

WEEKLY UPDATE

European Central Bank: a gradual pivot without any rush

The European Central Bank (ECB) has lowered their policy rates, as widely expected. However, the upward revision in inflation forecasts and the somewhat hawkish tone of the press conference suggest a cycle of interest rate cuts that will remain gradual, leading to a modest adjustment of market expectations.

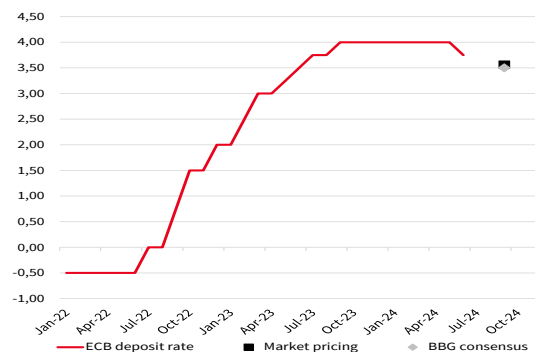
The ECB has ended nine months of status quo by lowering its three key interest rates by 25 basis points. The interest rates for the main refinancing operations, marginal lending facility, and deposit facility will be reduced to 4.25%, 4.50%, and 3.75% respectively, starting from 12 June 2024. This action confirms the central bank's intention to soften the restrictive stance of its policy, in a context where inflation has already significantly decreased compared to its peak at the end of 2022. Simultaneously, the ECB continues its policy of gradually reducing the size of its balance sheet.

Upward revisions to its growth and inflation forecasts. The institution now predicts a stronger rebound in economic activity in 2024, with growth forecast at 0.9% (up from 0.6%), then 1.4% in 2025 and 1.6% in 2026. This revision reflects positive surprises in economic activity indicators, with stronger than expected growth in the first quarter and leading indicators suggesting continued improvement. The ECB also predicts that headline inflation will remain above its 2% target for longer, with an average inflation rate forecast at 2.5% in 2024, 2.2% in 2025, and 1.9% in 2026. This revision takes into account the latest inflation figures (headline increased to 2.6% year-over-year in May from 2.4%), but more significantly, the unexpected wage pressures at the start of the year. In addition to these upward revisions to inflation forecasts, Christine Lagarde has notably taken a cautious tone regarding the future trajectory of inflation and therefore, interest rates.

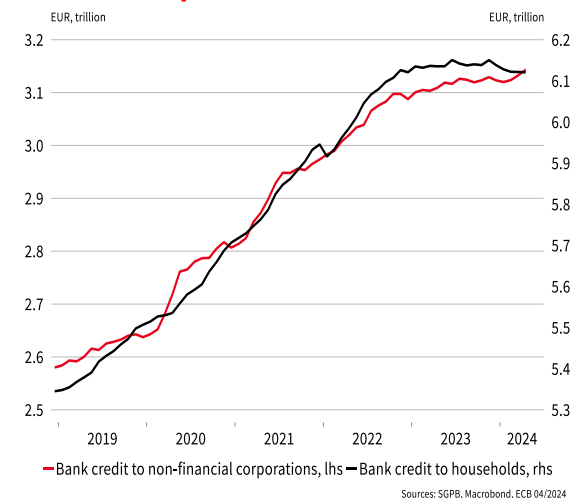
Markets acknowledge the ECB's cautious stance. The ECB's interest rate cut has been followed by a slight increase in money market and bond yields – albeit modest. Markets are now ruling out a second interest rate cut from the ECB in July and are taking note of the ECB's caution. However, they still anticipate around 50 basis points of further interest rate cuts by the end of 2024. In a context where economic activity is still hindered by the slowdown in bank lending activity, we also anticipate the continuation of the ECB's interest rate cut cycle, with two more cuts in the second half of the year.



Projection of ECB's deposit rate



Bank credit to households and non-financial corporations in Euro area



Sources: SGPB, Macrobond, ECB 04/2024

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 22/03/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.



Our Macro Comments

Events of the week



US economic figures for May were mixed. The ISM index showed a stronger-than-expected contraction in the manufacturing sector, at 48.7 against the expected 49.6, but a stronger-than-expected growth in services, at 53.8 against 50.8 expected. Indicators show a softer price component, which reassures markets about the direction of inflation. The US economy created 272,000 non-farm jobs in May, more than the consensus expected (185,000). However, the unemployment rate increased to 4% when the consensus expected 3.9%. Wages, meanwhile, accelerated to 4.1% year-on-year, higher than the consensus expected (3.9%). Therefore, the direction of inflation in the US remains uncertain and is causing markets to doubt the Federal Reserve's ability to lower interest rates in the near future.



The inflation rate in Switzerland remained unchanged at 1.4% year-on-year in May, the highest level since the start of the year. The only components that accelerated over the month were housing and transportation, suggesting that inflation is under control. Furthermore, economic growth in Q1 positively surprised at 0.5% quarter-on-quarter compared to the expected 0.3%. Therefore, while markets expect one or two rate cuts from the Swiss National Bank (SNB) this year, they are now leaning towards the status quo at its meeting on 20th June, given that inflation is not accelerating but remains high (according to the country standards) and growth is more robust than expected.

