Yardeni Research

MORNING BRIEFING
September 24, 2020

Cold Warriors

Check out the accompanying chart collection.

(1) Trump's and Xi's barbs heat up cold war. (2) Xi wants China's private businesses to kowtow. (3) China unveils plans to blacklist "unreliable" foreign companies. (4) Trump's attempt to ban WeChat foiled for now. (5) Battle over TikTok escalates. (6) Xi won't stand for opposition at home or in Hong Kong. (7) US finds another Chinese spy, this time in NYC. (8) US's visible support of Taiwan irks China. (9) Chinese military on display on India's border and in South China Sea. (10) China adopts MMT to keep its economy growing. (11) Nikola hits a bump in the road, while Tesla's smooth sailing continues.

Geopolitics: Xi and Trump Face Off. Brashness is something normally attributed to boxers. But right now, US President Donald Trump and China's President Xi Jinping both have enough of it to keep the whole world on edge as they duke it out in the global boxing ring.

Xi is behaving like a dictator at home and an instigator abroad. Actually, he has been doing so ever since he became the supreme leader in 2013 and went on to appoint himself president for life in 2018. A while ago, we concluded that Xi is a Maoist.

He has pushed for the loyalty of the country's business leaders, targeted the development of industries that will make China independent of the US, and cracked down on Hong Kong dissenters. Meanwhile, skirmishes with India's army on its border and military aggression in the South China Sea are keeping China's neighbors on edge. And the US government has identified numerous Chinese spies at US companies and universities, who have been stealing US technologies and proprietary information to send home.

President Trump has also been provocative, dubbing Covid-19 "the China Virus." He also has sent high-level diplomats to Taiwan and sold military equipment to the island nation, which Beijing considers to be part of "One China." And most recently, he has threatened to prohibit China's businesses TikTok and WeChat from operating in the US.

This high-level political tit-for-tat undoubtedly will make it tougher for companies of both countries to operate in each other's markets. While this evolving cold war hasn't rattled investors yet, the potential for it to do so is growing. Here's a look at some of the bellicose leaders' recent moves:

(1) *Business must toe the line.* China's government appears to be demanding more allegiance from the country's private businesses. The Central Committee of the Communist Party of China (CPC) issued guidelines to "strengthen the relationship" between the CPC and private enterprises. Businesspeople must "maintain high consistency" with the party regarding the political aspects of position, direction, and principles, so that they can make more contributions to the economic recovery, the guidelines stated.

In addition, President Xi through a written statement "stressed efforts to unite people from the private sector around the Communist Party of China (CPC) to better promote the healthy development of the private sector. … [Xi] asked Party branches at all levels to unite business people from the private sector and strengthen connections with the CPC," China's state television CGTN reported on September 16.

A September 16 *Sinocism* article concluded that these new CPC directives will result in "even more patriotism and political correctness from the private sector." Companies and executives that oblige will benefit financially at home but could face questions about their intentions by foreigners if they attempt to expand overseas.

The guidelines also introduce questions about how the CPC will treat foreign-owned companies operating in China. An early indication came over the weekend when China's Ministry of Commerce released its "unreliable entity" list. Companies will make the list if they are considered a danger to national sovereignty, security, or the development interests of China. Those on the list could be restricted or prohibited from trade or investment in China. Cisco, Dell/EMC, HP, Lockheed Martin, and Rockwell Collins could potentially be added to China's list, according to a consulting firm quoted in a September 21 CNBC article.

(2) *US has an enemies list too.* China's unreliable entity list is analogous to the US Commerce Department's Entity List, which restricts certain foreign companies from operating in the US. Huawei, for example, made the list when the US determined that the country was a risk to US national security.

Currently, President Trump is attempting to ban the use of WeChat and TikTok in the US while those companies are still under the control of Chinese companies. Last weekend, a US judge in California blocked the Trump administration's ban on WeChat downloads. The judge ruled in favor of WeChat users who argued the ban impinged on their First Amendment rights.

