MORNING BRIEFING

August 25, 2022

Industrials, Russia & Robots

Check out the accompanying chart collection.

Executive Summary: A heat wave and drought are prompting China to close some industrial plants in hard hit regions to preserve electricity for air conditioning. In Europe, some industrial plant owners are closing shop because surging electricity prices are battering the bottom line. Look for supply chain problems to ensue. The Eurozone's August PMI took a hit. … A study out of Yale University contends Western sanctions are taking a large toll on Russia's economy. We take a look. … North American companies bought more robots in Q1 than ever before. Here are some new ways robots are making companies more efficient today and a peek at what scientists are working on for the future. Pizza anyone?

Industrials: Hurt by Mother Nature & Natural Gas. Mother Nature must have a dry sense of humor because extreme temperatures are evaporating rivers in Asia, Europe, and the US. Droughts are making hydroelectricity production and river shipping less feasible and more expensive. The situation is forcing some energy-intensive industrial plants to shut down in China and in Europe. The calendar says the Dog Days of Summer are almost over, but the frequency with which droughts have been occurring casts long shadows of doubt.

Here's a look at how industrial businesses have been impacted around the world:

(1) *China: Damaged by Drought.* China's 65-day heatwave is its longest since records began in 1961. Rainfall in Sichuan province in Southwest China declined by 40%-50% y/y in July and August, an August 20 South China Morning Post (SCMP) *article* reported. As a result, the Yangtze River has shrunk to barely half of its normal width in some places. That has curtailed the region's ability to produce hydroelectricity, which represents about 80% of its power supply, with coal-fired plants accounting for the remainder.

Sichuan has a large number of hydroelectric power plants and typically exports the excess electricity the plants generate. The province lacks the infrastructure to import electricity when needed and lacks enough coal-fired electricity production to compensate. Moreover, there's concern that the areas to which Sichuan exports electricity could face shutdowns of their own due to a lack of electricity.

Sichuan has activated its highest emergency response and ordered industrial production halts to ensure enough power for residential air conditioning. A shutdown of industrial plants that was expected to last six days was extended to 10 days, an August 23 Asia Times *article* reported.

Companies that have needed to cut production and/or close plants in the Sichuan region include automaker Toyota Motor, battery manufacturer Contemporary Amperex Technology, polysilicon supplier Tongwei, and lithium producer Yahua Industrial, according to an August 18 Quartz *article*. Electronics manufacturer Foxconn and BOE Technology Group, a supplier of LCD and OLED screens for Apple, were also affected, an August 23 Asia Times *article* stated, as were auto parts and semiconductor manufacturers.

Sichuan province represents only about 4% of China's industrial production, but its plant closures could generate ripple effects. Tesla and SAIC Motor told Shanghai city government officials that supply-chain disruptions due to the Sichuan energy crunch have impacted production in their Shanghai factories, an August 22 CNN *article* reported. Expect more supply-chain knots if rain doesn't solve the problem soon.

(2) *Europe: Drought and Natural Gas Crisis.* Europe is also experiencing historically dry conditions, with 47% of Europe under a drought warning and 17% under a drought alert, the EU's August drought *report* noted. A shrinking Rhine River in Germany has limited coal shipments to electric plants. Uniper, one of Germany's largest energy producers, said two of its plants that use coal to generate electricity may see "irregular" operation until early September due to "insecure" coal supplies, an August 23 *article* in the Business Standard reported.

In France nuclear production has been reduced because the Rhone and Garonne rivers' temperatures were too high to cool the plants. In addition, the amount of hydroelectric power produced in France and Italy has dropped sharply as rivers and reservoirs have shrunk.

More than 100 French municipalities have drinking water delivered by truck and fires across Europe have consumed more than 60,000 hectares of land since the beginning of this year, double what burned in 2021 and more than four times the average of the past decade. The heat and drought is also hurting crops. Current yield forecasts for grain maize, soybeans, and sunflowers in the EU are 16%, 15%, and 12% below the five-year average.

