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The Presidential Debate Effect

The U.S. bond market took investors by surprise since the election debate that lacked any discussion or credible plan to reduce the budget deficit, which, according to a recent report released by the Congressional Budget Office, is projected to reach $2 trillion in fiscal 2024. While the manufacturing PMI in both the U.S. and China indicates a persistent contraction in manufacturing activity and a slowing economy, the response of the U.S. bond market contrasts sharply with that of the Chinese bond market. While the interest rate on the Chinese 10-year bond hit a new low, the U.S. bond yield spiked by more than 20 basis points since the presidential debate. If it holds, this increase in interest rates will affect mortgage rates, car loans, and credit card interest. Comments from Jerome Powell today about disinflation failed to calm bond investors who have become focused on the excessive fiscal spending and widening federal deficit.

Fady Mansour, Ph.D
Director of The Butler Center for Research and Economic Development
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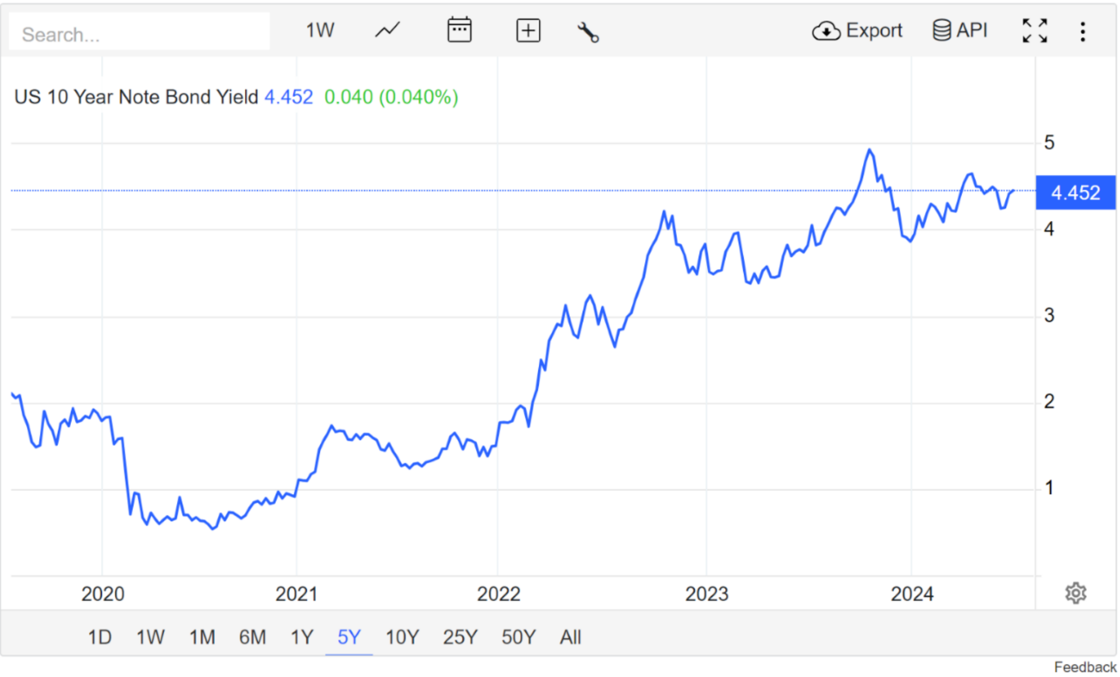
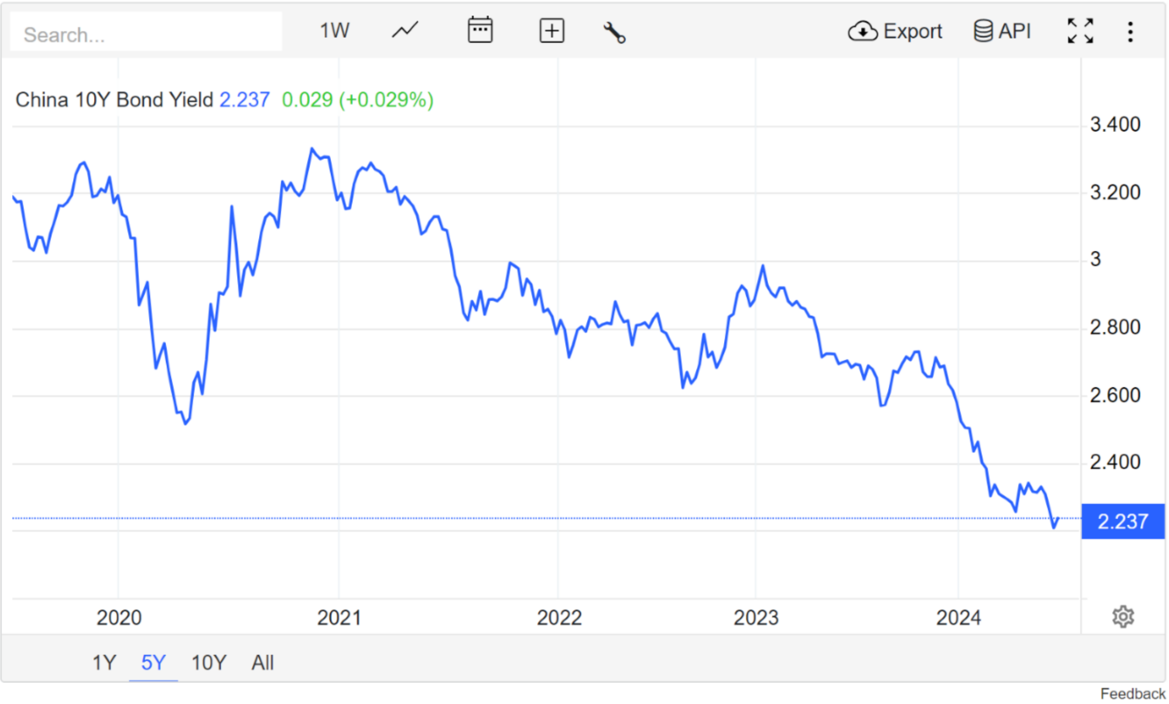
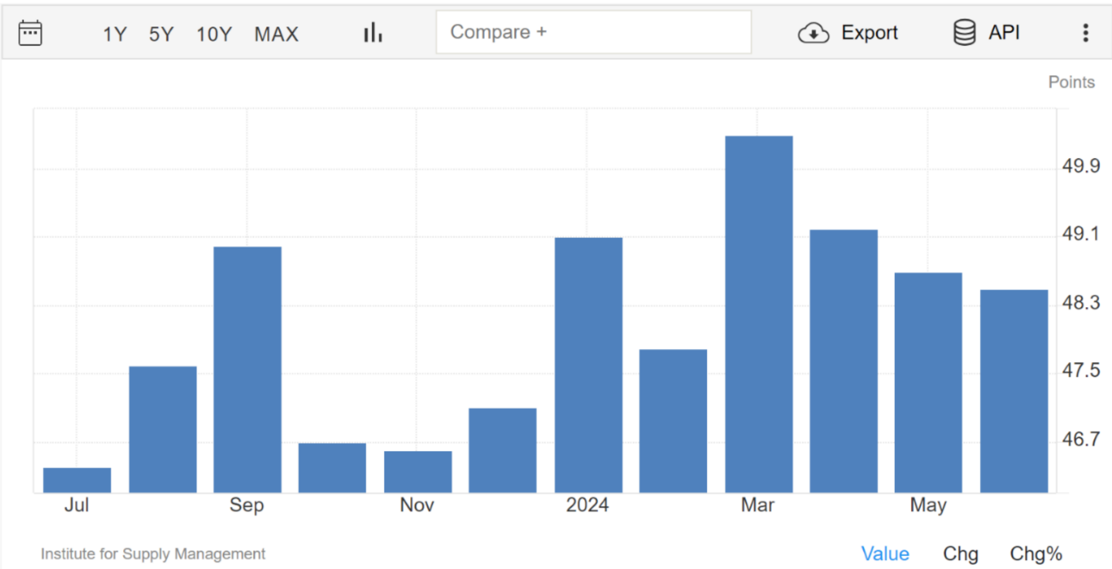
The yield on the US 10-year Treasury note rose past 4.45% at the start of the second quarter, its highest in three weeks, as markets continued to assess potential fiscal risks in the US economy and the outlook for the Federal Reserve's monetary policy. Stronger expectations of a Donald Trump presidency following last week's debate, and its resulting expansionary fiscal policy outlook, supported an inflationary scenario and pressured long-dated Treasury notes and bonds, flattening the curve's current inversion. In the meantime, data from the ISM showed that the manufacturing sector contracted more than expected in June, while prices slowed. Roughly 65% of the market has positioned for a Fed rate cut in its September meeting, and over 60% expect two or more rate cuts by the central bank this year.



