

Inflation continues to ease, as central banks start pivoting towards interest rate cuts; downside risks linger and continue to weigh on growth outlook for the remainder of this year.

Economic Update

Economy: US CPI inflation falls more than expected; China posts largest trade surplus in near 2 years.

US: In June, the annual **CPI inflation** rate fell for a third straight month to 3.0% (c: 3.1%; p: 3.3%), marking the lowest reading since June 2023.

On a m-o-m basis, the CPI unexpectedly fell to -0.1% (c: 0.1%; p: 0.0%), as falling gas prices as well as a drop in new and used car prices helped to usher in the first decline since May 2020.

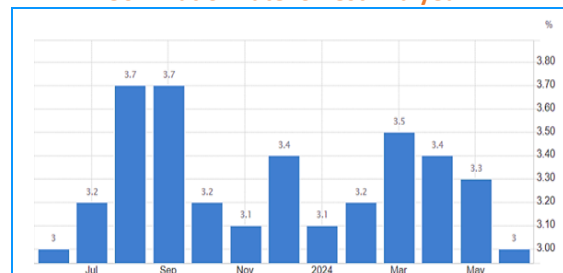
Meanwhile, annual **core inflation** also slowed to 3.3%, a fresh low since April 2021, from 3.4% in May.

China: In June, China's **trade surplus** surged to USD 99.05bn from USD 69.80bn in the same period a year earlier, surpassing market expectations of USD 85bn.

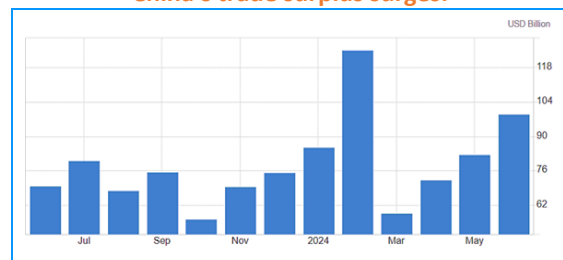
The **trade surplus** with the US widened to USD 31.78bn from USD 30.81bn in the previous month.

The **trade surplus** with the US stood at USD 159.9bn for January – June 2024.

US inflation rate lowest in a year.



China's trade surplus surges.



Market Update

Equities: Equities advance on hopes of central bank policy easing.

US: The **S&P 500** was up (+0.9% w-o-w to 5,615), fueled by increasing expectations of a September rate cut amid signs of easing inflation as earning season rolls in with banks in focus.

Eurozone: Equity markets gained (**Eurostoxx 50**, +1.3% w-o-w, to 5,043), amid expectations that imminent rate cuts by the Fed will loosen financial conditions across Europe.

EMs: Equities advanced (**MSCI EMs**, +1.7% w-o-w, to 1,124), as Chinese stocks gained (**Shanghai Comp.**, +0.7% w-o-w, to 2,971), as strong export data offset concerns about deflationary pressures.

Fixed Income: US 10-year yield hits 4-month lows; German bund yield falls.

Global fixed incomes were higher (**BAML Global**, +0.6% to 268.8), and **UST yields** fell (-9bps, to 4.19%), hovering at its lowest in four months as a batch of economic data solidified markets' expectation of imminent rate cuts by the Fed.

In the EZ, the yield on the **German 10-year Bund** dropped (-4bps to 2.50%), the lowest in two weeks, following a decline in UST yields due to lower-than-expected US CPI data, which reinforced expectations of a rate cut by the Fed in September.

FX: DXY falls after CPI data; EUR gains on political worries and ECB outlook.

The **DXY index** weakened (-1.7% w-o-w, to 104.093), after the USD came under pressure from a rallying JPY, amid suspected intervention by Japanese authorities.

The **EUR/USD** strengthened (+0.6% w-o-w, to 1.091), as traders assess the political situation in France and monetary outlook from the ECB.

Commodities: Oil prices drop; Gold gains from CB buying and weaker USD.

Oil prices were lower (Brent, -1.7% w-o-w, to 85.0 USD/b), as concerns over supply disruptions eased amid hopes for a ceasefire deal in Gaza.

Gold prices were up (+0.8% w-o-w, to 2,411 USD/Oz) as bets of incoming cuts by the ECB, the BoE, and the PBoC – reducing the opportunity cost of holding bullion.

US S&P 500 extends gains.



DXY sees second weekly fall.



Gold advances after lower US CPI.



Week Ahead

This week, the earnings season will kick into high gear. Additionally, speeches by several Fed officials, including Chair Powell, are highly anticipated. Economic data releases in the US will include retail sales, industrial production, export and import prices, building permits, and housing starts. Also, attention will be on China's Communist Party's Third Plenum, GDP growth rate, industrial production, retail sales, unemployment rate, and fixed asset investments. In addition, inflation rates will be reported for Canada, the UK, New Zealand, and Japan.