Russia is making the situation even more untenable by limiting the Russian natural gas flowing into Europe. Flows via the Nord Stream 1 pipeline, which have been 20% of normal, will be cut off entirely for three days at the end of the month, purportedly to conduct unscheduled maintenance. The news unnerved commodity markets, sending the price of natural gas up to $9.19 per MMBtu in the US (*Fig.1*).

Some energy-intensive industrial plants are closing because of escalating energy prices. Norsk Hydro plans to close an aluminum smelter in Slovkia. Budel, one of Europe's largest zinc smelters, will halt production next month too, and others are operating at less than full capacity. "The region had already lost about half of its zinc and aluminum smelting capacity during the past year, mainly as producers dialed back output. Hydro and others are now moving to shut down plants entirely," an August 17 Bloomberg *article* reported.

The price of zinc has jumped 21% after hitting a low on July 15, 2022 (*Fig.2*), while the price of aluminum is 5% above its July 15 low (*Fig.3*).

The European economy has not been unscathed. S&P Global's purchasing managers index for the Eurozone fell to 49.2 in August, down from 49.9 in July (*Fig.4*). Eurozone manufacturing PMI fell to 49.7, a 26-month low. Meanwhile, Eurozone services barely expanded at 50.2, down from 51.2 in July. New orders fell and factories reported a glut of inventories.

Here's the August PMI flash estimates (total, manufacturing, nonmanufacturing) for some of the largest European nations: Germany (47.6, 49.8, 48.2), France (49.8, 49.0, 51.0), United Kingdom (50.9, 46.0, 52.5). Data for Italy (47.7, 48.5, 48.4) and Spain (52.7, 48.7, 53.8) is only available for July (*Fig. 5*, *Fig. 6*, *Fig.7*, *Fig.8*, and *Fig.9*).

The good news is that for most of Europe "normal" weather conditions are expected to return from August to October. It should alleviate the drought, though not entirely reverse the impact of the dry weather.

Russia: Another Opinion. In last Thursday's *Morning Briefing* we concluded that while Russia's economy was shrinking, the damage from Western sanctions wasn't as bad as initially expected because the price of oil has soared and Asian countries have proved willing to buy the commodity from Russia.

An eagle-eyed reader pointed out a July 20 *study* by Yale University professors with a different opinion: "Business Retreats and Sanctions are Crippling the Russian Economy."

The difference between our conclusion last week and the Yale study may be a matter of timing. High commodity prices are helping Russia's economy today. Russia's inability to buy western goods to replace and repair computers, cell phones, and assorted factory parts may drag down the Russian economy more than expected next year.

Here are some of the highlights from the Yale report:

(1) *Russia needs Europe.* The Yale study argues that Russia is far more dependent on Europe as a customer for its natural gas than Europe is dependent on Russia as a provider of natural gas. Russia sells 83% of its natural gas to Europe, while Europe gets only 46% of its natural gas from Russia. The International Energy Agency has a plan for the EU to reduce its reliance on Russian natural gas that includes importing natural gas from other countries, increasing the use of renewables and coal, and increasing natural gas in storage.

Russia can't easily replace European buyers of natural gas with Asian buyers because the infrastructure doesn't exist. To replace Europe, Russia would have to build a major pipeline across unforgiving territory to China. Alternatively, it would need to build many liquified natural gas (LNG) plants. Both solutions are costly and take time to complete. It's also unlikely that Russia has the expertise required and China has yet to open its wallet to help Russia. The two countries have historically bickered over the price of natural gas, with China desiring a lower price that's equivalent to what the country pays for coal.

Meanwhile, Russia's state-run gas company Gazprom eliminated its dividend in June for the first time since 1998, indicating the stress the company is under given sales to the West have shrunk dramatically. Company officials said the dividend was cut so Gazprom could focus on Russian regional gasification, prepare for the heating season and pay increased taxes, a June 30 Reuters *article* reported.

While the authors are correct that many LNG sellers are willing to provide Europe with natural gas, Europe will also need to build new LNG plants to make receiving the LNG possible. And while the authors may be correct in the long run, Europeans today are worried about whether there will be enough natural gas to provide air conditioning this summer and heat this winter.

