FINMETRIX

MARKET COMMENTARY

ANALYSIS OF THE MONTH

FINANCIAL RISK MANAGEMENT

OCTOBER 2024

GOOD DAY

INTRODUCTION

September cast a pall over the global economy. Economic growth became anaemic in Canada, to the point of sending the number of unemployed in Quebec soaring. Our neighbor to the south, on the other hand, began to recover following a long-awaited Fed rate cut. Germany, often regarded as the engine of Europe, is seized up and seems to be infecting its neighbors. The British are rushing to save, worried as they are about their financial future. As for Chinese industrial companies, they have entered their fifth consecutive month of contraction.

Enjoy your reading!

CAD

ZOOM ON ▼ THE CANADIAN DOLLAR

MORE DETAILS

In September, the USDCAD currency pair closed the month at approximately 1.3512, with a low point at 1.3420. After three consecutive cuts since June, the Bank of Canada is likely to keep up the momentum, anticipates Jimmy Jean, Desjardins' chief economist. Its key rate, currently at 4.25%, could be lowered "by another 75 basis points by the end of the year", he predicts.

In August, inflation reached the 2% target sought by the central bank. And the job market, which seriously deteriorated in 2024, now needs to be eased: generally speaking, when interest rates rise, companies find it hard to invest, and therefore to hire. Thus, from January to July, Quebec saw the creation of just 24,600 jobs, a fifth of those created during the same period in 2023, according to the Institut de la statistique du Québec (ISQ). As for the unemployed, their numbers jumped by 22% in Quebec over the same period, bringing their total to 243,300. It has become urgent for the Bank of Canada to intervene in this matter," notes Jimmy Jean.

Added to this is the fact that economic growth in the country is anemic. Gross domestic product (GDP) rose by just 0.2% in July, and an initial estimate suggests no growth at all in August, according to Statistics Canada. This is well below the expectations of the Bank of Canada, which reacted to the figures by stating that it would like to see growth resume in the second half of the year. The Bank's objective is to promote an economic recovery such that GDP will rise by 2.8% in the third quarter.

Consulting firm Deloitte is a firm believer in this coming recovery. In a report, it notes that "lower rates will lighten households' debt burden sufficiently to enable them to start spending again, particularly on the real estate market". And to conclude: "After two years of below-average growth, we expect the Canadian economy to return to cruising speed in 2025.

USD

ZOOM ON ▼ THE AMERICAN DOLLAR

MORE DETAILS

The DXY index fell from 101.65 to 100.32 last month. In mid-September, the Federal Reserve (Fed) began a cycle of monetary policy easing, cutting its key rates by 50 basis points to a range of 4.75%-5%. Fed Chairman Jerome Powell gave two main reasons for this decision. Firstly, inflation, which stood at 2.2% in August, had returned to a level similar to that prior to the pandemic. Secondly, it was necessary to avoid any weakening of the labor market; when rates are high, companies generally have the reflex to curb their investments, and therefore hire less, or even lay off.

Interest rates look set to fall in our neighbor to the south. If the trend continues, the Fed expects key rates to fall by another half-percentage point by the end of the year, by a full percentage point in 2025, and by a further half-percentage point in 2026. We stress, of course, that expectations for such a distant future are necessarily uncertain.

The U.S. economy is feeling better. For example, S&P Global's U.S. flash PMI composite index, which reflects activity in the services and manufacturing sectors, came in at 54.4 in September. This exceeded the expectations of most analysts, who had forecast 54.3. (A score above 50 reflects an expansion in activity.)" This indicates that the U.S. is headed for healthy growth in the time ahead," notes Chris Williamson, Chief Economist at S&P Global Market Intelligence. In fact, revised gross domestic product (GDP) data for the first two quarters of 2024 are higher than previously estimated: the first quarter saw growth of 1.6% versus the 1.4% initially announced; and the second quarter, 3% instead of 2.8%. "The recovery we are witnessing is starting from a solid base, and this is promising for the future," says Michael Pearce, economist at Oxford Economics.

