



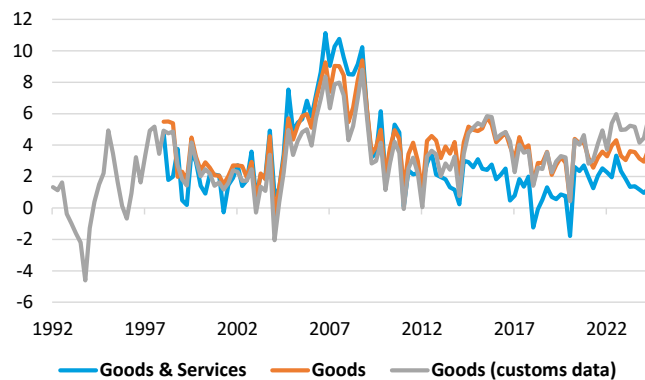
# Monthly Commentary

August 2024

## China's trade surplus close to record high

This month we bring your attention to the global imbalances that have built up in the real economy. Imbalances were a hot topic pre and post GFC, generally referring to excessive and persistent current account deficits/surpluses. It's remarkable that despite all the tough talk on China, started by Trump way back in 2018 and then doubled down by the Biden/Harris administration, China's goods surplus is just off record highs (\$846bn in July.) There are a few caveats that come with China's data, which incidentally changed its current account data methodology in 2022<sup>1</sup>. We prefer China Customs data which shows an elevated goods surplus at 5.7% of GDP, likely boosting the overall surplus reported by the State Administration of Foreign Exchange (SAFE).

### China current account/GDP%



Source: SAFE, China Customs, Refinitiv Datastream

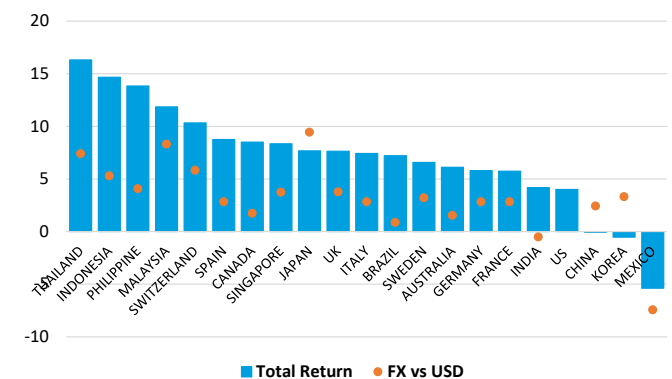
It's no wonder protectionist policy and anti-trade rhetoric is on the rise. Canada joined the US this month with a 100% tariff on Chinese made EVs as well as a 25% tariff on Chinese steel. The extent of this imbalance is likely unsustainable. The IMF in its latest external sector report expect a narrowing surplus as fiscal policy eventually kicks in and boosts the domestic consumption share of GDP.

The other side of this imbalance is of course a growing current account deficit in the US (-3.1% of GDP in Q2 2024), funded by the ongoing reckless fiscal deficit that seems to garner less attention than the topics of trade/immigration in the run up to the US election. The credit rating agency Fitch, who last year downgraded the US Federal Government to AA+ from AAA, expects a calendar year fiscal deficit of 7.7% of GDP in 2025 and 2026 with no difference in the fiscal position between Harris and Trump.

## EM outperformance continues

The starting gun for rate cuts in the US was fired this month by Chair Powell in Jackson Hole who said, 'The time has come for policy to adjust.' As a result, the budding outperformance of EM FX and equity markets that we touched on last month has continued in August.

### Total returns in USD since 01 July 2024 (%)



Source: Refinitiv Datastream

Southeast Asian economies led the way after a challenging start to the year. Central banks in Malaysia, Thailand, and Indonesia have waited for the Fed's signal to begin their cutting cycles (the Philippines Central bank did cut in July). High real rates have supported flows into bond markets particularly in Indonesia which saw \$2.2bn of inflows into sovereign bonds in August, the largest since January 2023. Growth has also been impressive across the region with annual Q2 GDP growth of 6.50% in the Philippines, 5.90% in Malaysia, 5.05% and 2.27% in Thailand.

## Bey bey, Tay tay...our kid?

The concert industry was amongst the hardest hit by the COVID-19 pandemic. Stadiums through to smaller independent venues all shuttered and whilst performances were available to livestream, the energy and intimacy of live events could not be recreated.

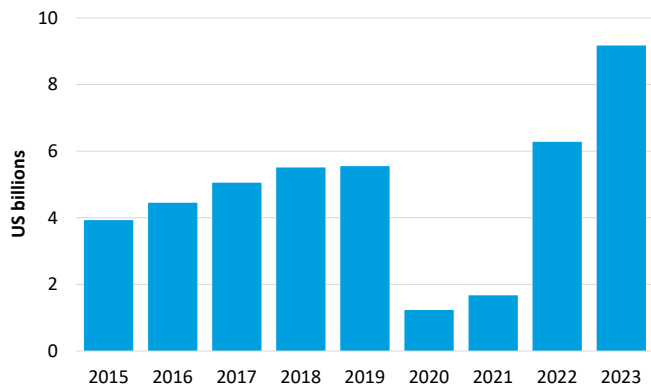
Live music is back and with a vengeance. According to Pollstar, a company that has tracked the live entertainment industry for decades, the 100 largest tours of 2023 grossed more than \$9billion, exceeding the previous record, set in 2022, by almost 50

<sup>1</sup> For a detailed analysis of Chinese data discrepancies see - [www.cfr.org/blog/imfs-latest-external-sector-report-misses-mark](http://www.cfr.org/blog/imfs-latest-external-sector-report-misses-mark)

<sup>2</sup> [www.bloomberg.com/news/articles/2024-08-28/frenzied-global-demand-for-indonesian-bonds-has-room-to-run](http://www.bloomberg.com/news/articles/2024-08-28/frenzied-global-demand-for-indonesian-bonds-has-room-to-run)

percent. Tours such as Beyoncé’s “Renaissance Tour” and Taylor Swift’s record-breaking “Era’s Tour boosted revenues with sales up 18% and the average ticket price up 23%.

**Combined box office gross of 100 highest grossing live tours worldwide**



Source: [www.statista.com/chart/32177/box-office-gross-of-the-global-top-100-music-tours](https://www.statista.com/chart/32177/box-office-gross-of-the-global-top-100-music-tours)

The economic impact of such blockbuster tours is not to be underestimated with London’s economy expected to benefit to the tune of £300mn from Taylor Swift’s 8 Wembley shows. That said, it is reasonable to assume the average £206 ticket price would have been spent within the UK economy regardless. Such profitable paydays have even persuaded Britpop’s favourite warring siblings to announce a UK and Ireland tour with the band expected to earn more from the stadium tour than the entire 90s.

The pent-up demand for live events rolls through to tourism with international tourists expected to spend a record €800 billion in Europe this year, according to the UN World Tourism Organization. Such record demand comes despite record summer temperatures and overcrowded hot spots, much to the ire of locals in some popular destinations.

Japan has also benefitted from a record number of tourists visiting with 3.29 million visiting in July as summer holidays began. Japan has represented value for international tourists given the yen hit a 38-year low against the US dollar in June.

**Pyrford International**

31 August 2024

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# Pyrford



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