**Intro:**

Welcome…

**The Quantitative section (1/3)**

**US Data Releases:**

**Mortgage Applications (WoW) – Current: -0.8% - Prev: -2.9% - Change: +2.1% (Still negative)**

Starting with Mortgage applications - I believe this to be one of the most crucial financial indicators for giving insight into the implications of rate hikes not just in the US, but also in other high-interest rate economies (assuming the US can act as a proxy for other high-interest economies). This week saw a rise of 2.1% relative to last week although the current figure stands at -0.8% relative to last week, demonstrating the rate of mortgage applications falling is also falling. With that said; I don’t see this metric getting any better when looking at the macro perspective. This is because, realistically, as interest rate increases pass through into the economy, in this case, the housing market, fewer people want to take out expensive loans. This in turn will push down domestic demand and negatively impact the multiplier effect (money spent is money made etc.). The long-run implications will speak louder than words… unless people don’t care about paying a higher interest rate on their given loan.

**Initial Jobless Claims (WoW) – Current: 220k – Prev: 217k – Change: +3k/ 1.38%**

Jobless claims saw a rise this month, demonstrating that more people are claiming jobless benefits relative to last week. The reason for me marking this as green, aka a good thing, is because this also ties into the multiplier effect which is a particularly touchy subject when the FED look at their preferred PCE report. Thus, going forth, higher jobless claims are what the markets want to see due to it suggesting the FED (as well as other potentially interdependent economies) will not push rates higher and therefore increase the probabilities of a ‘hard landing’ (recession). However, too many claims are indicative of a slowdown anyway and therefore one must ensure the level of claims is beneficial for inflation but not bad for the long-term growth prospects for a given economy, in this case, the USA.

**Continuing Jobless Claims (WoW) – Current: 1.688mn – Prev: 1.694mn – Change: +4k/ 0.24%**

Moving onto continuing claims which represents the cumulative figure, this week, of those claiming benefits. This is different to initial claims due to it not just looking at claims made in the last week but also all the time before, hence cumulative. Again, this metric also saw a fall which is good in the eyes of markets as it implies further rate hikes have a lower probability of actually happening. Additionally, one must understand the government pays these benefits, thus, lower claims represent lower government spending which during a time of uncertainty, is very favourable.

**US CPI (August) – Current: 3.7% - (3.6% forecast) - Prev: 3.2% - Change: +0.5%**

US headline CPI saw an increase of 0.5%, higher than economists’ expectations of only a 0.4% increase. This re-ignites the fear of further rate increases from the FED due to monetary policy (i.e. interest rate hiking) being used to lower inflation and higher rates = lower probability that the economy can withstand it. Due to this being the headline CPI metric, it includes food and energy. With that in mind, Oil is seeing one of the biggest bull markets this year due to production cuts from OPEC+. This in turn pushes up consumer spending, especially in the US where cars are very well utilised, and therefore explains why consumers have seen an increase in their spending this month relative to July.

**US Core CPI (August) – Current: 4.3% - Prev: 4.7% - Change: -0.4%**

Core inflation on the other hand strips out volatile items such as energy and food (and tobacco), which in turn explains why this metric saw a fall rather than a rise like the headline figure. This is good from the perspective of the markets as it shows domestic price pressures are easing. The issue with the headline figure is that the issue (Oil) is systemic rather than idiosyncratic. Therefore, monetary policy cannot fix this, rather, government subsidies (aka fiscal policy) may step in…

PTO.

**Global Data Releases:**

**China inflation (August) – Current: +0.1% - Prev: -0.3% - Change: +0.4%**

Moving towards global data which saw Chinese inflation reach 0.1% which is a good thing for China as in July, they were experiencing deflation (prices falling due to lack of domestic demand and spending). This is music to the ears of Europe which are very much dependent on China for trade and suggests Europe and China may come out of ‘this’ together.

**PBoC requirement Ratio (China) – Current: 7.4% - Prev: 7.65% - Change: -0.25%**

Another update from China this week, the PBoC (People’s Bank of China) lowered their reserve requirement by 0.25%. This represents approximately $70bn being freed up for domestic stimulus purposes. A lowered reserve requirement means that the central bank does not need to hold as much cash as before, thus, making them more reactive to any potential failings in the economy, such as the overly leveraged and unstable property market. This creates a sigh of relief for many, especially in Europe, because It suggests consumer sentiment is less likely to be damaged due to the probability of a systemic crash falling. With that said, the property market in China is looking….interesting to say the least.