EUR

ZOOM ON ▼ THE EURO

MORE DETAILS

In September, the EURUSD rose from 1.1048 to 1.1189. For the third time in two months, the European Central Bank (ECB) lowered its key rates in September, bringing the interest rate for its main refinancing operations to 3.65%. This decision comes as inflation continues to slow in the eurozone, reaching 1.8% in September, its lowest level since June 2021.

That said, according to Eurostat, gross domestic product (GDP) in the eurozone grew by just 0.2% in the second quarter. This is a downward revision on the previous estimate of 0.3%. Performance varied from country to country, but it is worth noting that Germany, often considered Europe's economic powerhouse, saw its GDP contract by 0.1%.

Germany's leading economic institutes (Ifo, DIW, IWH, etc.) have revised their economic forecasts downwards. They now expect GDP to contract by 0.1% in 2024, compared with 0.2% last March. According to them, the German economy should grow modestly (+0.8%) in 2025, as it will the following year (+1.3%).

Germany is weighed down by the difficulties of its manufacturing industry, in particular its automotive sector, whose output fell by 2.4% in July, whereas most analysts had only anticipated a slight decline of 0.5%. Against this backdrop, German business sentiment fell for the fourth month in a row, to 85.4 in September from 86.6 in August, according to the Ifo barometer.

For the first time in seven months, economic activity in the eurozone declined in September. The S&P Global PMI fell to 48.9 from 51 in August. (A score below 50 indicates a contraction in activity, while a score above 50 indicates expansion). "This tumble shows that the two key players in the eurozone are in deep trouble: Germany is at a standstill, while France has seen only a fleeting boost from the Paris 2024 Olympics," says Andrew Kenningham, chief economist, Europe, at Capital Economics.

GBP

ZOOM ON ▼ THE POUND

MORE DETAILS

Last month, the GBPUSD rose from 1.3149 to 1.3396, after hitting a two-and-a-half-year high of 1.3415 on September 25. UK gross domestic product (GDP) rose by 0.5% in the second quarter, according to the Office for National Statistics (ONS). This was less than the previous estimate of 0.6%. Growth was mainly driven by the services sector, while manufacturing and construction underperformed.

Companies exporting goods are going through difficult times: 44% said their export order book was below normal in September, compared with 22% in August, according to the Confederation of British Industry (CBI). While orders are holding up across the Atlantic, they seem to be taking a beating in Europe.
Brexit-related red tape has led to a fall in trade in goods between the UK and the European Union (EU), "and the problem is getting worse", according to a study by Aston Business School. Between 2021 and 2023, UK goods exports to the EU were 27% lower than they would have been had Brexit not taken place. And this stems from the fact that many SMEs have given up exporting to the EU due to the continual addition of new regulations since the Brexit.

In a sign of the uncertain economic climate, Britons are giving priority to saving. The household savings rate reached 10% in the second quarter, compared with 8.9% in the previous quarter, notes the ONS. This is the highest savings rate since the pandemic.

Against this backdrop, the Bank of England left its key interest rate unchanged at 5% in September, putting on hold a cycle of rate cuts that began last August. Inflation is still "stubborn": although it held steady at 2.2% in August, core inflation - which excludes products with the most volatile prices, such as energy and food - nevertheless rose. Indeed, experts at the British central bank expect inflation to start rising again soon, and to be "around 2.5%" by the end of the year, due in particular to persistently high energy prices.

CNY

ZOOM ON ▼ THE RENMINBI

MORE DETAILS

The value of the USDCNH pair fell last month from 7.1153 to 7.0010, after briefly dropping below the symbolic 7 mark, to 6.9773, on September 28. A survey of purchasing managers by Caixin magazine showed that new manufacturing orders fell in September "at the fastest pace for two years", to 49.3 from 50.4 in August. Although the official data from the National Bureau of Statistics (NBS) are less drastic, they still show a fifth consecutive month of contraction, with the purchasing managers' index at 49.8 in September. (A score below 50 indicates a contraction in activity).