The Trump administration's move to ban downloads of TikTok was preempted by a proposed deal in which Oracle and Walmart would take equity stakes in TikTok; the company's data would be hosted on Oracle's US servers but its core algorithms kept under Chinese control. The deal is still being negotiated, with TikTok parent ByteDance wanting 80% ownership after the deal and Oracle wanting 80% of the new company to be distributed to US investors, with ByteDance owning none. The Chinese government has yet to formally weigh in, but a September 23 editorial in state-run *China Daily* strongly criticized the sale: "What the United States has done to TikTok is almost the same as a gangster forcing an unreasonable and unfair business deal on a legitimate company."

(3) *China's critics punished*. The latest sign that no opposition will be tolerated was sent by a Beijing court, which sentenced Ren Zhiqiang, an influential businessman who'd been critical of Xi, to 18 years in prison. The 69-year-old was convicted Tuesday of corruption, receiving bribes, embezzlement, and abuse of power, and he was fined about $619,000, a September 22 *WSJ* article reported. The court said Ren confessed to all charges and couldn't be reached for comment.

What does it take to be sentenced to 18 years in prison? In this case, an essay accusing Xi of mismanaging the Covid-19 pandemic and warning that his leadership style was approaching Mao Zedong's system that crushed people's rights and interests. Ren didn't name Xi when he wrote: "There stood not an emperor displaying his 'new clothes,' but a clown who stripped off his clothes and still insisted on being an emperor," the essay read, according to the *WSJ* article. "Despite holding up pieces and pieces of loincloth in trying to hide the reality of your nakedness, you don't hide in the slightest your resolute ambition to become an emperor."

The court ruling followed a CPC national security law imposed earlier this year that criminalizes Hong Kong's secession, subversion of state power, terrorism, and collusion with foreign entities, with punishment as steep as life in prison. The law signaled Hong Kong's lack of autonomy, and it effectively ended the volatile protests that had been occurring in Hong Kong against Chinese leadership.

(4) *Chinese caught aggressively spying.* Baimadajie Angwang, a naturalized US citizen, was the latest person charged with spying in the US for China. He allegedly reported to the Chinese government about activities of Chinese citizens, particularly Tibetans, in the New York area. Angwang—a New York City police officer and former US marine with Department of Defense security clearance—was allegedly feeding information to officials in China's New York consulate. Angwang's brother is reportedly serving as a reservist in China's People's Liberation Army. This is just one of many US allegations about Chinese-sponsored spies in the US that we've written about. (See our *Morning Briefings* on July 30, 2020, February 21, 2019, and February 7, 2019.)

(5) *Fighting words.* This week's UN general assembly meeting was the latest arena in which President Trump could poke the tiger by continuing to rebrand Covid-19 "the China Virus" while placing blame for the related deaths at the country's feet. "We must hold accountable the nation which unleashed this plague on to the world: China," said Trump according to a September 22 *FT* article.

The Trump administration also irritated China with its visible support of Taiwan. US Under Secretary of State for Economic Growth, Energy, and the Environment Keith Krach flew to Taiwan last week to attend a memorial service for former Taiwan leader Lee Teng-hui. Lee was Taiwan's first leader to suggest separating Taiwan from mainland China, which "makes him No.1 or No.2 most hated person on Beijing's list for Taiwan," observed Yinan He, an associate professor in the Department of International Relations at Lehigh University in a September 18 CNN article.

Krach's trip followed US Secretary of Health and Human Services Alex Azar's visit to the island, ostensibly in the name of pandemic cooperation. The US has also agreed to provide Taiwan with additional weapons sales and has sent more military planes and warships to the region. Most recently, the Trump administration has proposed the sale of long-range missiles that would allow Taiwanese jets to hit Chinese targets, a September 17 *NYT* article reported.