(2) *Russia needs Western oil customers*. Western companies that have left Russia due to sanctions have taken their technology and know-how with them. The Russian Ministry of Finance forecasts that Russia could see its oil production fall by 9%-17% this year due to Western sanctions and departing international oil companies. If sanctions remain in place, Russia could see its oil production capacity decrease to about 6mbd by the end of the decade, down from the 11.3mbd it produced in January.

The authors also doubt that China and India will be able to absorb the 6mbd of oil that Russia previously sold to the West. They point to a July 18 Bloomberg *article* that states Chinese and Indian purchases of Russian oil are down some 30% from their post invasion peaks. In addition, the oil sold to Asia is being priced roughly $35 less than the Brent crude benchmark. However, the same article notes that the jump in the price of oil means that the revenue Russia is receiving from oil sales is still about 25% higher than prior to its invasion of Ukraine. So, even if Russia sells half as much oil next year than it did in 2021, as long as the price of oil is twice as high the country will benefit.

(3) *Russia needs imports.* Russia would like to believe it can operate independently of Western countries, but 20% of Russian GDP came from imports. The percentage is even higher in specific areas. Imports were 75% of nonfood consumer goods sold and 86% of telecommunications equipment. The authors estimate that Russian imports fell by upwards of 50% in the initial months after the invasion due to sanctions. Even China's exports to Russia fell by 50% to under $4 billion from the start of this year to April.

Russian companies are left scrambling to find alternative sources for the imported products they need. One survey noted that 81% of Russian manufacturers "could not find any Russian versions of imported products they need. and more than half were "highly dissatisfied" with the quality of homegrown products. …In short, Russia needs global markets far more than the rest of the world needs Russian markets."

There are tales of Russian airlines using parts from grounded aircraft to keep other planes flying. Russian military equipment reportedly has semiconductors that were taken out of dishwashers and refrigerators. Auto sales have fallen from about 100,000 a month prior to the invasion to only 27,000 in June due to a lack of supply, soaring prices, and falling consumer sentiment. And the lack of available goods has sent inflation soaring. Here we agree with the authors. The inability to import Western goods seems to be Russia's Achilles heel.

Disruptive Technologies: Robotic Update. In Q1, North American companies bought the most robots ever: 11,595 robots (up 28% y/y) worth $646 million (up 43% y/y), according to a June 6 Association for Advancing Automation *press release*. Given this surge of spending, we thought we'd update how companies are using robots today and what scientist are working on for the future.

(1) *A Tesla teaser.* Tesla is expected to unveil Optimus, a humanoid robot prototype, on September 30 during Tesla AI Day #2. The company recently released a picture that appears to be Optimus's "hands" making a heart sign, an August 4 Electrek *article* reported.

Elon Musk has said creating Optimus is a company priority. The humanoid robot business could become bigger than Tesla's auto business, helping to solve the labor shortage and reduce costs. Initially Optimus would perform simple, repetitive tasks in manufacturing. But, as the robot improves, it will "be able to perform a wider range of tasks that would make it useful for both commercial and consumer applications," the article stated. Tesla aims for produce Optimus in 2023.

Japanese startup Jinki Ittai has introduced a giant humanoid robot that looks like a transformer from the movies and is controlled by a human wearing a VR headset. The company envisions the robot being used in construction, fixing power lines, or replacing road signs, an August 8 TechEBlog *article* stated. The robot is expected to enter production in 2024.

(2) *The perfect pizza.* Italian chefs beware. Picnic Works' pizza-making robot presses the dough, adds sauce, cheese and toppings, and then puts the pie on a conveyor belt to deliver it to the oven, an August 19 *article* in Nation's Restaurant News reported. Working with Picnic Works equipment, PizzaHQ can make 1,500 pizzas a day. Now that's a lot of dough. (Couldn't resist!)

Robots are also the chefs in Stellar Pizza's automated pizza trucks. They make the pizzas, but right now humans are putting the pie into the oven, slicing, and boxing the pizza. Stellar Pizza is looking to automate those processes too. Stellar Pizza's founder Benson Tsai, a former SpaceX engineer, estimates the robots can reduce costs by 16-20% per truck by reducing labor.

