Weekly Newsletter – June 3, 2024

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Global economic activity shows signs of weakening, as inflation eases; central banks refrain from aggressive easing – in fear for reigniting price pressures.

Economic Update

Economy: US Q1 GDP revised lower, while consumer spending stalls, Eurozone CPI rises more than expected.

US: In Q1, the economy expanded an annualized 1.3%, below 1.6% in the advance estimate and 3.4% in Q4 mainly due to a downward revision in consumer spending.

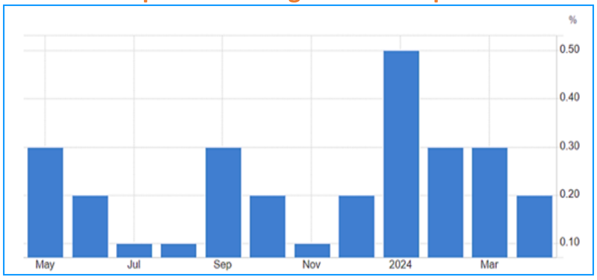
In April, the **PCE price index** went up 0.3% m-o-m (*c:* 0.3%; *p:* 0.3%), as prices for goods were up 0.2%, and prices for services increased 0.3%.

Meanwhile, the **core-PCE** index, which excludes food and energy, and is the Fed's preferred inflation gauge, rose 0.2% m-o-m (*c:* 0.3%; *p:* 0.3%).

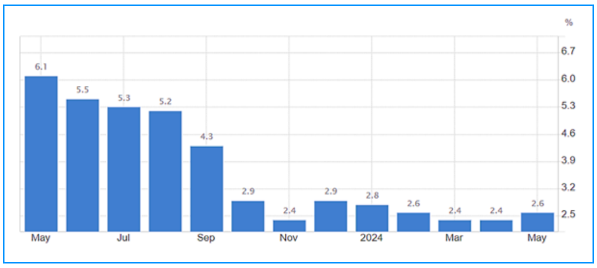
Finally, the **annual PCE** rate steadied at 2.7% y-o-y, pausing after an acceleration in March, and the annual **core-PCE** inflation was also unchanged at 2.8% y-o-y, both in line with forecasts.

Eurozone: In May, the **annual CPI** inflation rate rose for the first time in 5 months to 2.6% (*c:* 2.5%; *p:* 2.4%), as prices rose for energy, and services. The **core-CPI** rate which also increased to 2.9% from 2.7%, higher than expectations of 2.8%.

US composite PMI highest since April 2022.



Eurozone CPI rose for the first time in 5 months.



Market Update

Equities: Global stocks end lower driven by disappointing US earnings.

US: The **S&P 500** was down (-0.5% w-o-w to 5,278), as small-caps performed better than large-caps, and value stocks held up better than growth shares. The technology sector was especially weak, due in part to a sharp decline in cloud software provider Salesforce.

Eurozone: Equity markets fell (**Eurostoxx 50,** -1.0% w-o-w, to 4,984), as hotter-than-expected eurozone inflation increased uncertainty about policy easing by the European Central Bank beyond June.

EMs: Equities pulled back (**MSCI EMs**, -3.1% w-o-w, to 1,049), as Chinese stocks declined (**Shanghai Comp**., -0.1% w-o-w, to 3,087), as investors reacted to weaker-than-expected Chinese PMI figures.

Fixed Income: US 10-year yield advances; German bund yield gains.

Global fixed incomes were lower (**BAML Global**, -0.1% to 263.9), and the 10-year **UST yield** rose (+4bps, to 4.51%), as PCE inflation figures offered investors another relief the Fed still has room to cut rates this year.

In the EZ, the yield on the **German 10-year Bund** advanced (+6bpsto 2.65%), as traders have scaled bets for the moves beyond June, with only two more rate reductions priced in for the year.

FX: DXY pulls back on flat PCE reading; Euro flat ahead of ECB meeting.

The **DXY index** weakened (-0.1%, to 104.671), after a batch of data pointed to an economic backdrop that could favor less restrictive monetary policy by the Fed.

The **EUR/USD** was mute (0.0%, to 1.084), as the ECB is still set to cut its key interest rates for the first time in this cycle next week, but lingering concerns that inflation will refrain from slowing to its target.

Commodities: Gold falls amid retreating FOMC rate cut speculations.

Gold prices pulled back (-0.3% w-o-w, to 2,327 USD/Oz) after US PCE inflation figures gives the Fed some room to cut interest rates this year.

S&P 500 reverses gains.

DXY weakened against the AUD and NZD .

Gold falls after flat US PCE – weakening demand.

Week Ahead

In the US, the labor market report will take center stage. Investors will also closely monitor JOLTs Job Openings, ISM Manufacturing and Services PMIs, factory orders, and foreign trade data. Globally, attention will be on the interest rate decisions from the European Central Bank, Bank of Canada, and Reserve Bank of India. Inflation rates will be released for Turkey, and Mexico. GDP growth rates will be reported for Australia. Also, key indicators to watch include PMIs and foreign trade data for China, alongside Euro Area retail sales.