Xi has proven he can dish it out as well. This week at the UN annual meeting, he said he opposed unilateralism, bullying, and any country acting like "boss of the world," according to a September 22 article in Xinhuanet. He added that the UN should uphold the rule of law and "not be lorded over by those who wave a strong fist at others." There's little doubt to whom he's referring.

China also has done more than talk this year: It has been skirmishing with India's army along the border the two nations share. It has acted aggressively in the South China Sea, holding military operations and claiming disputed territory. And it has provocatively been displaying its military might in the Taiwan Strait and flying military planes into Taiwan's airspace.

China: High-Octane MMTea. China is famous for its herbal medicines and therapeutic teas (if only they could cure Covid-19!), but lesser known is that the nation also leads the world in the use of Modern Monetary Theory (MMT) to revive economic growth.

To explain, the Chinese government responded to the Great Financial Crisis (GFC) with massive fiscal spending and lending by the state-owned banks. They've continued drinking this tea ever since. They've been able to do so because inflation has remained subdued. Fit these puzzle pieces together, and the picture is a Chinese version of MMT. Let's have a closer look:

(1) *Infrastructure spending on the fast track.* According to an August 24 *Asia Times* article, during August, China National Railway Corporation unveiled plans to build about 36,000 kilometers of high-speed rail arteries and feeder lines to connect China's largest megacities—all of those with a population of half a million or more—and outlying regions. About 80% of China's 700-plus county- and prefecture-level cities are above that population threshold, according to a 2019 census. The plan would more than double the length of China's high-speed railway network, already the world's longest, to more than 70,000 kilometers within 15 years.

China embarked on its building spree after inaugurating its first high-speed railway between Beijing and Tianjin just before the 2008 Olympics. Today, almost two-thirds of the world's high-speed railways—i.e., railways with top speeds of at least 200 kilometers per hour—operating commercially are in China.

The Western Theater Command of the People's Liberation Army noted on its WeChat account last month that an express rail link between Chengdu and Lhasa means troops and assets can be moved more efficiently into Tibet and along China's long border with India and other countries.

(2) *Lots of credit.* How will China National Railway Corp. pay for this latest spending spree? It already has more than $1 trillion in debt; it will have to borrow much more. That shouldn't be a problem since China's banks continue to pour money into the economy. China's bank loans

equaled US bank loans during July 2010 at $6.6 trillion (*Fig. 1*). Since then, the former has soared $17.6 trillion to a record $24.2 trillion last month, while the latter rose only $3.9 trillion to $10.5 trillion. Over just the past 12 months through August, they were up by a record $2.8 trillion (*Fig. 2*). The shadow banking system provided an additional $2.0 trillion, also a 12-month record (*Fig. 3*).

Disruptive Technologies: Good and Bad EVs. In the September 3 *Morning Briefing*, we warned that that the excitement surrounding Tesla and electric vehicles (EVs) was leading to a surge of new startups doing reverse mergers with the capital market's favorite new vehicle, special-purpose acquisition companies (SPACs). "As these two megatrends combine, we're afraid the future will see a traffic jam at best and a four-lane pileup at worst once investors differentiate between companies with proven versus unproven technology and determine which barely profitable companies will or won't be more profitable in the future," we wrote.

The first casualty came sooner than expected. Nikola's founder and Executive Chairman Trevor Milton resigned this week after a report by short-seller Hindenburg Research accused him of making false statements about the company's technology. Among the many allegations, Hindenburg noted that the truck in a company video actually was rolling down a hill thanks to gravity and not moving under its own power, as was likely presumed by observers. The company has said the report contains misleading information. The Securities and Exchange Commission and Department of Justice are looking into the allegations, a September 21 CNBC article reported.

Nikola shares have fallen 30.5% from the close on September 2 through Tuesday's close versus a 6.0% decline for the S&P 500, but the performance of other SPACs buying companies in the EV space has been mixed. DiamondPeak Holdings, which is slated to do a reverse merger with Lordstown Motors, has risen 63.3% since the start of September, while Net Element, which plans to do a reverse merger with Mullen Technologies, has fallen 17.3%.