**ECB Interest Rate (Thursday) – Current: 4% - Prev: 3.75% - Change: +0.25%**

Moving onto Europe, they increased their interest rate on Thursday to an all-time high of 4%. This is below the UK’s 5.25% and the US’ 5.5% rates. The increase was softened by policymakers who suggested such a level would suffice for taming inflation in the long run, aka, they may not need to increase rates again. This creates positive prospects for Europe, especially considering China has a higher probability of coming out of a COVID-induced hangover given the aforementioned information. Europe looks nice, and so do their bonds.

**UK unemployment (3 months to July) – Current: 4.3% - Prev: 4.2% - Change: +0.1%**

The UK came out this week with unsurprisingly disappointing data with showed unemployment increasing by 0.1% in the 3 months to July. Despite this being good from a monetary policy perspective (i.e. rate increases have a lower probability), I think this represents the start of the fall of the UK labour market which is already under strain from post-Brexit implications and immigration. If this snowballs, which I fear it could do, this could represent a lot of tax money going towards benefits rather than infrastructure for example.

**Qualitative Section (2/3)**

**Bank of Japan announcement**

Monday saw BoJ governor ‘Kazuo’ suggest the probability that Japan’s interest rates will turn positive by the end of the year. This demonstrates the impact of inflation on Japan’s economy which currently stands at 3.3% YoY for July, down from the peak of 4.3% in January. Given Japan’s debt-to-GDP ratio being 263%, it is understandable why it has taken so long to increase rates as higher rates mean higher interest on that 263%. With that said, the implications of ending the 8-year negative interest rate experiment will not only be vast, but unknown.

**TTF Natural Gas index**

TTF, the EU benchmark for Gas prices, had a rough start to the week after Australian LNG producers, who represent roughly 8% of world supply, continued their strikes for higher wages. They are expected to walk out for 2 weeks if a pay deal is not arranged by mid-September. This is likely to disproportionately impact South-East Asia which relies heavily on Australia for said Gas. Additionally, gas supply constraints are rather a touchy subject for the EU due to the loss of Nord steam etc. which in turn has European investors worried that their 90% filled up gas storages are done for. Folly.

**Brent Crude Oil (international benchmark)**

Brent Crude Oil, as mentioned in the Quantitative section, has been enjoying the roller coaster of OPEC+ cartel decisions. This comes as Saudi Arabia extends their 1,000,000 bpd cut from September to the end of the year. Additionally, Russia chipped in by doing the same but with 300,000 bpd. Due to Russia being on an unstable footing for funding the war in Ukraine, they seem to have begun finding new routes to ship the oil to avoid sanctioned areas. With that said, their customers are falling and there is only so high oil prices can go…

**TSMC delaying chip deliveries**

Finally, for the Qualitative section, TSMC (Taiwan Semiconductor Manufacturing Company), asked a major supplier this week to delay the delivery of high-end chipmaking equipment. This in turn caused the Philadelphia Semiconductor Index to drop 1.4% on the day as the sector (chip sector) was not very happy, even despite Arm’s blockbuster US listing. It would be interesting to know if TSMC has both hands on the table…

**Asset Directions (3/3)**

**Commodities**

Commodities I see as having some fun times ahead. Oil, in my opinion, is vastly overextended it willcome down in the medium term to more rational levels, even despite the aforementioned price cuts. Copper in the medium to long term is likely to perform better if China can drink some water. With that said, the property market in China is a large driver of demand for Copper due to piping. Therefore, if China survives but the real-estate sector doesn’t, it is unlikely copper will be doing anything other than bounce around irrationally. Finally, Gold is looking interesting from a long-term perspective when considering geological ‘stability’.

**Indices**

Indices (index of stocks such as FTSE) for Europe may perform better than their US counterparts merely due to their dependence on China and lack of dependence on the AI boom like the NASDAQ and S&P seem to be. Given the problem with interest rates going forward, I believe only the strongest companies will survive….

**Fixed Income**

Given the ECB’s rate increase being hinted as the last as well as US inflation coming down and UK unemployment increasing, it is safe to say interest rates are not going much higher. Thus, double-digit capital gains are on the table on the bonds alone, let alone the high interest available on such bonds which can last for decades…

**Foreign Exchange**

Given the lowered inflation and therefore interest rate hiking prospects, demand for carry trades (borrowing from a low-interest economy like Japan and putting it in a high-interest US bank for example) is likely to subdue as the risk of currency exposure outweighs the demand for interest payments.

****Sincerely,

**Zachary R Allen**

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