

WEEKLY UPDATE

2024: a pivotal year for the UK?

2024 is a pivotal year for the United Kingdom. Firstly, similar to the euro area, the economy seems to be bouncing back after two years of near-zero growth, while inflation is falling, which should allow the Bank of England to cut interest rates for the first time since the pandemic. The UK equity markets could therefore continue to perform well, after a sluggish 2023. Finally, the general election to be held on 4 July is expected to end the Conservative party's 14 years in power, with the Labour party taking over.

Economic stagnation since the end of 2021. The UK economy has clearly underperformed its peers, including the euro area countries, since the start of the pandemic. Several factors have weighed on growth. Firstly, the UK was one of the country's most negatively impacted by the health restrictions (posting a 10.4% drop in 2020, the second biggest drop in GDP growth among OECD countries). Pre-Covid GDP levels were not restored until the end of 2021. Subsequently, in addition to global supply chain disruptions and gas prices soaring linked to the war in Ukraine, the recovery has been disrupted by Brexit, with uncertainties over the regulatory environment as well as new trade barriers and border controls. As a result, between the end of 2021 and the end of 2023, the level of British GDP had hardly risen at all, compared with an increase of almost 2% in the euro area and more than 3.5% in the United States.

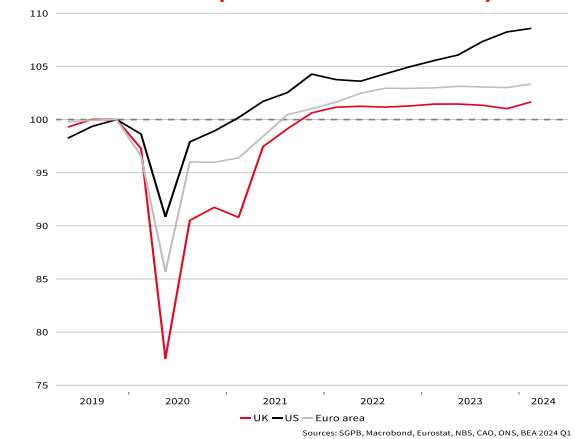
A recent reversal in this trend. Since the start of 2024, the situation has changed: GDP growth reached 0.6% q/q in the first quarter, driven by a strong rebound in domestic demand (consumption and investment) - compared with 0.3% in the euro area and in the United States. This economic improvement should continue, with the fall in inflation (and the expected fall in interest rates) supporting household disposable income.

Moderate fall in inflation to allow Bank of England (BoE) rate cuts. After consistently (and sharply) outperforming its peers, UK inflation has slowed markedly in recent months, to 2.3% year-on-year in April, on a par with the euro area and well below US inflation. Nevertheless, core inflation remains high (3.9% year-on-year), mainly due to service prices. So, although close to target, UK inflation continues to show signs of strain. As a result, the markets have revised their expectations of a rate cut for the 20 June meeting (from a 60% probability before the inflation data release to just 5% since), especially as this meeting will only take place two weeks before the election. However, the BoE should be able to start cutting rates as early as August. Indeed, tensions on the labour market have begun to ease: job creation has fallen over the last three months and wage growth is moderating.

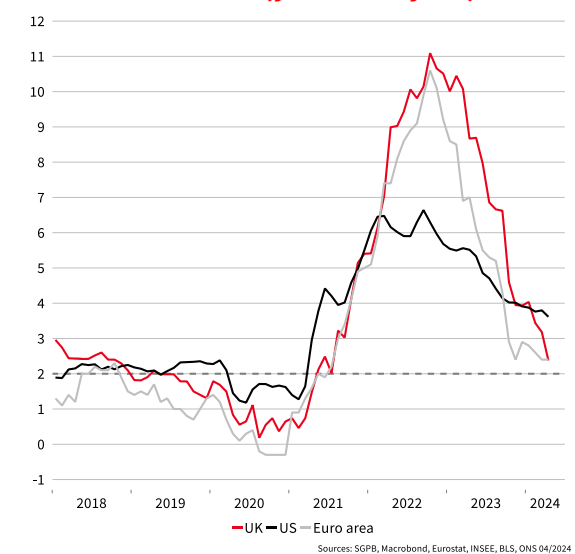
An uneventful election campaign? The Conservative Prime Minister has announced that elections will be held on 4 July. The polls give the Labour Party a lead of more than 20 points. Although it was at the heart of the previous election, Brexit is absent from this campaign, which for the moment is focusing on the state of public services (the NHS in particular) and on how to finance their improvement. In any case, the government that will emerge from the election will continue to be constrained by limited budgetary room for manoeuvre.



Real GDP level (rebased in late 2019)



Headline inflation (year-over-year)



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



Euro area inflation rebounded slightly more strongly than the markets expected in May, to 2.6% year-on-year, compared with 2.5% expected after 2.4% in April. The acceleration was reflected in core inflation, which came out at 2.9% year-on-year, compared with 2.8% expected by the consensus. At national level, harmonised inflation rose to 2.7% in France against expectations of 2.6%, and to 2.8% in Germany. This surge in inflation was caused by both a rise in energy prices and a rebound in services inflation. These data should not call into question the ECB's expected rate cut next week but, in line with our expectations, limits the ECB's scope for aggressive rate cuts thereafter.



