

# WEEKLY UPDATE

## Negative trend in « surprise » indicators: don't jump to conclusions too quickly

The surprise index records, for a large number of economic indicators, the differences between actual and expected outcomes. Over the past few weeks, "surprises" related to economic activity have clearly turned negative in both the United States and the euro area. These surprises mainly reflect the persistence of a certain disconnect between survey data and hard data, and do not call into question our scenario of a supportive economic environment, with moderate but positive growth and continuing decreasing inflation, opening the way for central bank rate cuts.

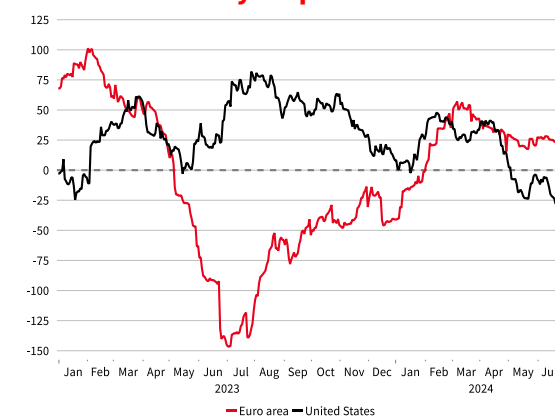
**Persistence of a disconnect between survey data and hard data.** Since Covid, survey indicators have underestimated the economic activity recovery. The initial explanation was linked to very specific tensions related to the Covid crisis, particularly those linked to supply chain disruptions and bottlenecks. More recently, this disconnect can be explained by increased sensitivity of households and businesses to certain variables - inflation and interest rates in particular, given that developed economies had not experienced a marked inflationary episode in nearly 40 years and high interest rates in 10 years. First, households continue to have a very negative perception of inflation, while it has already significantly decreased. Indeed, households are more affected by the significant increase in prices than by the slowdown in the pace of increase. Moreover, the increase in disposable income is not perceived as sufficient and kept consumer confidence at depressed levels. Similarly, business surveys are still affected by high interest rates.

**In the United States, surveys overstate the economic slowdown.** After several quarters of very high growth, economic activity is slowing down across the Atlantic, a slowdown that was both expected and desirable. While this slowdown is real, it appears overestimated by survey data. Hard data on activity shows a much more limited slowdown. While household goods consumption or the labour market are slowing, services consumption, industrial production, or business investment remain well oriented. Overall, hard data reinforces our scenario of growth stabilising around 2% in the United States, its pre-covid level. With the confirmation of the decline in inflation, this scenario should allow the Federal Reserve to lower interest rates in the coming months.

**In the euro area, growth would remain positive but more moderate and uncertain.** In the euro area, the context remains different from that of the United States, with a still moderate level of activity. In addition to surveys that still appear soft, hard data gives mixed signals, with industrial activity in particular continuing to disappoint. Hard data and confidence indices still signal a divergence between the robustness of sectors related to business investment (a powerful growth engine in 2022-23) and the weakness of household consumption (especially in durable goods such as automobiles). Nevertheless, the decline in inflation in a context of tight labour market and strong wage growth should boost real disposable income for households and, in the long term, consumption. We continue to expect moderate but positive growth, supported by the decline in inflation and then interest rates in the second half of the year.

