will hold a meeting this month. As both supply-related and demand-driven pressures on prices abate across all economies, the global rate hike cycle of 2022/23 can now go into reverse.

Two years after a spectacular rate hike cycle, global short-term rates are now trending lower.



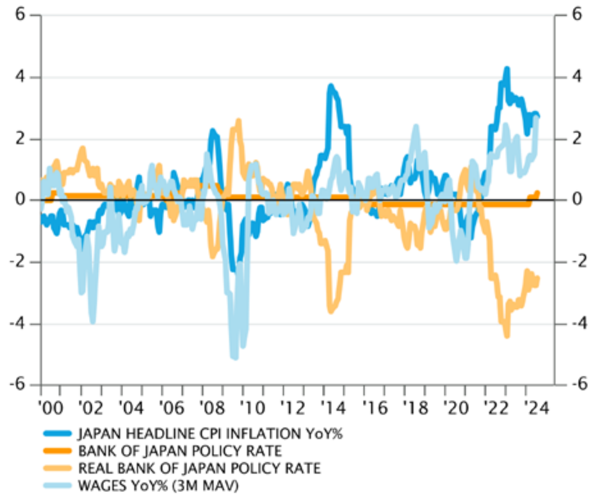
Beware of another move by the Bank of Japan

One central bank notably stands out from the rest: the Bank of Japan, which sent shock waves through financial markets in the middle of the summer lull by raising its rate to 0.25%. Since then, economic and inflation data in Japan have remained resilient, indicating renewed positive momentum following the slowdown of 2023. The Japanese economy appears to have finally emerged from a 30-year period of deflation, as the series of shocks since 2020 has effectively disrupted prices across all levels. With inflation above 2%, real interest rates (nominal rates minus inflation) are still deeply negative in Japan, unlike in other developed economies, and the Bank of Japan has finally embraced the idea of gradually normalising its monetary policy. Future markets currently do not expect another rate hike when the BoJ meets in September **(20/09).**

However, economic data released ahead of the meeting could prompt the central bank to take another small step if signs of persistent inflationary and wage pressures emerge.

In this context, PMI Manufacturing **(2/09)** and Services **(4/09)**, Labor Cash Earnings **(5/09)**, PPI Inflation **(12/09)** and National CPI Inflation **(20/09)** could lead investors' expectations around BoJ rates to be adjusted. This could have an impact on the yen and trigger another bout of volatility on global financial markets.

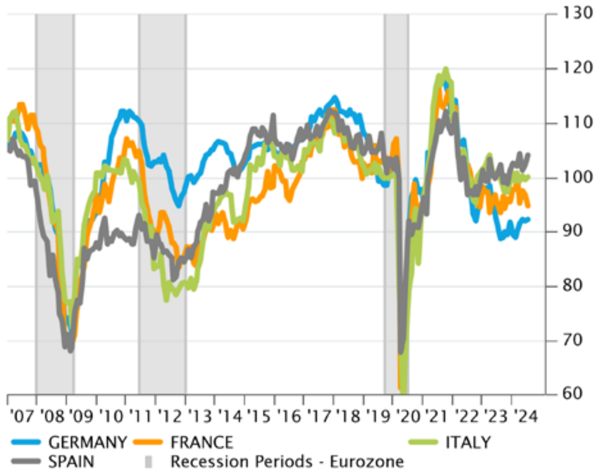
As inflation remains above the BoJ target and Wages are on the rise, the Bank of Japan can consider a normalisation of its monetary policy, away from the current very accommodative stance (very negative real yield).



Europe growth slowdown watch

After an encouraging rebound early this year, economic activity in Europe has stalled in the middle of the spring. Domestic consumption in the service sector has been losing steam, except a golden parenthesis in France during the Olympics. Additionally, industrial activity has been contracting consistently since 2022, impacted by a bitter combination of weak China demand, energy supply issues, sanctions on Russia and higher interest rate levels. After a reassuring GDP growth in Q2, economic data has been disappointing since the beginning of the summer. Germany remains the weak link of the Eurozone due to its vulnerability to the industrial sector and subdued external demand. Meanwhile, the brief optimism surrounding the Summer Olympics in France has quickly given way to the harsh reality of a country without a functioning government or a parliamentary majority, just weeks before a crucial budget vote.

Economic sentiment remains depressed in Germany and is weakening in France. The Eurozone's growth outlook is in question.



Clouds are gathering over the Eurozone,with the risk of persistently weak economic activity looming large. In this context, the release of PMI indices for the manufacturing **(2/09)** and services sectors **(4/09)**, retail sales **(5/09)**, Flash PMIs for September **(23/09)** and indices of economic sentiment **(27/09)** will be crucial in determining whether the situation is stabilising or will continue deteriorating in the Eurozone. These developments will also have significant implications for neighbouring economies such as Switzerland, where the release of inflation and Q2 GDP data **(3/09)** will be important too ahead of the SNB's quarterly meeting.

For further information

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