

Euro area: latest inflation figures spell trouble

Price pressures continued to run high last month and inflation rose again for all goods and services – not just energy (Chart 1). Euro area inflation was 8.1% in May, another monthly rise (after April's 7.4%) that not only outstripped analysts' expectations of 7.7% but amply beat the ECB's own projections (Chart 2). True, much of the rise is still being driven by energy and food. But underlying inflation also rose to 3.8%, a level the European Central Bank (ECB) will find it uncomfortable to live with. This is all in contrast to what is happening in the United States, where inflation seems to have peaked and where underlying inflation slowed in April, a trend likely to be confirmed when May figures come out.

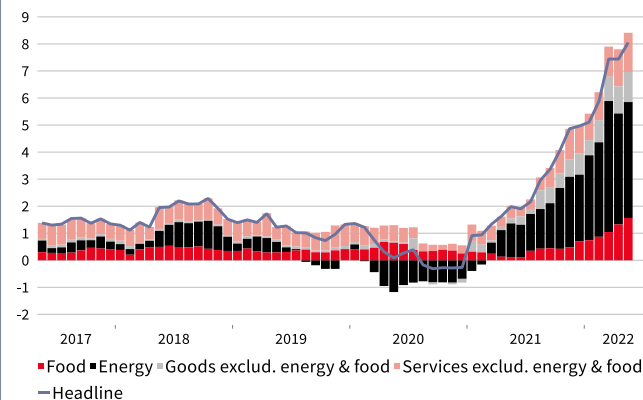
Business sentiment still positive amid growing risks to the economic outlook. May's PMI fell but remained above 50 points, pointing to slower but still expanding economic activity. Services, in particular, continue to drive growth as they reap the ongoing benefits of the end of Covid restrictions. The job creation sub-index also remains bullish, indicating a solid and resilient employment market in the zone. That said, this relatively healthy story for business is not matched by household confidence, which has slumped to lows as real disposable incomes are squeezed. Overall, Euro area economies still have real capacity to cope with this upside surprise in inflation.

ECB may speed up monetary policy normalisation. The messages coming out of the ECB have been evolving in recent weeks, prompting bank-watchers to forecast 25 bp rate hikes in both July and September. Now, the latest inflation figures are fuelling speculation about a possible 50 bp hike (rather than 25 bp) in July. While it is eminently sensible to bring monetary policy back to a more normal stance in the current inflationary environment, the ECB will have to take care not to tighten monetary conditions too fast and too far, at the risk of tipping already fragile economies into recession.



Inflation in the Euro area rose on all its components

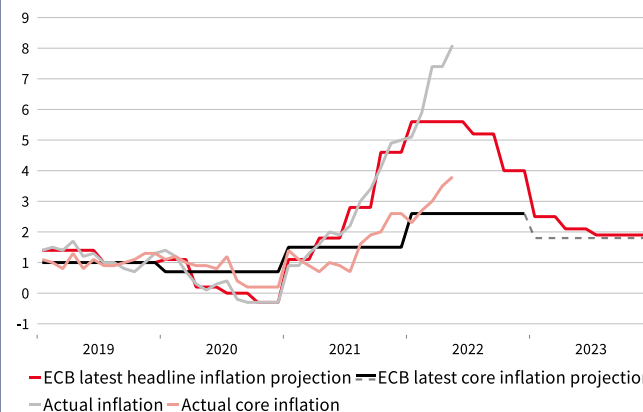
Euro area: Inflation and contributions



Sources: SGPB, Macrobond, Eurostat, BLS 05/2022

Effective inflation in the Euro area well above the ECB's projections

Euro area: Effective inflation and ECB projections



Sources: SGPB, Macrobond, ECB, Eurostat 12/2024

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (03/06/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



Federal Reserve Chairman Jerome Powell spoke with Joe Biden earlier this week. The US President stated that he wanted to give Powell “space” to fight inflation. The US Secretary of the Treasury, Janet Yellen, stepped up by fully affirming her confidence in the Fed to carry out this mission, admitting that she was previously mistaken about the transitory nature of inflation.



Croatia will enter the Euro area on 1 January 2023; its application for membership was approved by the European Commission on Wednesday. While the final green light has yet to be obtained from the Finance Ministers of the countries of the area, the Commission has highlighted that the country meets the various criteria for membership in terms of health of public finances, interest rates, inflation and exchange rates.

