Weekly Newsletter – May 20, 2024

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Global growth to moderate, as inflationary pressure ease, and central banks start their dovish monetary policy shift – boosting expectations for increased global liquidity conditions.

Economic Update

Economy: US consumer inflation slows as producer prices tick up; EZ industrial output expands more-than-expected.

US: In April, the CPI inflation rate eased to 3.4% y-o-y (*c:* 3.4%; *p:* 3.5%) showing that consumer price pressures are gradually moderating.

Meanwhile, core-CPI inflation slowed to 3.6% y-o-y (*c:* 3.6%; *p:* 3.8%) marking the lowest reading since April 2021.

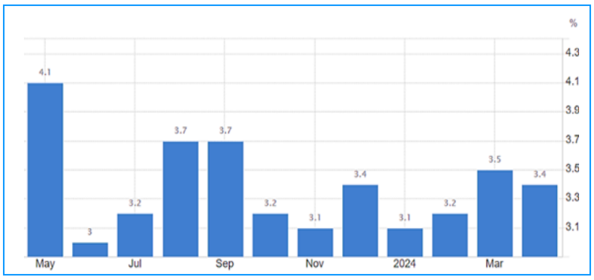
As well, producer prices increased 0.5% m-o-m (*c:* 0.3%; *p:* -0.1%) suggesting it will take time for inflationary pressures to abate.

Retail sales eased to 3.0% y-o-y (*p:* 3.8%), suggesting that consumers are focusing spending on essentials, and cutting back on luxuries amid higher prices.

Eurozone: In March, industrial production rose by 0.6% m-o-m (*c:* 0.5%; *p:* 1.0%), marking the second consecutive month of growth in the bloc's industrial activity, as output increased for capital goods.

On a yearly basis, industrial production shrank more-than-expected to -1.0% (*c:* 1.2%; *p:* 6.3%).

US CPI inflation rate slows.



Eurozone industrial output continues to expand.

Market Update

Equities: Global stocks finish higher as central banks turn less restrictive.

US: The S&P 500 advanced (+1.5% w-o-w to 5,303), as the focus on interest rates and inflation continued to dominate market sentiment, with investors closely monitoring statements from the FOMC for any changes in rate cut expectations.

Eurozone: Equity markets fell (Eurostoxx 50, -0.4% w-o-w, to 5,064), as markets continued to assess the latest corporate developments and the magnitude of incoming rate cuts by the ECB.

EMs: Equities advanced (MSCI EMs, +2.6% w-o-w, to 1,100), as Chinese stocks were flat (Shanghai Comp., 0.0% w-o-w, to 3,154), after the central government unveiled on Friday a historic rescue package to stabilize the country's ailing property sector.

Fixed Income: US 10-year yield drops; German bund yield edge lower.

Global fixed incomes were higher (BAML Global, +0.4% to 265.1), and the 10-year **UST yield** dropped (-8bps, to 4.42%), as markets continued to assess underlying inflation for hints on the Fed's outlook.

In the EZ, the yield on the **German 10-year Bund** fell (-1bp to 2.51%), following remarks from ECB board member cautioning against further rate cuts post-June.

FX: DXY fall on weaker CPI data; Euro firms after hawkish ECB comments.

The **DXY index** weakened (-0.8%, to 104.445), as signs of cooling inflation and slowing momentum for the broader economy reinforced expectations for rate cuts

The **EUR/USD** gained (+0.9%, to 1.087), as ECB policymakers scale back expectations for rate cuts this year.

Commodities: Brent prices rebound; Gold gains hits fresh record highs.

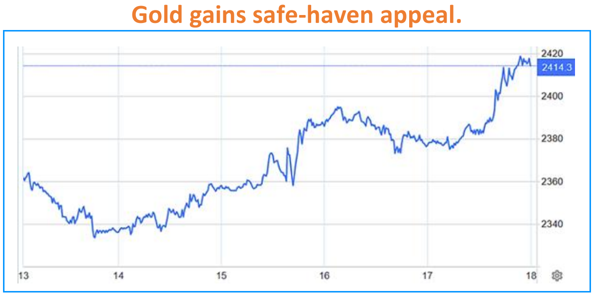
Oil prices were higher (**Brent**, +1.4% w-o-w, to 84.0 USD/b), after EIA data showed that US crude stockpiles fell by 2.508m barrels last week.

Gold prices gained (+2.3% w-o-w, to 2,415 USD/Oz) setting a fresh record, buoyed by increased expectations of Fed interest rate cuts, firm central banks buying, and safe-haven demand.

S&P 500 hovers near record highs.

DXY weakens, but flat versus JPY and CNY.

Gold gains safe-haven appeal.



Week Ahead

In the US, investors will be closely monitoring speeches by several Fed officials, the FOMC meeting minutes, and key economic indicators including the S&P Manufacturing and Services PMI, durable goods orders, and new and existing home sales. The earnings season is nearing its end, with reports expected from major corporations such as Palo Alto Networks, Lowe's, Nvidia, Target, and Intuit. Globally, attention will be on interest rate decisions in China, New Zealand, and Turkey. Additionally, inflation rates will be released for Canada, UK, and Japan.

This report is prepared by: Burgan Bank Group – Economics & Macro Strategy Unit, Treasury Department