Meanwhile, Tesla continues to set the pace, announcing on Tuesday planned innovations in battery technology that it believes will sharply lower their cost and enable it to sell a $25,000 vehicle in about three years. Tesla's battery will cost 56% less than current batteries, dropping the cost of EVs down to the cost of a gas-powered vehicle.

Tesla has done so by changing the battery's structure, chemistry, and means of manufacturing. The battery will still contain lithium, of which Musk says there is plenty in Nevada. But the battery won't contain cobalt, which is difficult to source.

At Tuesday's presentation, Tesla also introduced its Plaid Model S, which can drive more than 520 miles on a charge. But it doesn't come cheap: $139,990. A day later, Chinese carmaker Geely announced a battery system it would sell to others that would give cars a range of 700km (435.0 miles). And California announced that it will ban sale of cars with combustion engines in the state starting in 2035. The little guys will have to drive awfully fast to catch up to the market's leaders.

CALENDARS

US: Thurs: New Home Sales 890km, Initial & Continuous Job Claims 843k/12.339m, Kansas City Manufacturing Index, EIA Natural Gas Inventories, Powell, Williams, Evans. **Fri:** Durable Goods Orders Total & Ex Transportation 1.5%/1.2%, Baker-Hughes Rig Count, Williams. (DailyFX estimates)

Global: Thrus: Ifo Business Climate, Current Conditions, and Expectations 93.8/89.5/98.0, France Business Confidence 95, ECB Economic Bulletin, ECB General Council Meeting, Wuermeling, Bailey. **Fri:** European Council Special Meeting. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): The Bull/Bear Ratio (BBR) this week was below 3.00 for the second week after 10 weeks above. The BBB posted its third decline in as many weeks, slipping to 2.65 this week after climbing 20 of the previous 23 week from 0.72 (lowest since March 2018) during the March 24 week to 3.75 (highest since January 2018) three weeks ago. Bullish sentiment has dropped 10.0ppts the past three weeks, to 51.5%, after rising 31.4ppts (to 61.5% from 30.1%) from the March 24 week through week of September 1. Bearish sentiment climbed from 18.3% last week to 19.4% this week (the highest since the June 30 week), after fluctuating in a flat trend between 16.2% and 16.5% the prior five weeks; it was at 41.7% during the March 24 week. The correction camp has climbed 7.0ppts (to 29.1% from 22.1%) the past three weeks, moving out of its flat trend prevalent since June, to its highest percentage since the April 7 week. The AAII Ratio rebounded to 44.2% last week after falling the prior two weeks from 44.7% to 32.9%. Bullish sentiment rose to 32.0% last week after slipping from 32.1% to 23.7% the previous two weeks, while bearish sentiment fell to 40.4% after climbing from 39.6% to 48.5% the prior two weeks.

AC World ex-US MSCI (*link*): This index has risen 5.5% in dollar terms so far in Q3, but is down 7.3% ytd. In local-currency terms, the index is up a much lower 2.7% in Q3 to a slightly worse 7.8% decline for 2020 to date. The US dollar price index is up 39.5% since its March 23 low but is still in a correction at 14.6% below its cyclical high in January 2018. It had been down as much as 38.8% on March 23. The local-currency price index is up 29.9% since its March 23 low but is also in a correction at 10.1% below its record high on January 2020. It had been down as much as 30.8% on March 23. Local-currency forward revenues has risen 1.2% since it bottomed at the end of July at 11.9% below its record high of May 2019. Local-currency forward earnings has gained 3.8% since it bottomed in late July at 26.8% below its record high of October 2018. Revenues are expected to fall 6.5% in 2020 and rise 8.3% in 2021 following a gain of 2.2% in 2019, and earnings are expected to fall 22.4% (2020) and rise 36.3% (2021) after falling 6.1% (2019). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 3.6% and short-term 12-month forward earnings growth (STEG) of 17.5%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, at the end of May. The profit margin implied by analysts' earnings and revenue estimates calls for a drop to 5.9% in 2020 from 7.1% in 2019, and an increase to 7.4% in 2021. The forward profit margin forecast of 7.0% is up from a 10-year low of 6.6% at the end of May but is down from a nine-year high of 8.3% in October 2018. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in September for a 30th straight month following six positive readings. It improved for a fourth month to a 30-month high of -0.6% from -3.7% and an 11-year low of -23.9% in May. That compares to a 76-month high of 2.7% in May 2017. Due to substantially lower forward earnings, the forward P/E of 16.6 remains near its 18-year high of 17.0 in late July but drops to 14.8 using normalized forward earnings. Those readings are up from their March lows of 10.8 and 10.2, respectively. The index's current 15% discount to the World MSCI P/E remains near a record low.

