

# WEEKLY UPDATE

## Inflation is decreasing but not prices!

In France, as in the euro area as a whole, the peak of inflation is clearly past. However, households continue to have a negative perception of price evolution. Two factors explain this: prices remain high, particularly for certain categories of everyday consumer products, and if incomes are gradually adjusting, this adjustment is not uniform for all. Compared to the rest of the euro area, France stands out for a lower overall increase in prices and for positive household purchasing power growth since Covid.

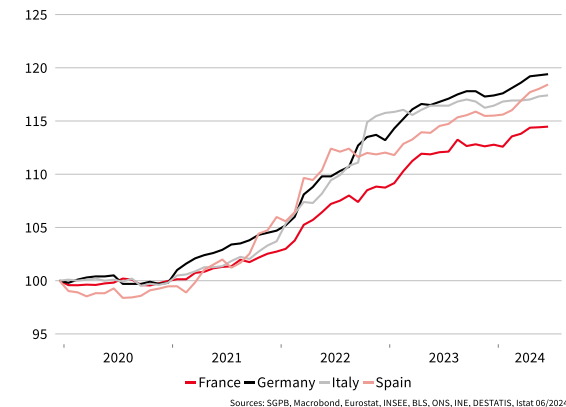
**The peak of inflation has passed.** In June, inflation stood at 2.5% year-on-year in the euro area and in France, marking a clear decrease compared to highs of close to 10% in the euro area and 7% in France in late 2022/early 2023. This easing of inflation is due to the end of the effects of the health crisis and the War in Ukraine. Nevertheless, even if inflation is easing, prices remain high (and are still rising, but at a slower rate) and continue to weigh on household confidence. Indeed, since the end of 2019, prices have increased by 20% in the euro area and nearly 18% in France. Certain categories of everyday consumption have been particularly affected, which exacerbates households' negative perception, even if they represent a relatively small share of the average consumption basket. Thus, food prices have increased by 30% in the euro area and 26% in France over the same period, while energy prices have risen by 39% and 37% respectively. These categories account for only 16% for food and 10% for energy in the average basket but play a significant role in households' perception of prices.

**Household incomes are adjusting unevenly.** While inflation is decreasing significantly and should gradually return to the 2% target set by the central bank, prices should continue to rise, but at a slower rate. Household incomes are gradually catching up with price developments, but with notable differences between countries. In France, purchasing power, which measures the evolution of all deflated household incomes, has risen sharply since the health crisis - this is also the case, more recently, in Spain. It is stable in Germany, however, and is sharply down in Italy. In France, this increase in purchasing power is due to rising wages, employment and property income in a context of higher interest rates. It primarily benefits low-income and high-income households, the former because of the increase in the minimum wage and the latter due to wealth effects.

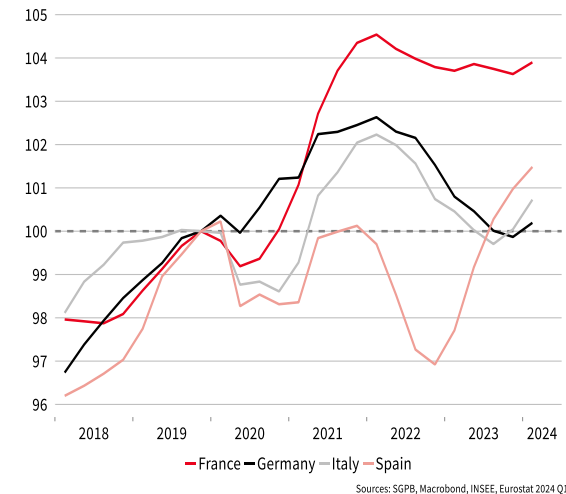
**The European Central Bank (ECB) would maintain a gradual pace of interest rate cuts.** Although inflation continues to fall in France and more broadly in the euro area, the ECB should be able to continue its cycle of interest rate cuts. However, even if it is natural and desirable, the adjustment of incomes maintains a certain persistence of price tensions, particularly for service prices. The ECB should therefore adopt a gradual pace in its interest rate cuts.



### Price trends in the main euro zone economies (100=31/12/2019)



### Change in purchasing power (per person, 100=31/12/2019)



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



The ISM activity indices for the US suggest a slowdown in the economy in June. The services indicator came in lower than expected in June, at 48.8 vs. 52.5 expected. The index was mainly penalized by new orders. Meanwhile, industrial activity slowed more than expected to 48.5 vs. 49.1 for the month. The labor market continued its slow normalization, with 206,000 jobs created in June - versus 190,000 expected - and a sharp revision in May, from 272,000 to 218,000. The unemployment rate also surprised on the upside, at 4.1% versus 4% expected.



The UK general election gave a large majority to the Labour Party, as expected. After 14 years of Conservative rule, the Labour Party regained an absolute majority in Parliament, with 411 seats out of 650. Former barrister Keir Starmer became the new Prime Minister, with a moderate economic program (a few targeted tax rises and a desire to improve public services in health and education). Among the highlights of the election, the Conservative party lost over 200 seats, while Nigel Farage's far-right anti-system party won a dozen seats and the Liberal party took 71, its highest total ever.

