The Macro Month Ahead
October 2024

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Desynchronisation of global macro trends

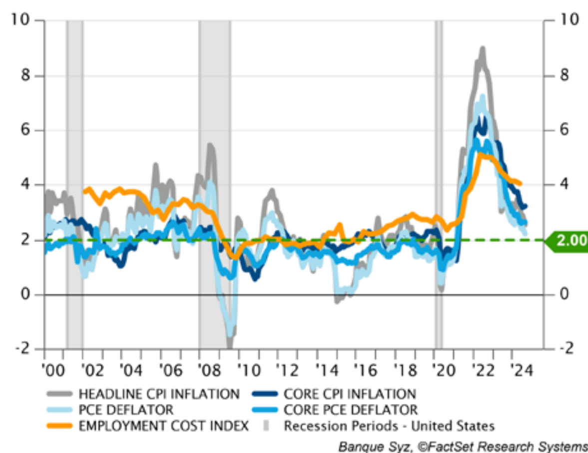
October is historically the most volatile month of the year for equity markets, and the 2024 vintage is likely to be no exception given the amount of data and events scheduled in the coming weeks. The US campaign is entering its final stretch before Election Day on 5 November, and this election remains highly uncertain with Harris and Trump neck and neck in the key swing states that will determine the outcome. Still on the political side, public finance issues are at the forefront of the agenda, with rising doubts about the ability of the new French government to regain control of a worrying trend and the announcement of a "painful budget" by the new UK government **(30/10).** Snap elections in Japan **(27/10)** will add to this already busy political agenda, while geopolitical developments in the Middle East are becoming increasingly unpredictable one year after the beginning of the conflict. On the economic front, diverging dynamics appear to develop across the main areas of the world economy, and Q3 GDP data due this month will provide fresh insights on recent growth dynamics. Europe, and especially Germany, shows worrying signs of weakness. The US economy appears to stay the course of a soft landing. More stimuluses might be announced in China after the surprise measures announced by the authorities last month. And if that wasn't enough, the US Q3 earning season will start around the middle of the month. All the ingredients are in place for October to live up to its reputation as a volatile month for financial markets, including political and geopolitical uncertainties, diverging growth dynamics across key economies, and updates on corporate results.

Adrien Pichoud,
Chief Economist

United States - Calibrating monetary policy expectations according to the resilience of growth

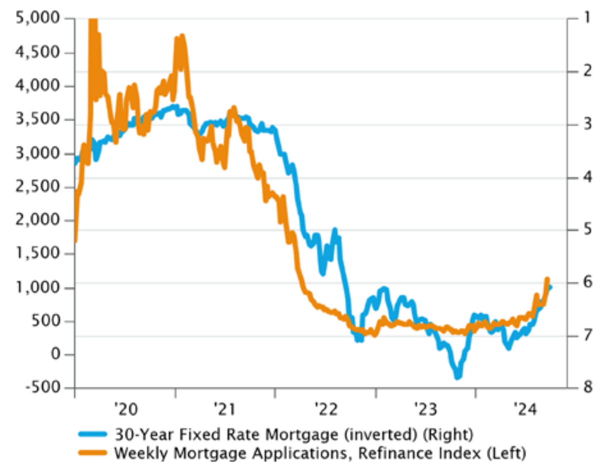
The Fed has launched its monetary policy normalisation campaign with a bang in September, cutting its key rate by 50bp from its highest level since 2001. Jerome Powell made clear that this large initial step was driven by the need to prevent a deterioration of the labour market now that inflationary pressures have abated. In that respect, all data related to the dynamic of the US job market will be closely scrutinised again this month as they will likely influence the size of the next rate cuts by the Fed. The monthly Employment Report **(4/10)** will be the most important data in that field, as a pronounced slowdown in the pace of job creations or an increase in the unemployment rate would likely lead investors to expect a fastened pace of rate cuts at the coming Fed's meeting. Weekly initial jobless claims and job opening data **(29/10)** will also provide insightful updates, even if they might be distorted by ongoing strikes in US ports and at Boeing, or the impact of Hurricane Helene.

All inflation gauges are trending toward the 2% target, and the Employment Cost Index should have slowed down in Q3.



Inflation dynamics have now become less of a concern for the Fed, but CPI inflation **(10/10)** and PCE inflation **(31/10)** for September will also be important for confirming that the balance of risk has shifted from inflation to growth in the US. The Employment Cost Index for Q3 **(31/10)** will provide an update on wage dynamics, with most leading indicators pointing to a continuation of the slowdown that has contributed to making the Fed confident about the inflation outlook. The Minutes of the Fed's last monetary policy committee **(9/10)** should provide more insight on the reasons behind the September's 50bp rate cut, and maybe help to better assess the reaction function of the Fed for the coming months. In the current context, it is likely that the evolution of retail sales **(17/10)** will also be an important data point to gauge the resilience of household spending, as the labour market is cooling off and consumer sentiment has been hovering at a moderate level.

