

# WEEKLY UPDATE

## Focus on the European elections



2024 is a busy year for elections with nearly half the world's population heading for the urns in more than 60 countries, including Russia, India, probably the United Kingdom and, of course, the United States. Meanwhile, we also have European elections from June 6 to 9. Often overlooked, these elections will nevertheless be important for the EU, given all the burning issues awaiting the new Parliament and European Commission.

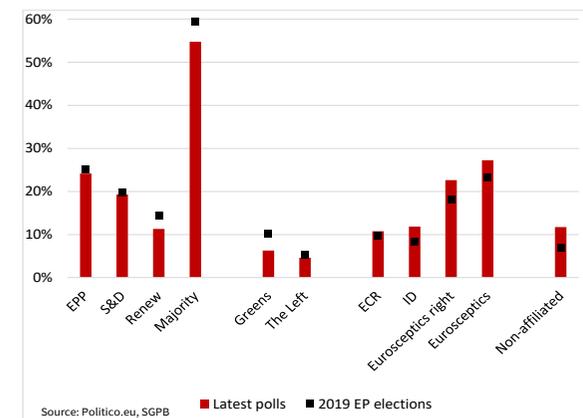
**European elections matter more than one may think.** Every 5 years, citizens of the 27 EU member states – for the first time without British citizens – elect their members of the European Parliament (EP). The EP is the EU's only democratically elected body and has seen its power expand over time. The parliament now adopts European laws and the EU budget jointly with the EU Council and elects (and dismisses if necessary) the European Commission. But despite these expanded powers, the turn-out ratio has remained low, with a meagre 50.7% in 2019.

**A fragmentation likely to continue.** Currently, three main groups constitute the parliamentary majority: the centre-right European People's Party (EPP), the centre-left Progressive Alliance of Socialists and Democrats (S&D) and the liberals Renew. Together they command a majority of more than 60 in the 705-seat chamber. The anti-establishment parties ID (far right) and ECR (anti-federalist right) have around 18% of seats. The Left and the Greens have 5% and 10%, respectively. Such fragmentation in parliament is mirrored in the EU Council. In 2014, 24 of 28 heads of state belonged to either the EPP or S&D. Now the figure is around half. And there is little sign the upcoming elections will do anything to change this. Polls suggest the big losers are likely to be Renew (losing around 3% share of seats) and the Greens (-4%) with the winners being the euro-sceptic and anti-establishment ID and ECR (+4%) and independents (+5%, including Hungary's Fidesz which was suspended from the EPP). These elections should thus show a modest shift to the right of the EP.

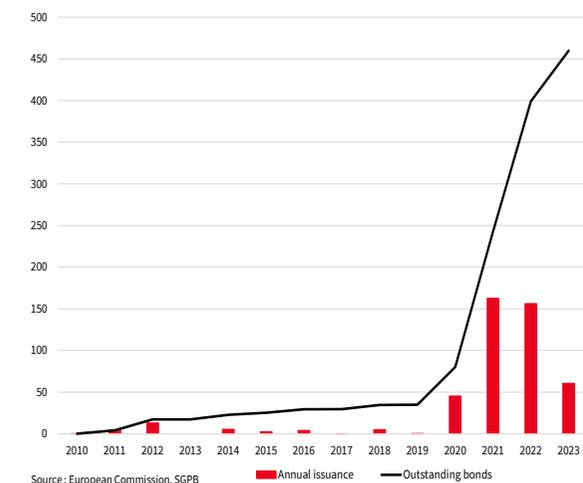
**Expect little change in the balance of power.** For one thing, the EPP, S&D and RE look set to retain their majority, albeit cut to around 35. This will intensify the need for compromise and could lead to drawn-out horse-trading or political deadlock. Anti-establishment parties are likely to increase their representation from 18% to 23% of seats, 23% to 27% if one includes the Eurosceptic left, boosting their blocking power. However, this will remain marginal: only whenever the mainstream parties fail to reach a compromise. What is more, most of these parties have softened their anti-European positions, opposing greater integration but no longer advocating exit from the EU (with a few exceptions).

**Hot issues on the horizon.** Once the new Commission is in place, by end-2024 or early 2025, it will find some hot topics in its in-tray: reforming budget rules to shore up public finances, completing banking and capital markets unions, renewing the Green Deal and possibly the European recovery plan, reforming European institutions (notably in preparation for Ukraine's accession) and, finally, coming up with a plan for strategic autonomy to make the EU more independent in defence, energy or technology.

## European Parliament: current composition and latest polls (share of seats)



## The UE is now a key market player: evolution of EU outstanding bonds (EURbn)



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

All data taken from Bloomberg and Macrobond on the 01/03/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.