EMU MSCI (*link*): The EMU's MSCI price index is up 2.9% in dollar terms so far in Q3 and down 10.9% for 2020 to date. In euro terms, the price index is down 1.2% in Q3, compared to a 14.5% decline ytd. The US dollar price index is up 38.9% since its March 23 low but is still in a correction at 19.4% below its cyclical high in January 2018. It had been down as much as 41.9% on March 23. The local-currency price index is up a sharply lower 27.7% since its March 23 low and still in a correction at 17.9% below its cyclical high on February 19. It had been down as much as 35.7% on March 23. The US currency price index remains a whopping 35.8% below its record high in October 2007, while the local price index is down 26.9% from its March 2000 record high. Consensus forward revenues continues to make new lows. Euro-based forward revenues is now 10.7% below its five-year high in November 2018. Euro-based forward earnings has gained 4.0% since it bottomed in late July at 32.4% below its cyclical high in November 2018. However, it's still down 40.6% from its record high in January 2008. Analysts expect revenues to fall 7.4% in 2020 and rise 6.5% in 2021, compared to a 2.4% gain in 2019. They're looking for earnings to fall 38.8% in 2020 and rise 54.6% in 2021 following a drop of 4.8% in 2019. Forecasted STRG of 3.1% is up from a record low of -0.9% at the end of April. It remains below the 3.2% expected before Covid-19 and also compares to a six-year high of 5.0% in April 2017. Forecasted STEG of 22.7% is at a 10-year high and up from a record low of -6.7% at the end of April. That compares to 9.9% before Covid-19 and a 78-month high forecast of 21.0% during February 2017. The forward profit margin of 6.2% is up from a record low of 6.0% at the end of July, but down from 7.7% before Covid-19. That compares to a nine-year high of 7.9% in January 2019. The implied profit margin is expected to drop from 7.0% in 2019 to 4.6% in 2020 before improving to 6.7% in 2020. NERI was negative in September for a 24th straight month and in 34 of the past 37 months. NERI improved for a fourth month to an eight-month high of -4.9% from -8.4% in August and a record low of -35.9% in May. That compares to an 11-year high of 8.1% in May 2017. The forward P/E of 17.6 remains close to its 18-year high of 18.3 in late July due to substantially lower forward earnings but drops to 15.3 using normalized forward earnings. Those readings are up from their March lows of 10.2 and 9.7, respectively. The index's current 10% discount to the World MSCI P/E has improved from an eight-year-low 18% discount during March. That compares to a record-low 25% discount during 2011 and is well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI (*link*): The EM MSCI price index has risen 8.8% in US dollar terms so far in Q3 to a decline of 2.9% ytd. In local-currency terms, EM is up 7.5% in Q3 and has risen 0.6% ytd. The US dollar price index is up 42.8% since its March 23 low, but still in a correction at 14.9% below its cyclical high in January 2018. It had been down as much 40.4% on March 23 from its cyclical high. The local-currency price index is up 38.2% since its March 23 low to 6.1% below its record high in January 2018. It had been down as much as 32.1% on March 23. Local-currency forward revenues has risen 3.6% since its bottom in early June but is still down 10.9% from its record high in May 2019. Local-currency forward earnings is up 6.0% since its bottom in mid-June but remains 18.0% below its record high in October 2018.