China's 10-year government bond yield fell to around 2.18%, reaching an all-time low as investors grappled with conflicting signals from recent PMI figures. A private survey revealed that factory growth in China surged to its highest level in over three years in June, slightly exceeding market expectations and indicating positive momentum in industrial activity. However, official data released over the weekend painted a less optimistic picture, showing that manufacturing activity remained in contractionary territory for the second consecutive month. Meanwhile, the services sector presented a more nuanced development, staying in expansionary territory but easing to a six-month low in June. The divergence in PMI data points to an uneven recovery, with strengths in certain areas counterbalanced by vulnerabilities in others, leading to a complex and cautious outlook for China's economic growth.



The ISM Manufacturing PMI unexpectedly declined to 48.5 in June 2024 from 48.7 in May, below forecasts of 49.1. The reading pointed to a third straight month of falling manufacturing activity and the lowest since February, as demand was weak again, output declined, and inputs stayed accommodative. Production (48.5 vs 50.2) and employment (49.3 vs 51.1) contracted while faster decreases were seen for inventories (45.4 vs 47.9) and backlog of orders (41.7 vs 42.4). On the other hand, new orders (49.3 vs 45.4) shrank less and price pressures eased (52.1, the lowest since December, vs 57). Also, the supplier deliveries index remained in 'faster' territory (49.8 vs 48.9). source: Institute for Supply Management



The official NBS Manufacturing PMI in China stood at 49.5 in June 2024, holding steady for the second straight month and aligning with market forecasts. The latest result marked the fourth time of contraction in factory activity so far this year, as Beijing was struggling to spur a strong economic revival amid weak demand, deflation risks, and a protracted property weakness. New orders (49.5 vs 49.6), foreign sales (48.3 vs 48.3), and buying levels (48.1 vs 49.3) all declined for the second month in a row while a fall in employment persisted (48.1 vs 48.1). In the meantime, output grew for the fourth month but its pace of rise was the softest in the sequence (50.6 vs 50.8). Simultaneously, delivery time shortened for the third month (49.5 vs 50.1). On prices, input cost inflation slowed sharply to a three-month low (51.7 vs 56.9), with output prices decreasing following a rise in May (47.9 vs 50.4). Finally, sentiment improved to its highest level since March (54.4 vs 54.3). source: National Bureau of Statistics of China