The consumer price deflator (PCE index), the measure of inflation most closely followed by the Fed, came in below expectations for April, rising by 0.2% over the month against expectations of 0.3%. However, the measure shows that inflation remains rigid in line with expectations, at 2.7% year-on-year in total terms and 2.8% in underlying terms, the same level as the previous month. On the consumer side, personal spending slowed, as did incomes, to 0.2% and 0.3% respectively, reflecting weakening inflationary pressures. These figures attest to the slow decline in US inflation, and are in line with our scenario of a Fed rate cut later this year.

The week in data

Country	Data	Actual	Last	Forecast
Germany	Inflation Rate YoY MAY	2,40%	2,20%	2,40%
Germany	Harmonised Inflation Rate YoY MAY	2,80%	2,40%	2,70%
China	NBS Manufacturing PMI MAY	49,5	50,4	50,5
China	NBS Non Manufacturing PMI MAY	51,1	51,2	51,5
United States	Personal Income MoM APR	0,30%	0,50%	0,30%
United States	Personal Spending MoM APR	0,20%	0,70%	0,30%
United States	PCE Price Index YoY APR	2,70%	2,70%	2,70%
France	Inflation Rate YoY MAY	2,20%	2,20%	2,40%
France	Harmonised Inflation Rate YoY MAY	2,70%	2,40%	2,50%
Switzerland	GDP Growth Rate YoY Q1	0,60%	0,50%	0,60%
Euro Area	Unemployment Rate APR	6,40%	6,50%	6,50%
Euro Area	Inflation Rate YoY MAY	2,60%	2,40%	2,50%
Euro Area	Core Inflation Rate YoY MAY	2,90%	2,70%	2,80%

Source: Macrobond, the 31st May 2024

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

Key events next week

Monday	
China	Caixin Manufacturing PMI MAY
United States	ISM Manufacturing PMI MAY
Tuesday	
Switzerland	Inflation Rate MAY
Germany	Unemployment Rate MAY
Wednesday	
France	Industrial Production APR
United States	ISM Services PMI MAY
Thursday	
Euro Area	Retail Sales APR
Euro Area	ECB Interest Rate Decision
Friday	
Germany	Industrial Production APR
United States	Non Farm Payrolls MAY
United States	Unemployment Rate MAY
United States	Average Hourly Earnings MAY

Market Performances

Interbank rates

%	29/05/2024	30/04/2024	29/02/2024	01/01/2024	31/05/2023
United States SOFR	5,324	5,33	5,32	5,34	5,04
Euro area €ster	3,909	3,89	3,89	3,88	3,14
United Kingdom SONIA	5,200	5,20	5,19	5,19	4,43
Switzerland SARON	1,455	1,44	1,70	1,70	1,44
Japan TONAR	0,078	0,08	-0,01	-0,04	-0,07

Equity markets indices

30/05/2024 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-1,22	3,112	3,69	9,46	22,36
United States	-1,28	3,996	2,69	9,37	26,04
Euro area	-0,81	3,142	6,04	11,37	17,10
France	-1,06	1,743	3,34	7,95	11,55
Germany	-1,16	3,031	4,34	9,04	13,55
United Kingdom	-1,00	1,882	9,19	8,22	12,80
Japan	-0,65	-0,614	2,70	16,13	28,29
Emerging (USD)	-1,72	1,091	5,57	7,34	16,31
China (USD)	-1,55	3,911	11,66	7,95	3,51
India (USD)	-2,46	0,489	3,91	9,31	35,20
Latin America (USD)	-1,96	-1,879	-4,29	-9,10	8,93

Sovereign rates 10 years

%	30/05/2024	30/04/2024	29/02/2024	01/01/2024	31/05/2023
United States Treasuries	4,55	4,69	4,25	3,88	3,64
France OAT	3,15	3,08	2,88	2,55	2,84
Germany Bund	2,66	2,58	2,41	2,02	2,27
Italy BTP	3,96	3,92	3,84	3,70	4,08
Spain Bonos	3,39	3,36	3,29	2,98	3,33
Switzerland	0,85	0,69	0,83	0,66	0,85
United Kingdom Gilts	4,35	4,35	4,11	3,60	4,17
Japan JGB	1,06	0,92	0,69	0,62	0,43

Foreign exchange rates

	30/05/2024	30/04/2024	29/02/2024	01/01/2024	31/05/2023
EUR/USD	1,08	1,07	1,08	1,11	1,07
GBP/USD	1,27	1,25	1,26	1,27	1,24
EUR/CHF	0,98	0,98	0,95	0,93	0,97
USD/JPY	156,63	157,35	149,75	141,03	139,71
USD/CNY	7,25	7,24	7,19	7,08	7,11

Credit & emerging markets

%	30/05/2024	30/04/2024	29/02/2024	01/01/2024	31/05/2023
United States IG	5,58	5,73	5,41	5,06	5,37
United States HY	8,08	8,11	7,86	7,59	8,81
Europe IG	4,12	4,11	4,04	3,72	4,41
Europe HY	6,61	6,86	6,69	6,80	8,01
Emerging markets (FX)	6,95	7,13	6,94	6,77	7,32

Commodity prices

	30/05/2024	30/04/2024	29/02/2024	01/01/2024	31/05/2023
Brent, USD/BL	82	86	82	77	72
Copper, USD/Metric t.	10 017	9 974	8 389	8 476	8 017
Gold, USD/Troy o.	2 343	2 286	2 044	2 063	1 963
Silver, USD/Troy o.	32	27	22	24	23
Palladium, USD/Troy o.	947	942	952	1 136	1 390
Platinum, USD/Troy o.	1 032	939	887	1 000	1 003

Source: Bloomberg, on 31 May 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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