(3) *Making smarter robots*. The Boston Dynamics AI Institute was launched with $400 million of funding to create more intelligent robots. Boston Dynamics founder Marc Raibert heads the institute and wants robots to be able to look at the world and understand what they're seeing.

"I'd like to make a robot that you can take into a factory, where it watches a person doing a job and figures out how to do that job itself," he said in a recent IEEE Spectrum interview cited in an August 22 MindMatters *article*. The institute will also focus on ethical issues surrounding robots, including the use of robots in the military and threat of killer robots taking over the world.

The weaponization of robots is not theoretical. Russian engineers have created a robotic dog that carries and fires weapons, an August 15 Newsweek *article* reported. It can also deliver medications and survey war torn areas. The US military also has a robotic dog. The

Portland Air National guard is using one for security and surveillance and a Florida police department is using a robotic dog in situations that involve threat to human life.

(4) *Softer robots*. Hong Kong University and Lawrence Berkeley National Laboratory scientists have created Aquabots, soft robots made primarily of liquids. The fluidity of these structures enable them to change shape and enter narrow spaces. They envision using Aquabots inside our bodies, perhaps delivering drugs to specific locations, biologically engineering human tissue, or performing the functions of specific biological systems, an August 22 *article* in ELE Times reported.

Calendars

US: Thurs: GDP -0.8%; GDP Price Index & Core PCED Prices 8.7%/4.4%; Initial & Continuous Unemployment Claims 253k/1.442m; Kansas City Manufacturing Index; Natural Gas Storage; Jackson Hole Symposium. **Fri:** Core PCED 0.3%m/m/4.7%y/y; Personal Income & Spending 0.6%/0.4%; Consumer Sentiment 55.2; Advance Goods Trade Balance -$98.5b; Wholesale Inventories 1.4%; Baker Hughes Rig Count; Jackson Hole Symposium; Powell. (Bloomberg estimates)

Global: Thurs: Germany Ifo Business Climate Index, Current Assessment, and Business Expectations 86.8/96.0/79.0; Germany GDP 0.0%q/q/1.5%y/y; France Business Survey104; Japan CPI; ECB Publishes Account of Monetary Policy Meeting. **Fri:** Germany Gfk Consumer Climate -31.8; France Consumer Confidence 79; Italy Consumer & Business Confidence 92.5/104.4. (Bloomberg estimates).

Strategy Indicators

Stock Market Sentiment (*link*): The BBR slipped to 1.52 this week after advancing the previous six weeks from 0.76 to 1.64, which was the highest reading since early January. It was at 0.60 nine weeks ago, which was the lowest since the week of March 10, 2009's 0.56. Bullish sentiment extended its rise to seven weeks, though the pace slowed, climbing 14.6ppts (to 45.1% from 30.5%) over the period. Bullish sentiment was as 26.5% nine weeks ago—which was the fewest bulls since early 2016. Meanwhile, bearish sentiment climbed to 29.6% this week after falling eight of the prior nine weeks by 16.6ppts (27.5 from 44.1). The correction count sank for the fifth time in six weeks from 31.0% to 25.3%—the lowest since early June. In the meantime, the AAII Sentiment Survey (as of August 18) showed the highest optimism this year, climbing to 33.3%—the highest since December 30, 2021 (37.7%). Still, it remains below its historical average of 38.0% for the 39th straight month. The percentage expecting stocks will fall over the next six months increased to 37.2% after falling the prior five weeks from 52.8% to 36.7%—which was the lowest since March 31 (27.5%); it has been above its historical average of 30.5% for 38 out of the past 39 weeks.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through August suggests stronger optimism about profits in Europe and EM Latin America, but increasing pessimism about profits in the US and the rest of EM regions. The US MSCI's NERI was negative in August for a second month following 23 straight positive readings, tumbling to a 25-month low of -8.8% from -2.6% in July. That compares to post-pandemic high of 21.1% in July 2021 and an 11-year low of -36.9% in May 2020. The AC World ex-US MSCI's NERI was negative for a sixth month following 17 straight positive readings, but edged up to -2.3% from -2.4% in July and is up from a 22-month low of -3.8% in May. NERI was negative again in August for EM Asia and Emerging Markets, but improved m/m. EM Latin America weakened m/m, but was positive for a sixth month. EM Eastern Europe weakened m/m again after turning negative in July. Here are August's scores among the regional MSCIs: EMU (3.9% in August, down from 4.3% in July), EM Latin America (2.7, 3.3), Europe ex-UK (1.9, 3.8), Europe (1.8, 3.3), EAFE (0.7, 1.9), EM Eastern Europe (-1.8 [24-month low], -1.1), AC World ex-US (-2.3, -2.4), Emerging Markets (-4.0, -5.4), AC World (-4.0 [25-month low], -2.4), EM Asia (-4.5, -6.1), and the US (-8.8 [25-month low], -2.6).