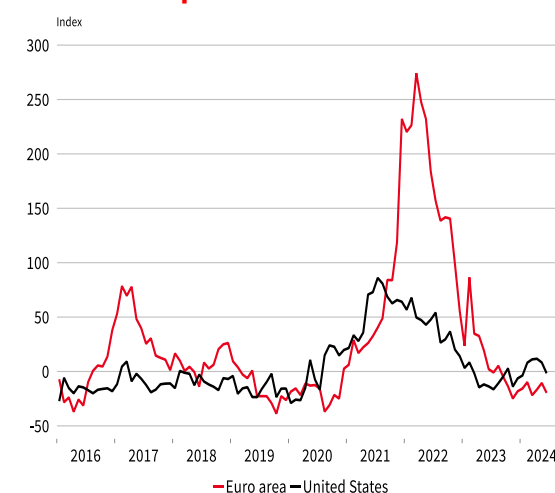


### Economic activity surprises index



Sources: SGPB, Macrobond, Citi 20/06/2024

### Inflation surprises index



Sources: SGPB, Macrobond, Citi 06/06/2024

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

All data taken from Bloomberg and Macrobond on the 12/07/2024, 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 inflation continued to fall in June to 3% year-over-year, below market expectations. The downside surprises came from services inflation, with the housing component in particular (35% of the CPI index) finally showing signs of normalisation. For the first time in four years, prices fell over the month, by -0.1%, whereas the consensus was expecting stagnation. Core inflation came in at 3.3% year-on-year, versus 3.4% expected. This provides the Fed with conclusive evidence of falling inflation, which should enable it to begin its rate-cutting cycle in September.



France's legislative elections failed to produce a clear winner, with none of the blocs securing the absolute majority needed to support a government drawn from its ranks. Thus, the political uncertainty created by the dissolution of the National Assembly has not abated. In its latest economic report, INSEE forecast GDP growth of 1.1% in France in 2024, the same as in 2023, thanks in particular to the effect of the Olympic Games in Q3, which would boost growth by 0.3 percentage points. A number of post-election elements may now interfere with this forecast, including the duration of the current climate of political uncertainty, a possible change in fiscal policy or even higher interest rates.

## The week in data

| Country        | Data                          | Actual   | Last     | Forecast |
|----------------|-------------------------------|----------|----------|----------|
| China          | Inflation Rate YoY JUN        | 0,20%    | 0,30%    | 0,40%    |
| China          | Balance of Trade JUN          | \$99,05B | \$82,62B | \$85B    |
| United States  | Core Inflation Rate MoM JUN   | 0,10%    | 0,20%    | 0,20%    |
| United States  | Core Inflation Rate YoY JUN   | 3,30%    | 3,40%    | 3,40%    |
| United States  | Inflation Rate MoM JUN        | -0,10%   | 0,00%    | 0,10%    |
| United States  | Inflation Rate YoY JUN        | 3,00%    | 3,30%    | 3,10%    |
| United States  | PPI MoM JUN                   | 0,20%    | 0%       | 0,10%    |
| United Kingdom | GDP MoM MAY                   | 0,40%    | 0%       | 0,20%    |
| United Kingdom | GDP YoY MAY                   | 1,40%    | 0,70%    | 1,20%    |
| United Kingdom | Industrial Production YoY MAY | 0,40%    | -0,70%   | 0,60%    |

Source: Macrobond, the 12th July 2024

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

## Key events next week

| Monday         |                               |
|----------------|-------------------------------|
| China          | GDP Growth Rate Q2            |
| China          | Industrial Production YoY JUN |
| Germany        | Retail Sales YoY MAY          |
| Euro Area      | Industrial Production YoY MAY |
| Tuesday        |                               |
| United States  | Retail Sales YoY JUN          |
| Wednesday      |                               |
| United Kingdom | Inflation Rate YoY JUN        |
| United States  | Industrial Production YoY JUN |
| Thursday       |                               |
| United Kingdom | Unemployment Rate MAY         |
| Euro Area      | ECB Interest Rate Decision    |
| Friday         |                               |
| Japan          | Inflation Rate YoY JUN        |
| United Kingdom | Retail Sales YoY JUN          |

# Market Performances

## Interbank rates

| %                    | 10/07/2024 | 12/06/2024 | 12/04/2024 | 01/01/2024 | 12/07/2023 |
|----------------------|------------|------------|------------|------------|------------|
| United States SOFR   | 5,337      | 5,33       | 5,33       | 5,34       | 5,07       |
| Euro area €ster      | 3,663      | 3,66       | 3,91       | 3,88       | 3,40       |
| United Kingdom SONIA | 5,200      | 5,20       | 5,20       | 5,19       | 4,93       |
| Switzerland SARON    | 1,206      | 1,45       | 1,45       | 1,70       | 1,70       |
| Japan TONAR          | 0,077      | 0,08       | 0,08       | -0,04      | -0,02      |

