



PKB's Market Espresso

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All eyes on employment...

Upcoming readouts on the US labor market will give Federal Reserve (and market) more insights on future **interest rate cuts** – With inflation slowing, Powell **shifted attention from inflation to employment** indicating that further cooling in labor market is not welcomed!

- On Friday **non-farm payrolls** for August expected at +165K (compared to 114K in July) with unemployment at 4.2% (from 4.3%)
- The **unemployment rate**, which now stands at **4.3%**, is particularly important as it is **already above the Fed's forecast**
- The initial jobless claims on Thursday will get a lot of attention
- **July's low reading** contributed to the **rout in equity markets** in the first week of August

... but other data is important too

- While all eyes are on Friday's payrolls, other data will add colour to the macro picture
- Yesterday's **Manufacturing ISM**, at **47.2**, was marginally up but **below expectations**
- The index has been below 50 for five months in a row
- Notably, the **price component** was up, signaling potential inflation pressures
- The job openings **JOLT** figures out today will help assessing the strength of the labour market: the **ratio of job openings to unemployed people** should decline from 1.2 to 1.55
- Tomorrow's **Services ISM** is expected to **fall to 51.1**, still in expansionary territory
- The **ADP employment** -expectation is 141k- will pave the way for Friday's numbers

German local elections

All three parties in **Scholz's** center-left coalition suffered **painful losses** while the nationalist Alternative for Germany (**AfD**) and a new anti-establishment populist party booked **record gains** in the eastern states of **Thuringia** and **Saxony** last weekend.

- The far right's first victory in a German state election in the post-war era with a 32.8% showing in Thuringia and 30.6% in Saxony (behind the mainstream conservative Christian Democrats);
- For now **Scholz's coalition** should **hold power**, but situation will definitely create more **political tensions** in the build-up to next year's national elections;
- **Immigration** and stance on **Ukraine-Russia** are the main issues that will dominate the next campaign.

Auf Wiedersehen Volkswagen?

Volkswagen considering to **close factories** in **Germany** for the first time in 87 years citing the specter of major **cost-cutting** measures.

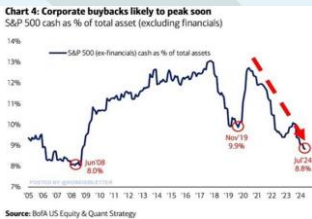
- **One car plant** and **one component plant** in Germany are considered **obsolete**;
- Company also announced it is also trying to end the company's thirty year old pact with workers to keep jobs secure;
- Main target is its underperforming "**Volkswagen**" **brand** – whose profit margins are being squeezed by a **difficult transition into EVs** and by a **slowdown** in **consumer spending**;
- Company has **lost momentum** in **China** (biggest market) and **fallen far behind competitors** in the **EV** segment.

Company cash burn: what of buy-backs?

Share buybacks and continuous **dividend increases** were an important driver for the US equity markets due to their cash generation. These drivers could soon disappear:

- Cash as a percentage of total assets for S&P 500 companies fell to 8.8% in July, the lowest level since 2009.
- This percentage is now close to the 2008 Financial Crisis low of 8.0%. This percentage has declined 4 points from near multi-decade highs.
- S&P 500 companies have spent most of their excess cash which may limit future dividends and share buybacks.
- In other words, firms may be more willing to rebuild cash levels and therefore reduce capital returned to shareholders.
- Will record stock buybacks fade out soon?

Source: BofA



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