Revenues are expected to decline 1.4% in 2020 and rise 11.2% in 2021 from a 5.5% gain in 2019. That's expected to lead to an earnings decline of 9.3% in 2020 and a gain of 32.2% in 2021, following a 2.0% drop in 2018. Forecasted STRG of 7.8% is up from a five-year low of 3.6% at the end of April, which compares to a four-year high of 9.6% in January 2017. STEG has risen from a 14-month low of 7.5% in April to a 10-year high of 20.5%. The implied profit margin is expected to drop from 6.1% in 2019 to 5.6% in 2020 before improving to 6.7% in 2021. The forward profit margin of 6.4% is up from a four-year low of 6.1% at the end of May and compares to a six-year high of 7.4% in April 2018 and a 10.3% record high in December 2007. NERI was positive in September for the first time in 31 months and improved for a fourth month to a 30-month high of 1.2% from -1.3% in August and an 11-year low of -18.7% in May. NERI had been positive for only three months through January 2018 after 80 months of negative readings through October 2017. Emerging Markets' forward P/E of 14.7 is near the highest level since 2008 due to sharply lower forward earnings but drops to 13.3 using normalized forward earnings. That's up from those figures' March lows of 10.1 and 9.3, respectively. The index is trading at a 25% discount to the World MSCI P/E, which is near the biggest discount of the past 14 years.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through September suggest more optimism about US profits and fewer worries about the rest of the world. The US's NERI was positive in September for a second straight month after 14 negative readings, rising to a 29-month high of 14.0% from 10.6% and from an 11-year low of -36.9% in May. It remains well below its corporate-tax-rate-cut-boosted record high of 21.8% in March 2018. The AC World ex-US MSCI's NERI was negative for a 30th month, but barely so as it improved markedly in September to a 30-month high of -0.6% from -3.7% in August and an 11-year low of -23.9% in May. With the exception of the US and several EM regions, much of the world still has negative NERI readings despite being at two- to three-year highs. Here are September's scores among the regional MSCIs: US (14.0% in September [29-month high], up from 10.5% in August), AC World (3.1 [30-month high], -0.1), EM Eastern Europe (1.6 [21-month high], -4.2), EM Asia (1.5 [32-month high], -0.6), Emerging Markets (1.2 [32-month high], -1.3), AC World ex-US (-0.6 [30-month high], -3.7), Europe (-2.0 [24-month high], -5.8), EM Latin America (-2.1 [27-month high], -8.0), Europe ex-UK (-2.8 [23-month high], -6.0), EAFE (-4.3 [23-month high], -8.1), and EMU (-4.9 [6-month high], -8.4).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 18/44 MSCI countries in September, up from 10/44 in August, one in July, and zero from April to June. September's count is the highest since 18/44 countries were positive in June 2018. NERI improved m/m in

September for 38/42 countries, down from a record-high 42/44 countries improving in August. Among the countries with improving NERI in August, Canada as at a record high, Taiwan was at a 129-month high, followed by India (126-month high), South Africa (76), Ireland (56), and Sweden (39). These six countries had weaker NERIs m/m: Argentina, Australia, Denmark, Finland, Israel, and New Zealand. However, New Zealand's three-month positive NERI streak is the best among the 44 countries. Mexico's NERI has been negative for 47 straight months, followed by the negative streaks of Germany (38 months), Indonesia (30), Malaysia (30), Thailand (30), and Singapore (29). These eight countries had NERI turn positive m/m: Egypt, Greece, India, Ireland, Poland, Russia, South Africa, and the United Kingdom. The highest NERI readings in September: the US (14.0%), Canada (11.7), Taiwan (11.6), Sweden (9.6), Norway (8.1), Argentina (6.6), and Ireland (6.0). The weakest NERIs occurred this month in Hong Kong (-14.3), Chile (-11.3), Singapore (-11.1), Thailand (-10.9), and Spain (-10.4).