The week in data

Country	Data	Actual	Last	Forecast
Germany	Unemployment Rate MAY	5,90%	5,90%	5,90%
Germany	Industrial Production MoM APR	-0,10%	-0,40%	0,30%
China	Caixin Manufacturing PMI MAY	51,7	51,4	51,5
China	Caixin Services PMI MAY	54	52,5	52,6
United States	ISM Manufacturing PMI MAY	48,7	49,2	49,6
United States	ISM Services PMI MAY	53,8	49,4	50,8
United States	Non Farm Payrolls MAY	272K	165K	185K
United States	Unemployment Rate MAY	4,00%	3,90%	3,90%
United States	Average Hourly Earnings YoY	4,10%	4,00%	3,90%
Euro Area	Deposit Facility Rate	3,75%	4,00%	3,75%
Euro Area	ECB Interest Rate Decision	4,25%	4,50%	4,25%

Source: Macrobond, the 7th June 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Tuesday	
United Kingdom	Unemployment Rate APR
United Kingdom	Average Earnings APR
Wednesday	
China	Inflation Rate MAY
United Kingdom	GDP YoY APR
United Kingdom	Industrial Production APR
United States	Core Inflation Rate MAY
United States	Inflation Rate MAY
United States	Fed Interest Rate Decision
Thursday	
Euro Area	Industrial Production APR
United States	PPI MAY
Friday	
Japan	BoJ Interest Rate Decision

Market Performances

Interbank rates

%	05/06/2024	07/05/2024	07/03/2024	01/01/2024	07/06/2023
United States SOFR	5,329	5,32	5,32	5,34	5,07
Euro area €ster	3,913	3,91	3,91	3,88	3,14
United Kingdom SONIA	5,200	5,20	5,19	5,19	4,43
Switzerland SARON	1,454	1,45	1,70	1,70	1,45
Japan TONAR	0,077	0,08	-0,01	-0,04	-0,05

Sovereign rates 10 years

%	06/06/2024	07/05/2024	07/03/2024	01/01/2024	07/06/2023
United States Treasuries	4,28	4,47	4,09	3,88	3,79
France OAT	3,04	2,92	2,75	2,55	2,98
Germany Bund	2,55	2,42	2,30	2,02	2,42
Italy BTP	3,87	3,75	3,61	3,70	4,14
Spain Bonos	3,28	3,20	3,12	2,98	3,44
Switzerland	0,81	0,69	0,69	0,66	0,89
United Kingdom Gilts	4,20	4,12	4,00	3,60	4,23
Japan JGB	0,99	0,90	0,71	0,62	0,42

Credit & emerging markets

%	06/06/2024	07/05/2024	07/03/2024	01/01/2024	07/06/2023
United States IG	5,37	5,49	5,26	5,06	5,50
United States HY	7,88	7,82	7,75	7,59	8,63
Europe IG	4,03	3,95	3,94	3,72	4,54
Europe HY	6,55	6,67	6,73	6,80	7,89
Emerging markets (FX)	6,87	6,92	6,85	6,77	7,30

Equity markets indices

06/06/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	1,11	2,263	4,09	11,34	22,73
United States	1,20	2,773	3,39	11,50	26,23
Euro area	1,31	2,216	5,54	12,89	18,73
France	0,75	0,961	3,36	9,04	13,51
Germany	1,02	1,516	4,67	10,27	14,63
United Kingdom	0,19	0,425	8,47	8,96	13,58
Japan	-0,47	0,386	2,33	17,51	26,28
Emerging (USD)	1,89	1,057	6,27	8,78	16,21
China (USD)	2,22	0,434	14,42	8,80	1,56
India (USD)	1,42	3,787	3,92	10,93	36,28
Latin America (USD)	-0,93	-7,256	-6,33	-10,77	4,66

Foreign exchange rates

	06/06/2024	07/05/2024	07/03/2024	01/01/2024	07/06/2023
EUR/USD	1,09	1,08	1,09	1,11	1,07
GBP/USD	1,28	1,26	1,28	1,27	1,25
EUR/CHF	0,97	0,98	0,96	0,93	0,97
USD/JPY	156,03	154,43	148,09	141,03	139,72
USD/CNY	7,25	7,22	7,19	7,08	7,12

Commodity prices

	06/06/2024	07/05/2024	07/03/2024	01/01/2024	07/06/2023
Brent, USD/BL	80	83	83	77	77
Copper, USD/Metric t.	9 930	9 847	8 559	8 476	8 352
Gold, USD/Troy o.	2 376	2 314	2 160	2 063	1 940
Silver, USD/Troy o.	30	27	24	24	24
Palladium, USD/Troy o.	929	977	1 026	1 136	1 411
Platinum, USD/Troy o.	993	975	917	1 000	1 035

Source: Bloomberg, on 07 June 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..

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