Figures of the week



- Inflation (in year on year variation, May)
- Core inflation (in year on year variation, May)
- S&P Global Manufacturing PMI (May)
- S&P Global Services PMI (May)



- ISM Manufacturing PMI (May)
- ISM Services PMI (May)



- Inflation (in year on year variation, May)
- Retail sales (in month on month variation, April)



- Caixin Manufacturing PMI (May)

	Current		Consensus	Previous
	8,1%	↑	7,7%	7,4%
	3,8%	↑	3,5%	3,5%
	54,6	↓	54,4	55,5
	56,1	↓	56,3	56,3
	56,1	↑	54,5	55,4
	55,9	↓	56,4	57,1
	8,7%	↑	8%	7,8%
	-5,4%	↓	0%	0,9%
	48,1	↑	47	46

Sources: Bloomberg, on June 3rd, 2022.

The week ahead

Monday



Caixin Services PMI (May)

Tuesday



GDP (Q1)

Wednesday



GDP (Q1)

Thursday



Policy interest rate

Friday



Inflation (May)



Inflation (May)



University of Michigan Consumer Sentiment index (June)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,59	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,78	0,05	0,05	0,01
JPY TONAR O/N	-0,03	-0,02	-0,01	-0,02	-0,04
GBP SONIA O/N	0,94	0,94	0,45	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,68	1,47	0,47	0,20	0,09
10Y Bund	1,12	0,95	-0,04	-0,21	-0,19
10Y BTP	3,16	2,93	1,55	1,17	0,89
10Y JGB	0,23	0,20	0,13	0,07	0,08
10Y Bonos	2,27	2,05	0,99	0,56	0,46
10Y Swiss	0,87	0,68	0,08	-0,13	-0,14
10Y Gilt	2,13	1,91	1,27	1,02	0,92
10Y USTnote	2,94	2,75	1,86	1,52	1,59

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,88	1,72	0,81	0,33	0,22
EUR Corporate Baa	2,73	2,59	1,35	0,66	0,50
GBP Corporate Baa	2,97	2,81	2,07	1,52	1,18
USD Corporate Aaa	3,61	3,52	2,80	2,13	2,10
USD Corporate Baa	4,61	4,55	3,46	2,60	2,41
USD EM aggregate	6,38	6,40	5,81	4,33	3,86

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	115,83	1,3%	1,1%	46,5%	62,7%
Or, USD/oz	1 846	-0,4%	-4,2%	1,0%	-3,2%
Copper, USD/metric ton	9 450	1,5%	-7,5%	-2,4%	-6,7%
Platinum, USD/onoz	975	2,8%	-8,4%	0,8%	-17,9%
Palladium, USD/onoz	2 012	0,9%	-24,1%	1,7%	-29,2%
Silver, USD/onoz	21,61	-1,0%	-13,8%	-6,4%	-22,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	0,5%	-3,5%	-5,4%	-12,1%
EUR/CHF	1,03	0,0%	0,6%	-0,8%	-6,3%
USD/GBP	0,80	0,4%	6,5%	8,4%	13,3%
USD/JPY	129,92	2,0%	12,4%	12,8%	18,5%
USD/BRL	4,80	-0,8%	-7,1%	-13,9%	-5,8%
USD/CNY	6,68	-0,1%	5,7%	5,2%	4,7%
USD/RUB	63,52	7,6%	-39,2%	-15,3%	-13,3%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 100	1,5%	-2,2%	-5,2%	-3,6%
Eurostoxx 50	3 760	2,2%	-1,6%	-12,5%	-8,0%
Dax 40	14 340	2,4%	2,4%	-9,7%	-8,1%
CAC 40	6 419	1,9%	-1,2%	-10,3%	-1,6%
FTSE 100	7 533	0,1%	1,4%	2,0%	6,0%
SMI	11 494	0,0%	-3,2%	-10,7%	0,2%
SP500	4 101	3,1%	-6,5%	-14,0%	-2,5%
TOPIX	1 939	3,3%	4,2%	-2,7%	-0,2%
iBovespa	111 360	0,7%	-3,3%	6,2%	-14,1%
Hang Seng	21 295	5,6%	-4,7%	-9,0%	-27,3%
Sensex 30	55 381	3,0%	-0,2%	-4,9%	6,8%
MOEX	-	-	-	-	-
CSI 300	4 083	2,5%	-10,8%	-17,4%	-22,8%

Source: Macrobond, on June 3rd, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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