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): Business activity in the private sector this month was little changed from last month, when it bounced back above its pre-pandemic levels, according to this month's flash estimate. The September result pushed the Q3 average up to its best level since Q1-2019. September's C-PMI ticked down to 54.4 this month after climbing steadily from 27.0 in April to a 17-month high of 54.6 in August. Both the M-PMI (to 53.5 from 36.1 in April) and NM-PMI (54.6 from 26.9) improved solidly over the five-month period, with the manufacturing measure jumping to a 20-month high, while the services gauge dipped slightly from August's 17-month high of 55.0. The acceleration in manufacturing activity was supported by stepped-up production at factories and another month of increases in new orders, as clients resumed operations following Covid-related shutdowns. The rate of growth in the service sector this month was the second best since March 2019, with August being the best. The rate of new business increased at its strongest pace in 18 months as clients resumed operations following the lockdowns. However, the report struck a cautionary note, warning: "Covid-19 infection rates remain a major concern and social distancing measures continue to act as a dampener on the overall pace of expansion, notably in consumer-facing services. Uncertainty regarding the presidential election has also intensified, cooling business optimism about the year ahead."

Eurozone PMI Flash Estimates (*link*): "Eurozone business activity stagnates in September as rebound falters" was the headline of September's report. Business activity in the Eurozone continued to lose momentum this month, according to flash estimates, as the service sector swung from expansion to contraction. The C-PMI slowed for the second month to 50.1 this month after accelerating from an all-time low of 13.6 in April to a 25-month high of 54.9 in July. The NM-PMI shows the service sector—which was the hardest hit by the pandemic and on an upward trajectory recently—weakened considerably again this month, falling to 47.6; it had rebounded from a record low of 12.0 in April to a 22-month high of 54.7 in July. Meanwhile, the M-PMI accelerated to a 25-month high of 53.7 from April's record low of 33.4. Looking at the top two Eurozone economies, activity in Germany continued to expand at a respectable pace as its manufacturing sector continued to boom, while France has lost momentum after a sharp acceleration in July. Germany's September C-PMI eased for the second month, to 53.7, after soaring from 17.4 in April to a 23-month high of 55.3 in July, as the NM-PMI fell from 55.6 in July to 49.1 over the two-month period. Meanwhile, the manufacturing sector expanded at its fastest pace in over two years, with the M-PMI (to 56.6 from 51.0 in July) continuing to accelerate this month from its 34.5 bottom in April. France's C-PMI was back below the breakeven point of 50.0, easing for the second month to 48.5, after soaring from a record low of 11.1 in April to a 29-month high of 57.3 in July, as the NM-PMI sank from 57.3 in July to 47.5 this month. France's M-PMI (to 50.9 from 49.8) showed the manufacturing sector moving from contraction to expansion this month, though barely; it was at 52.4 in July. Meanwhile, the rest of the region—i.e., outside of France and Germany—contracted for the second straight month after July's brief return to growth, as the service sector contracted at a faster pace and the manufacturing sector expanded at a slower pace.

Japan PMI Flash Estimates (*link*): Japan's private sector contracted for the eighth consecutive month, though is much improved since the height of the pandemic. The C-PMI has increased steadily since bottoming at 25.8 in April, climbing to a seven-month high of 45.5 this month, according to flash estimates. The M-PMI (to 47.3 from 38.4 in May) shows the manufacturing sector continues to make headway since bottoming in May, though was in contractionary territory for the 17th consecutive month. The NM-PMI has increased from 21.5 in April to 45.6 this month, though has averaged 45.3 the past three months. September's report concluded with some positive signs: "Firstly, employment moved close to stabilization, with only a marginal drop in workforce numbers that was the weakest in the current sequence of job shedding. Secondly, business sentiment improved to the strongest since the start of the year, with manufacturing firms particularly optimistic about the year-ahead outlook."

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