MSCI Countries Net Earnings Revisions (*link*):NERI was positive for 20/41 MSCI countries in August. That's down from 22/41 in July and compares to 20/41 in April, which was the lowest count since October 2020. It had peaked at 35/41 during May 2020, which nearly matched the record-high 36/41 from June 2004. That also compares to zero countries with positive NERI from April to June 2020. NERI improved m/m in August for 18/41 countries, down from 21/41 countries in July and down from 23/31 in May and June. These countries had relatively high NERIs in August: Portugal (record high), Indonesia (the highest since April 2010), Israel (35-month high), and Singapore (13-month high). Norway has had positive NERI for 25 straight months, followed by the UK (24), Italy (22), Turkey (22), Austria (21), and France (20). New Zealand has the worst negative-NERI streak, at 23 months, followed by Hong Kong (15), China (12), Belgium (11), and Brazil (10). NERI flipped back into positive territory in August for Hungary, Israel, Singapore, and Thailand. It turned negative m/m for six countries: Canada, the Czech Republic, Egypt, Ireland, Peru, and Sweden. The highest NERI readings in August: Turkey (17.3%), Portugal (16.7), Austria (13.4), Norway (12.9), and Finland (9.7). The weakest NERIs occurred this month in Switzerland (-14.5), Hong Kong (-12.6), Peru (-12.3), Taiwan (-10.6), and India (-8.6).

AC World ex-US MSCI (*link*): This index is up 3.2% in local-currency terms so far in Q3 to a 10.5% decline ytd. In US dollar terms, the index is up a lesser 1.6% so far in Q3, and has declined a substantially greater 18.5% for 2022 to date. Local-currency forward revenues has risen 16.3% since it bottomed in January 2021, and rose 0.5% m/m to a record high. Local-currency forward earnings rose 049% m/m to a record high too and has soared 57.9% since it bottomed in July 2020. Revenues are expected to rise 11.9% in 2022 and 3.6% in 2023 following a 16.7% gain in 2021, and earnings are expected to increase 10.9% (2022) and 6.1% (2023) after soaring 54.7% (2021). The industry analysts' sales forecasts imply short-term 12-month forward revenue growth (STRG) of 6.3% and short-term 12-month forward earnings growth (STEG) of 7.0%, compared to 4.1% and 10.0% before Covid-19 hit the news. These measures bottomed at -0.1% and -0.3%, respectively, during May 2020. The profit margin implied by analysts' earnings and revenue estimates calls for 9.3% in 2022 and 9.3% in 2023, compared to 9.1% in 2021. The record-high forward profit margin forecast of 9.3% is up from a 10-year low of 6.6% at the end of May 2020 and first exceeded its prior 9.0% record high from September 2007 during August. The Net Earnings Revision Index (NERI) for the AC World ex-US MSCI was negative in August for a fifth straight month following 17 positive readings, but improved for a third month to -2.3% from -2.4% and is up from a 22-month low of -3.8% in May. That compares to a 12-year high of 6.4% in July and an 11-year low of -23.9% in May 2020. The forward P/E of 12.1 is up from its 28-month low of 11.4 in early July. That compares to an 18-year high of 17.1 in February

2021 and its March 2020 low of 10.8. The index is at 22% discount to the World MSCI P/E, matching at its record-low 22% discount around the beginning of the year.

