

Euro area: Downside surprises on growth and inflation

Germany in technical recession. Revised figures for the German economy show that Germany has actually been in recession since the end of last year, posting two successive quarters of negative growth: -0.3% in Q1 2023 following -0.5% in Q4 2022. Two main factors explain this. First, Germany felt the full force of the energy shock that hit European industry due to its particularly deep reliance on Russian energy and its industry-heavy economy. Second, German household consumption has fallen sharply. Inflation may have affected families' purchasing power throughout the euro area, but Germans have been especially hard hit with inflation peaking above 11.5% and only modest public mitigation measures. By way of comparison, French inflation peaked at "just" 7.3%.

This reflects a deterioration of the euro area economy, which will continue to be offset by major support factors. The slump in Germany is mirrored, to a lesser extent, in the euro area's other economies, leading to a decline in the surprises index. For one thing, industry across the world is struggling and likely to continue to struggle based on latest purchasing manager surveys (manufacturing sector PMI). What is more, household consumption looks fragile everywhere, particularly in products that have seen the biggest price surges. That said, households should enjoy a better environment for the next few months. Inflation is now falling steeply and will take less of a bite out of purchasing power. And strong labour markets look set to remain strong thanks to a still buoyant climate for services, which should keep wages rising. Surveys (service sector PMI) continue to flag a good outlook for services – still the dominant sector in all economies, including Germany's.

ECB will welcome the ongoing fall in inflation but remain watchful. First May figures confirm the downtrend in euro zone inflation. Inflation was 6.3% in Germany, 5.1% in France and just 3.2% in Spain, a sharp drop from the peaks seen late last year and from the prior month. This welcome trend should continue with the decline in production prices, particularly for energy. This mixed news on the economy and confirmation of falling inflation is further evidence that the ECB is getting ever nearer the top of its rate-hiking cycle. However, the Bank will not be dropping its guard until underlying inflation is back down at more comfortable levels.

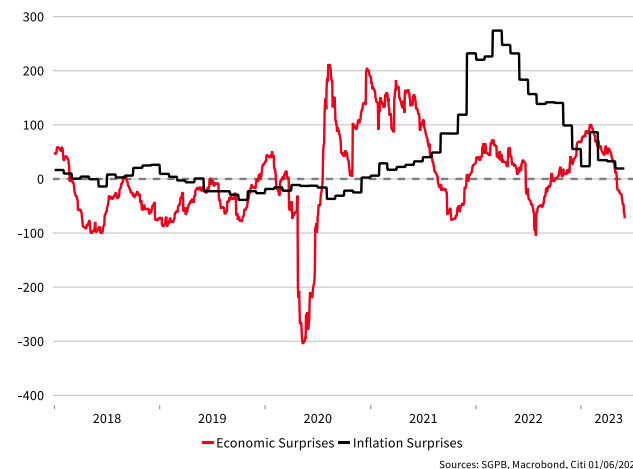
* The surprise indices (source: Citi) measure the difference between published data and forecasts.

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

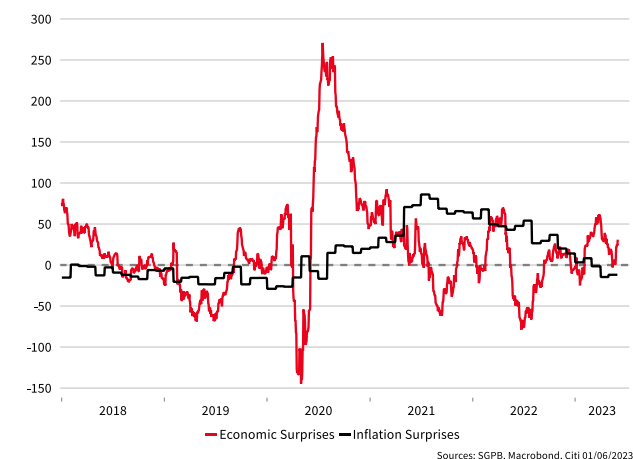
All data taken from Bloomberg and Macrobond on the 02/06/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document



Euro area: Activity and Inflation surprises*



US: Activity and Inflation surprises*



OUR MACRO COMMENTS

Events of the week



AI. The US stock market has rallied strongly since the start of the year, with a number of big tech stocks leading the charge. A crush on artificial intelligence (AI) seems to explain much of this performance. The S&P500 is up +9% on the year but would actually have fallen if we strip out the tech majors riding the AI wave.



China. The post-Covid recovery in the Chinese economy continues to disappoint. For the second month running, the manufacturing sector PMI is in contractive territory, at 48.8 in May. The services PMI is also a disappointing 54.5, down for the second month in a row.