## The week in data

Country	Data	Actual	Last	Forecast
Germany	Harmonised Inflation Rate YoY JUN	2,50%	2,80%	2,60%
Germany	Industrial Production MoM MAY	-2,50%	0,10%	0,20%
United States	ISM Manufacturing PMI JUN	48,5	48,7	49,1
United States	ISM Services PMI JUN	48,8	53,8	52,5
United States	Non Farm Payrolls JUN	206K	218K	190K
United States	Unemployment Rate JUN	4,10%	4,00%	4,00%
France	Industrial Production MoM MAY	-2,10%	0,60%	-0,50%
Switzerland	Unemployment Rate JUN	2,30%	2,30%	2,20%
Switzerland	Inflation Rate YoY JUN	1,30%	1,40%	1,40%
Euro Area	Inflation Rate YoY JUN	2,50%	2,60%	2,50%
Euro Area	Core Inflation Rate YoY JUN	2,90%	2,90%	2,80%
Euro Area	Unemployment Rate MAY	6,40%	6,40%	6,40%

Source: Macrobond, the 5th July 2024

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

## Key events next week

Monday	
Germany	Balance of Trade MAY
United States	Consumer Inflation Expectations JUN
Wednesday	
China	Inflation Rate JUN
Italy	Industrial Production MAY
Thursday	
United Kingdom	Balance of Trade MAY
United Kingdom	GDP growth MAY
United Kingdom	Industrial Production MAY
United States	Core Inflation Rate JUN
United States	Inflation Rate JUN
Friday	
United States	PPI JUN
Saturday	
China	Balance of Trade JUN



# Market Performances

## Interbank rates

%	03/07/2024	05/06/2024	05/04/2024	01/01/2024	05/07/2023
United States SOFR	5,338	5,33	5,33	5,34	5,07
Euro area €ster	3,663	3,91	3,91	3,88	3,40
United Kingdom SONIA	5,200	5,20	5,19	5,19	4,93
Switzerland SARON	1,212	1,45	1,46	1,70	1,71
Japan TONAR	0,077	0,08	0,08	-0,04	-0,03

## Sovereign rates 10 years

%	03/07/2024	05/06/2024	05/04/2024	01/01/2024	05/07/2023
United States Treasuries	4,36	4,29	4,39	3,88	3,95
France OAT	3,21	2,99	2,93	2,55	3,01
Germany Bund	2,56	2,50	2,40	2,02	2,46
Italy BTP	3,97	3,80	3,83	3,70	4,09
Spain Bonos	3,32	3,23	3,24	2,98	3,46
Switzerland	0,69	0,84	0,70	0,66	0,84
United Kingdom Gilts	4,19	4,21	4,07	3,60	4,47
Japan JGB	1,10	1,02	0,78	0,62	0,40

## Credit & emerging markets

%	04/07/2024	05/06/2024	05/04/2024	01/01/2024	05/07/2023
United States IG	5,41	5,36	5,45	5,06	5,57
United States HY	7,92	7,88	7,84	7,59	8,58
Europe IG	3,99	4,00	3,87	3,72	4,65
Europe HY	6,67	6,58	6,65	6,80	8,07
Emerging markets (FX)	6,89	6,86	6,85	6,77	7,31

## Equity markets indices

04/07/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	1,43	2,718	5,51	14,15	21,67
United States	1,23	3,105	5,76	15,05	24,61
Euro area	2,09	-1,476	1,95	10,66	14,28
France	3,07	-3,997	-1,80	4,26	5,87
Germany	0,91	-0,641	1,98	9,14	12,78
United Kingdom	1,11	0,157	5,07	8,49	14,58
Japan	3,14	5,563	7,25	23,59	27,03
Emerging (USD)	1,77	4,937	7,78	13,16	17,71
China (USD)	2,13	-1,964	8,49	6,49	-2,28
India (USD)	1,55	9,259	11,33	19,54	39,70
Latin America (USD)	2,56	-1,900	-9,93	-13,44	-5,39

## Foreign exchange rates

	04/07/2024	05/06/2024	05/04/2024	01/01/2024	05/07/2023
EUR/USD	1,08	1,09	1,08	1,11	1,09
GBP/USD	1,28	1,28	1,26	1,27	1,27
EUR/CHF	0,97	0,97	0,98	0,93	0,98
USD/JPY	161,07	156,24	151,56	141,03	144,46
USD/CNY	7,27	7,25	7,23	7,08	7,25

## Commodity prices

	04/07/2024	05/06/2024	05/04/2024	01/01/2024	05/07/2023
Brent, USD/BL	88	79	91	77	76
Copper, USD/Metric t.	9 727	9 769	9 198	8 476	8 251
Gold, USD/Troy o.	2 357	2 355	2 329	2 063	1 915
Silver, USD/Troy o.	30	30	27	24	23
Palladium, USD/Troy o.	1 025	921	998	1 136	1 246
Platinum, USD/Troy o.	1 012	989	923	1 000	917

Source: Bloomberg, on 05 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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