With lower rates and easier financing conditions, stronger demand for mortgages and housing should increase and support US growth.

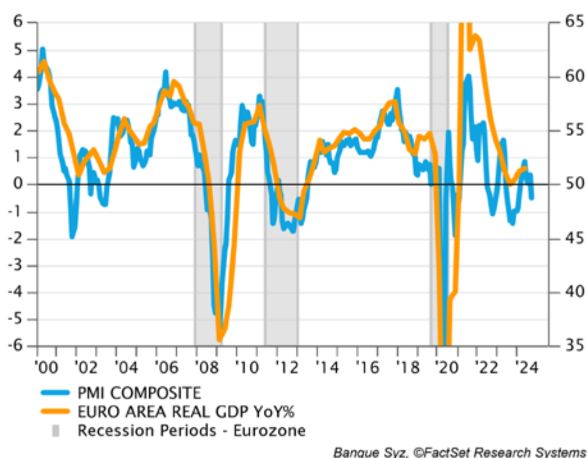


The first estimate of GDP growth for the third quarter **(30/10)**, while backward looking, should also be important in reassuring on the resilience of the US economy. . If growth proves to have been resilient over the summer, it will reinforce the likelihood of the soft landing scenario. The easing in financial conditions anticipated by markets since mid-summer will likely support economic activity in Q4 and beyond. As an illustration, the average mortgage rate has sharply declined in the recent months, even if it remains elevated from an historical point of view. This decline has triggered a pickup in demand for mortgage refinancing and home purchases. Real estate market data will be monitored in October to see whether the easing in financing conditions also materialises in higher housing starts and building permits **(18/10)**, increasing existing home sales **(23/10)** and improved homebuilder sentiment (NAHB index **17/10**).

Eurozone - On the brink of recession

Economic growth had already started to slowdown since the beginning of the summer, and the recent data has confirmed this negative trend. Activity in Germany remains depressed and continues to decline, to the point where GDP is now expected to stagnate at best for the entire year 2024. In France, the "Olympic" effect that had supported activity in August has quickly faded away, and the two largest economies of the Eurozone are currently experiencing economic contraction. This is partly offset by better dynamics in Italy and in Spain, where the service sector activity remains buoyant. Overall, growth momentum is weak for the monetary union and keeps undershooting expectations.

Economic activity is weakening again in the Eurozone, dragged down by Germany.



In this context, the evolution of service sector activity indices **(3/10)** and domestic consumption (retail sales **7/10**) will be key to assess the risk of the economic slump in Europe morphing into a recession. The first estimate of the GDP in the 3rd quarter **(30/10)** could be another interesting data for gauging the severity of the ongoing deterioration in economic conditions across the continent. In this context and as inflation has continued to slow down, the ECB is likely to accelerate the pace of its rate cut cycle. The central bank is now likely to cut its key rate by 25 bp when it meets this month **(17/10)**, while it was expected until recently that it will wait till December for its next move. The ongoing slowdown in growth and inflation dynamics requires an acceleration in the pace of monetary policy easing.

China – Assessing the extent of the summer slowdown to decide whether more support is needed

Chinese authorities have finally decided to “go big” on providing support to their ailing economy. Signs that growth was weakening further from an already subdued pace increasingly made the official 5% GDP growth target unrealistic, and the risk of the economy slowing below stall speed was becoming real. In the last week of September, several announcements were made to foster domestic demand and bring the 3-year continuous decline of the residential real estate market to an end. Those measures will take some time to feed through economic activity but could gradually help to spur businesses and households’ sentiment from their current depressed levels. Some follow-up on the September package is also likely to be announced in the coming weeks if the intended rebound of GDP growth doesn’t materialise. In that respect, Q3 GDP, industrial activity, investment, and retail sales’ data for September to be released this month **(18/10)** might have an impact. They will obviously not benefit from the economic package announced at the end of the month, but they could lead the government and the central bank to announce additional measures if they show a continuation of the summer slowdown. More rate cuts may also be in store by the PBoC in the second half of the month, especially if CPI inflation **(13/10)** remains weak. The aim of September’s announcements was clear: economic activity has to pickup in the fourth quarter to reverse a worrying downward trend, and head back toward a firmer growth rate. Additional government intervention might well be required in the coming weeks to reach that goal.

Start of the Q3 earning season

In parallel of this heavy macroeconomic agenda, US listed companies will start to report on their Q3 results this month. The big banks will launch the season (JP Morgan & Wells Fargo **11/10**, Goldman Sachs, Citigroup & Bank of America **15/10** Morgan Stanley **17/10**), followed by Tesla **16/10**, Netflix **17/10**, Procter & Gamble **18/10**, Alphabet & Microsoft + Visa **22/10**, Meta **23/10** estimated, Amazon & Mastercard **24/10** est., ExxonMobil & Chevron **25/10 est.** and Eli Lilly **30/10.**

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