Figures of the week



- ISM Manufacturing PMI (May)
- Unemployment Rate (May)



- Inflation Rate (YoY, May)
- Core Inflation Rate (YoY, May)



- NBS Manufacturing PMI (May)
- NBS Non-Manufacturing PMI (May)



- Inflation Rate (YoY, May)

	Actual		Forecast	Previous
ISM Manufacturing PMI (May)	46.9	↓	47	47.1
Unemployment Rate (May)	3.7%	↑	3.5%	3.4%
Inflation Rate (YoY, May)	6.1%	↓	6.3%	7%
Core Inflation Rate (YoY, May)	5.3%	↓	5.5%	5.6%
NBS Manufacturing PMI (May)	48.8	↓	49.4	49.2
NBS Non-Manufacturing PMI (May)	54.5	↓	55	56.4
Inflation Rate (YoY, May)	5.1%	↓	5.5%	5.9%

Sources: Macrobond, 2 June 2023

The week ahead

Monday



ISM Services PMI (May)

Tuesday

Wednesday



Balance of Trade (April)



Balance of Trade (April)

Thursday

Friday



Inflation rate (May)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,14	3,15	2,40	1,91	-0,58
USD SOFR O/N	5,08	5,05	4,55	4,30	0,80
JPY TONAR O/N	-0,07	-0,05	-0,01	-0,02	-0,03
GBP SONIA O/N	4,43	4,43	3,93	3,43	0,94
CHF O/N	0,80	0,80	0,80	0,80	-0,59

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,84	3,03	3,18	2,98	1,68
10Y Bund	2,27	2,45	2,71	2,44	1,16
10Y BTP	4,08	4,32	4,56	4,55	3,16
10Y JGB	0,43	0,40	0,50	0,41	0,23
10Y Bonos	3,33	3,51	3,74	3,51	2,27
10Y Swiss	0,85	1,05	1,46	1,57	0,87
10Y Gilt	4,17	4,19	3,84	3,66	2,13
10Y USNote	3,64	3,73	4,01	3,88	2,94

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,29	3,43	3,56	3,12	1,88
EUR Corporate Baa	4,48	4,62	4,67	4,65	2,73
GBP Corporate Baa	5,25	5,27	4,71	4,59	2,97
USD Corporate Aaa	4,45	4,55	4,79	4,62	3,61
USD Corporate Baa	5,69	5,78	5,86	5,70	4,61
USD EM aggregate	7,53	7,61	7,59	7,52	6,38

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	72,09	-7,8%	-14,6%	-16,1%	-37,8%
Or, USD/oz	1 963	0,3%	6,9%	7,5%	6,3%
Copper, USD/metric ton	8 047	1,1%	-11,4%	-4,2%	-14,8%
Platinum, USD/oz	1 017	-2,8%	5,4%	-4,5%	4,3%
Palladium, USD/oz	1 397	-3,1%	-1,9%	-21,9%	-30,6%
Silver, USD/oz	23,26	-0,7%	10,8%	-2,9%	7,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	-0,9%	0,0%	0,0%	-0,3%
EUR/CHF	0,97	0,1%	-2,8%	-1,2%	-5,2%
USD/GBP	0,81	-0,2%	-3,1%	-2,8%	0,8%
USD/JPY	139,71	0,5%	2,7%	6,8%	7,5%
USD/BRL	5,12	3,3%	-1,4%	-4,1%	6,7%
USD/CNY	7,11	0,7%	3,5%	3,0%	6,4%
USD/RUB	81,11	0,9%	8,0%	11,1%	27,7%

Equity indices	-1W	-3M	YTD	-12M
Developed markets	-1,2%	-1,2%	-3,3%	-2,8%
Euro area	-1,1%	-1,1%	0,1%	9,4%
Germany	-1,1%	-1,1%	2,3%	11,3%
France	-2,1%	-2,1%	-1,9%	7,6%
United Kingdom	-2,4%	-2,4%	-5,9%	-0,1%
Switzerland	-1,5%	-1,5%	1,5%	4,6%
United States	1,6%	1,6%	5,8%	8,9%
Japan	-1,0%	-1,0%	6,6%	12,6%
Brazil	-0,4%	-0,4%	3,8%	1,8%
Hong Kong	-4,6%	-4,6%	-11,6%	-7,8%
India	1,4%	1,4%	5,4%	2,4%
China	-1,6%	-1,6%	-8,0%	-1,9%

Source: Bloomberg, on 1 June 2023.

-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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