

# China takes measures to boost its economy

With the central bank meetings over, investors last week turned their attention to developments in US and European economies, which will have a bearing on the pace of future rate cuts.

But that wasn't before the SNB got in on the action as the last major central bank to review rates. In his outgoing speech, Thomas Jordan adopted a measured approach, announcing a quarter-point reduction in the benchmark policy rate to 1%. The message is clear: both inflation and the economy are under control. However, the SNB has chosen to retain some flexibility to respond to any renewed uptick in inflation or an excessively strong franc. In August, Swiss inflation fell by more than anticipated, reaching 1.1% compared to 1.4% in May. This decline can be attributed to a reduction in the cost of imported goods and services. Currently, inflation is largely influenced by the rising price of services. In light of these developments, the SNB has revised down its inflation forecasts for both the current year and the next, while maintaining its growth forecast at 1% for 2024.

## SNB revises down inflation projections

The latest flash PMIs, released on Monday, indicate a deterioration in economic activity across Euroland, which can be attributed to the post-Olympic Games period in France and the ongoing weakness in German industry. These data indicate that the ECB will need to implement a more rapid reduction in interest rates in order to provide support for the region's economy.

In the US, business activity remained robust in September, with the flash S&P composite index clocking in at 54.4, slightly above the 54.3 consensus. The services sector demonstrated resilience, while the manufacturing sector continued to experience a contraction for the second consecutive month. GDP growth was reaffirmed at an annualised rate of 3%, while the PCE consumer price index slowed to 2.2% in August from 2.5% previously. In contrast, core inflation (which excludes volatile items) reversed up to 2.7% from 2.6% in August. In conclusion, the data supports the Fed's decision to cut rates by half a percentage point and focus instead on the labour market. The rate of inflation is approaching the official target set by the Fed, indicating that this is no longer a threat.

## String of support measures announced in China

Despite this newsflow, that which drove markets last week was the series of support measures announced by the People's Bank of China. This will entail cutting rates, in particular banks' reserve rates and policy rates as well as mortgage rates. The central bank also plans to inject massive amounts of liquidity into the equity market. By doing this, China is hoping to stimulate its economy, which is struggling to recover from the pandemic, even as it remains determined to achieve its 5% GDP growth target.

This news galvanised the markets. The S&P 500 rose by 0.62% over the week, while the tech-focused Nasdaq 100 ended the week up 0.95%. In Europe, the Stoxx 600 gained 2.69%, driven by luxury goods, while Chinese equities soared by 25.52%, as measured by the CSI 300, and by 21.91% as per the Shanghai Composite.

## Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
<b>Latest</b>	0.84	0.94	12'234.05	5'067.45	19'473.63	7'791.79	8'320.76	5'738.17	18'119.59	39'829.56	1'174.52
<b>Trend</b>	➡	➡	⬆	⬆	⬆	⬆	➡	⬆	⬆	⬆	⬆
<b>YTD</b>	-0.51%	-0.24%	9.84%	4.97%	16.25%	4.60%	0.51%	1.87%	3.00%	19.02%	8.15%

(values from the Friday preceding publication)



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