Emerging Markets MSCI (*link*): The EM MSCI price index is down 1.1% in US dollar terms so far this in Q3 to a 19.7% decline ytd. In local-currency terms, EM is down a lesser 0.1% quarter-to-date to a smaller ytd loss of 15.0%. Local-currency forward revenues has risen 12.0% since its bottom in January 2021, but was unchanged m/m at 3.9% below its record high in May 2019. Local-currency forward earnings is up 33.1% since its bottom in June 2020, but dropped 0.3% m/m and is now 6.9% below its record high in early March. Revenues are expected to rise 12.2% in 2022 and 5.5% in 2023 after jumping 21.1% in 2021. That's expected to lead to an earnings gain of 10.2% in 2022 and 6.2% in 2023, following a 52.4% recovery gain in 2021. Forecasted STRG of 7.7% is down from April 2021's 11-year high of 12.6%, which compares to a five-year low of 3.6% at the end of April 2020. STEG has dropped to 7.4% from a record high of 33.7% in December 2020, but that's up from a 12-year low of 5.3% in December 2021. The implied profit margin is expected to drop to 7.4% in 2022 from 7.6% in 2021 and improve to 7.5% in 2023. The forward profit margin of 7.5% is up from a four-year low of 6.1% at the end of May 2020 and compares to its 10.3% record high in December 2007. NERI was negative in August for a tenth straight month, but improved to -4.0% from -5.4% in July and is up from a 23-month low of -7.3% in June. That compares to an 11-year high of 6.0% in February 2021 and an 11-year low of -18.7% in May 2020. Emerging Markets' forward P/E of 11.2 is up from a 28-month low of 10.7 in mid-July, which compares to a record high of 16.3 in February 2021 and its March 2020 low of 10.1. The index is trading at a 28% discount to the World MSCI P/E. That's up from a 33% at the start of the year, which was its biggest discount since 2005.

EMU MSCI (*link*): The EMU MSCI price index has gained 5.4% in local-currency terms so far in Q3, but remains down 15.9% ytd. In US dollar terms, EMU is up a lesser 0.7% so far in Q3 to a bigger ytd drop of 19.7%. Local-currency forward revenues gained 1.6% m/m and has risen 21.1% since its bottom in January 2021, and hit a record high during the month for the first time since September 2008. Local-currency forward earnings gained 1.6% m/m and is up 75.6% since its bottom in July 2020, and also hit a record high during the months for the first time since January 2008. Revenues are expected to rise 11.5% in 2022 and 1.5% in 2023 after gaining 15.8% in 2021. That's expected to lead to an earnings gain of 16.6% in 2022 and 3.1% in 2023, following a recovery gain of 76.2% in 2021. Forecasted STRG of 4.6% is down from a record-high 8.3% during April 2020, but that's up from an 11-year low of -0.9% during April 2020. STEG has dropped to 7.3% from a record high of 47.4% in December 2020, but that's up from a record low of -6.7% in April 2020. The implied profit margin is expected to rise from 8.4% in 2021 to 8.8% in 2022 and 8.9% in 2023. The forward profit margin has risen to a 13-year high of 8.9% from a 12-year low of 6.0% at the end of July 2020, but remains below its 9.1% record high in October 2007. NERI was positive in August for a 20th month after 27 straight negative readings and leads all regions, but dropped to 3.9% from 4.3% in July. That compares to a record low of -35.9% in May 2020 and is down from a record high of 15.2% in September. EMU's forward P/E of 11.9 is up from a 28-month low of 10.8 in early July, which compares to a record high of 18.3 in July 2020 and a low of 10.2 in March 2020. The index is trading at a 23% discount to the World MSCI P/E, which is at an 11-year low and among its worst readings since 2001.