Unsurprisingly, the profits of Chinese industrial companies are suffering. According to the BNS, they fell by 17.8% in August, whereas they had risen by 4.1% the previous month. Looking at the period from January to August, they rose by just 0.5%. This poor performance reflects "weak domestic and foreign demand", says NBS statistician Yu Weining, pointing out that a number of natural disasters have also worked against Chinese industrial companies, "such as the high temperatures, heavy rains and floods that repeatedly hit several regions in 2024".

That said, Chinese stock markets surged at the end of September, reflecting the enthusiasm generated by the avalanche of measures just announced by the Xi Jinping government. These included lower interest rates, lower down payment requirements for mortgages and a reduction in banks' reserve requirements.

"These energetic stimulus measures should have a major impact on the country's economic activity over the coming months", says Gabriel Ng Song Quan, economist at Capital Economics, noting, however, that "imbalances between excess supply of many products and weak demand persist". In his view, recent trade measures taken against China, such as the increase in tariffs on electric vehicles and other goods decreed by the USA and Canada in September, are bound to "also weigh on the Chinese economy".

COMMO

ZOOM ON ▼ COFFEE

MORE DETAILS

The price of a pound of coffee jumped 83% in one year, to 2.69 USD on the Nymex. Weather plays a crucial role in driving up the price of coffee: adverse weather conditions can be enough to reduce annual production by 10-20%, and consequently drive up prices.

La Niña, one of the world's most powerful weather phenomena, is currently causing Brazil's worst drought in over 70 years. The situation is so critical that Brazilian growers have rushed their harvests so as not to lose everything: by mid-July, almost 74% of the beans had been harvested, according to Safras & Mercado; an unprecedented figure. Brazil alone produces 33% of the world's Arabica coffee, making it the world's leading producer.

Vietnam, the world's leading Robusta producer and second only to Brazil in terms of coffee output, is facing yet another challenge. Typhoon Yagi destroyed countless coffee trees, and the torrential rains expected in the coming months as a result of La Niña could lead to diseases affecting the bushes and their beans.

In addition to climate change, coffee producers are also having to contend with new European regulations. The latter aims to ban all coffee from areas where deforestation is rife and is due to come into force at the end of the year. The result? Many market players are rushing to buy the beans, wherever they come from, before the regulations are implemented. This has the immediate effect of artificially driving up prices. As for the producers themselves, those in the affected areas are very concerned about their future, since half of the world's coffee demand comes from the European Union and North America.

For Western consumers, the rise in coffee prices has yet to really affect their wallets. The price of roasted or ground coffee rose by just 1.6% in 2023, according to Statistics Canada. However, between July 2020 and July 2024, the increase was 23.2%, and it could jump in the coming quarters due to a "potential drastic drop" in production, considers Sven Anders, Professor of Food Economics at the University of Alberta.

SEEN IN OUR PERISCOPE

When a woman earns more than her husband

Whenever a woman earns more than her partner, the risk of the couple separating is "significantly increased", reveals a study by the Institut national d'études démographiques (Ined). Couples in which the woman's share of income exceeds 55% are "11 to 40% more likely to separate than couples with equal incomes". The wider the gap, the greater the risk of separation, says the French study.

Source: La Tribune.

Link: HERE

UK abandons coal

The UK has said goodbye to coal - a first for a G7 country. The closure of the UK's last coal-fired power station, at Ratcliffe-on-Soar, between the cities of Derby and Nottingham, took place at the end of September. It sounds the death knell for the ultra-polluting fuel in the country's electricity production. The plant will be completely dismantled "by the end of the decade", according to its operator, Uniper. A "carbon-free technology and energy cluster", including green hydrogen, will then be set up on the site.

Source : MIT Technology Review.

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