## Equity markets indices

| 11/07/2024 vs       | -1w   | -1m    | -3m   | 01/01/2024 | -1y    |
|---------------------|-------|--------|-------|------------|--------|
| World               | 0,84  | 2,946  | 7,69  | 15,35      | 24,795 |
| United States       | 0,64  | 3,032  | 8,74  | 16,31      | 27,094 |
| Euro area           | 0,22  | -0,964 | 2,94  | 10,81      | 17,597 |
| France              | -0,56 | -2,936 | -1,89 | 3,47       | 8,440  |
| Germany             | 0,50  | -0,285 | 3,94  | 9,90       | 16,628 |
| United Kingdom      | 0,41  | 0,589  | 4,04  | 8,60       | 18,563 |
| Japan               | 1,65  | 6,436  | 6,31  | 25,03      | 33,017 |
| Emerging (USD)      | 1,57  | 5,521  | 9,30  | 15,08      | 21,501 |
| China (USD)         | 1,07  | 0,075  | 8,76  | 6,65       | 0,132  |
| India (USD)         | -0,02 | 5,143  | 11,83 | 20,13      | 40,938 |
| Latin America (USD) | 3,82  | 7,290  | -4,03 | -10,30     | 0,299  |

## Sovereign rates 10 years

| %                        | 11/07/2024 | 12/06/2024 | 12/04/2024 | 01/01/2024 | 12/07/2023 |
|--------------------------|------------|------------|------------|------------|------------|
| United States Treasuries | 4,20       | 4,31       | 4,50       | 3,88       | 3,86       |
| France OAT               | 3,08       | 3,15       | 2,87       | 2,55       | 3,10       |
| Germany Bund             | 2,45       | 2,53       | 2,34       | 2,02       | 2,53       |
| Italy BTP                | 3,77       | 3,92       | 3,77       | 3,70       | 4,21       |
| Spain Bonos              | 3,18       | 3,32       | 3,18       | 2,98       | 3,53       |
| Switzerland              | 0,63       | 0,85       | 0,69       | 0,66       | 1,05       |
| United Kingdom Gilts     | 4,10       | 4,16       | 4,12       | 3,60       | 4,50       |
| Japan JGB                | 1,09       | 1,01       | 0,85       | 0,62       | 0,45       |

## Foreign exchange rates

|         | 11/07/2024 | 12/06/2024 | 12/04/2024 | 01/01/2024 | 12/07/2023 |
|---------|------------|------------|------------|------------|------------|
| EUR/USD | 1,09       | 1,09       | 1,06       | 1,11       | 1,11       |
| GBP/USD | 1,29       | 1,29       | 1,24       | 1,27       | 1,30       |
| EUR/CHF | 0,97       | 0,97       | 0,97       | 0,93       | 0,96       |
| USD/JPY | 158,55     | 155,78     | 152,91     | 141,03     | 138,43     |
| USD/CNY | 7,26       | 7,24       | 7,24       | 7,08       | 7,17       |

## Credit & emerging markets

| %                     | 11/07/2024 | 12/06/2024 | 12/04/2024 | 01/01/2024 | 12/07/2023 |
|-----------------------|------------|------------|------------|------------|------------|
| United States IG      | 5,26       | 5,40       | 5,59       | 5,06       | 5,45       |
| United States HY      | 7,73       | 7,82       | 8,06       | 7,59       | 8,37       |
| Europe IG             | 3,85       | 4,03       | 3,88       | 3,72       | 4,64       |
| Europe HY             | 6,61       | 6,62       | 6,67       | 6,80       | 8,11       |
| Emerging markets (FX) | 6,71       | 6,86       | 7,00       | 6,77       | 7,29       |

## Commodity prices

|                        | 11/07/2024 | 12/06/2024 | 12/04/2024 | 01/01/2024 | 12/07/2023 |
|------------------------|------------|------------|------------|------------|------------|
| Brent, USD/BL          | 86         | 83         | 90         | 77         | 79         |
| Copper, USD/Metric t.  | 9 694      | 9 698      | 9 402      | 8 476      | 8 367      |
| Gold, USD/Troy o.      | 2 415      | 2 324      | 2 344      | 2 063      | 1 958      |
| Silver, USD/Troy o.    | 31         | 29         | 29         | 24         | 23         |
| Palladium, USD/Troy o. | 1 000      | 921        | 1 070      | 1 136      | 1 279      |
| Platinum, USD/Troy o.  | 1 007      | 971        | 999        | 1 000      | 944        |

Source: Bloomberg, on 12 July 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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