China MSCI (*link*):The China MSCI price index is the worst performer of the 49 MSCI countries so far in Q3, with a decline of 12.0% in local currency terms. Its 21.7% ytd decline ranks as ninth worst of the 49 countries. Local-currency forward revenues has risen 5.7% since its five-year low in June 2021, but was down 0.2% m/m to 33.8% below its record high in October 2014. Local-currency forward earnings fell 0.5% m/m and is up only 0.8% since its bottom in June 2020 to 17.2% below its record high in June 2018. Revenues are expected to rise 11.3% in 2022 and 7.2% in 2023 after surging 19.3% in 2021. That's expected to lead to earnings gains of 10.1% in 2022 and 15.6% in 2023, following a 9.2% increase in 2021. Forecasted STRG of 8.4% is down from an 11-year high of 13.5% in April 2020, but that's up from a five-year low of 5.0% at the end of April 2020. STEG has dropped to 13.9% from a 10-year high of 18.6% during December 2020, which compares to a four-year low of 8.0% in April 2020. The implied profit margin ranks as one of the lowest in the world; it's expected to remain unchanged y/y at 4.3% in 2022 and to rise to 4.6% in 2023. The forward profit margin of 4.5% is down from a record high of 5.2% in July 2021, and back down to its pandemic low of 4.5% in May 2020. NERI was negative for a 12th straight month in August, but improved to a five-month high of -4.0% from -7.2% in July and from a 23-month low of -11.7% in May. Still, that ranks as 13th worst among the 41 MSCI countries that we follow. China's forward P/E of 10.5 is up from an eight-year low of 8.7 in mid-March. That compares to 12.1 at the start of the year and its March 2020 low of 10.5. The index is trading at a 33% discount to the World MSCI P/E, up from a 22-year low discount of 46% in mid-March.

US Economic Indicators

Durable Goods Orders & Shipments (*link*): Durable goods orders were unchanged in July, ending a four-month winning streak, though core capital goods orders and shipments continued to set new record highs, as companies have been attempting to boost productivity to compete with high inflation and a tight labor market. Nondefense capital goods shipments excluding aircraft (used in calculating GDP) has climbed every month but one since its April 2020 bottom, rising 0.7% in July and 34.6% over the period. Meanwhile, core capital goods orders (a proxy for future business investment) has advanced during all but four months since April 2020, up 0.7% and 34.1% over the comparable periods. Total durable goods orders were flat in July, after increasing eight of the prior nine months by a total of 10.8%, though there were signs of strength during July. Several components of durable goods orders reached new record highs last month: machinery, motor vehicles & parts, fabricated metals, and all other durable goods, while orders for electrical equipment, appliance & components dipped only 0.4% from June's record high. Looking ahead, recent monthly surveys from three Federal Reserve districts—New York, Philadelphia, and Richmond—were troublesome, showing orders growth moved further into contractionary territory this month, sinking to -18.2 after ending 2021 at +18.2.

Pending Home Sales (*link*): In terms of the current housing cycle, we may be at or close to the bottom in contract signings," said Lawrence Yun, NAR's chief economist. "This month's very modest decline reflects the recent retreat in mortgage rates. Inventories are growing for homes in the upper price ranges, but limited supply at lower price points is hindering transaction activity." The Pending Home Sales Index (which tracks sales when a contract is signed but the transaction has not yet closed) fell for the eighth time in nine months, by 1.0% in July and 19.9% over the period, to 89.8—the lowest since April 2020. Regionally, pending home sales rose in only one region in July, the West, while all four regions showed double-digit declines versus a year ago—with the West showing the largest yearly drop. Here's the tally on a monthly and yearly basis: West (+2.2% m/m & -30.1% y/y), Midwest (-2.7 & -13.4), Northeast (-1.9 & -15.4), and the South (-1.1 & -20.0). June saw housing affordability plunge to its lowest level since 1989, according to NAR, with the monthly mortgage payment on a typical home jumping to $1,944, an increase of 54% (or $679) compared to a year ago (based on a 30-year fixed-rate mortgage and a 20% down payment). Yun noted, however, "With mortgage rates expected to stabilize near 6% alongside steady job creation, home sales should start to rise by early next year."

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