### Events of the week



The core personal consumption deflator (PCE) - the Fed's preferred inflation index - came out in line with market expectations for January, at 0.4% month-on-month after 0.1%, falling slightly from 2.9% y/y to 2.8%. Overall, January's PCE price index confirms that inflation excluding services has accelerated markedly, leading to a reassessment of the timing of market rate cuts. A large part of this increase is due to unusually strong seasonal effects for January. Nevertheless, the disinflation process is continuing, even if it is proving slower than the markets had initially hoped.



Meanwhile, European inflation came in slightly higher than expected in February, at 2.6% year-over-year vs. 2.5% expected by the market. Core inflation also surprised the markets, at 3.1% yoy versus expectations of 2.9%. This upward surprise was mostly due to still high services inflation (easing modestly from 4% yoy to 3.9%) economic activity being more resilient than anticipated. Thus, as in the United States, the downward trend in inflation is confirmed, albeit at a slower pace than initially expected.

### The week in data

Country	Data	Actual	Last	Forecast
Germany	Harmonised Inflation Rate YoY Prel FEB	2.7%	3.1%	2.7%
China	Caixin Manufacturing PMI FEB	50.9	50.8	50.6
United States	Non Defense Goods Orders Ex Air MoM JAN	0.1%	0.6%	0.1%
United States	Core PCE Price Index MoM JAN	0.4%	0.1%	0.4%
United States	Core PCE Price Index YoY JAN	2.8%	2.9%	2.8%
France	Harmonised Inflation Rate YoY Prel FEB	3.1%	3.4%	3.0%
Japan	Unemployment Rate JAN	2.4%	2.4%	2.4%
Euro Area	Loans to Households YoY JAN	0.3%	0.4%	0.4%
Euro Area	M3 Money Supply YoY JAN	0.1%	0.1%	0.3%
Euro Area	Economic Sentiment FEB	95.4	96.1	96.7
Euro Area	Inflation Rate YoY Flash FEB	2.6%	2.8%	2.5%
Euro Area	Core Inflation Rate YoY Flash FEB	3.1%	3.3%	2.9%
Euro Area	Unemployment Rate JAN	6.4%	6.4%	6.4%

Source: Trading Economics, 1st of March 2024

Colors in 'Actual' column corresponds to the difference with the forecast

### Key events next week

Tuesday	
China	Caixin Composite PMI FEB
France	Industrial Production MoM JAN
Euro Area	PPI YoY JAN
United States	ISM Services PMI FEB
Wednesday	
Germany	Balance of Trade JAN
Euro Area	Retail Sales YoY JAN
United Kingdom	Spring Budget 2024
Thursday	
China	Balance of Trade JAN-FEB
Germany	Factory Orders MoM JAN
Euro Area	ECB Interest Rate Decision
Friday	
Germany	Industrial Production MoM JAN
Germany	PPI YoY JAN
Euro Area	GDP Growth Rate YoY 3rd Est Q4
United States	Non Farm Payrolls FEB
United States	Average Hourly Earnings YoY
Saturday	
China	Inflation Rate YoY FEB

# Market Performances

<b>Interbank rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
€STER O/N	3.91	3.91	3.90	1.91	2.40
USD SOFR O/N	5.31	5.30	5.31	4.30	4.55
JPY TONAR O/N	-0.01	-0.01	-0.02	-0.02	-0.01
GBP SONIA O/N	5.19	5.19	5.19	3.43	3.93
CHF O/N	1.59	1.60	1.69	0.80	0.80

<b>Long term sov. rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
10Y OAT	2.93	2.91	2.98	2.98	3.18
10Y Bund	2.46	2.43	2.41	2.44	2.71
10Y BTP	3.88	3.93	4.11	4.55	4.56
10Y JGB	0.69	0.73	0.75	0.41	0.50
10Y Bonos	3.34	3.35	3.42	3.51	3.74
10Y Swiss	0.85	0.83	0.86	1.57	1.46
10Y Gilt	4.18	4.16	4.17	3.66	3.84
10Y USTnote	4.27	4.32	4.27	3.88	4.01

<b>Credit &amp; EM</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
EUR Corporate Aaa	3.19	3.14	3.10	3.12	3.56
EUR Corporate Baa	4.05	4.03	4.32	4.65	4.67
GBP Corporate Baa	4.79	4.76	4.83	4.59	4.71
USD Corporate Aaa	4.84	4.85	4.81	4.62	4.79
USD Corporate Baa	5.64	5.62	5.82	5.70	5.86
USD EM aggregate	7.25	7.30	7.61	7.52	7.59

<b>Commodities</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
Brent, USD/BL	81.85	-1.5%	-0.9%	-4.8%	-3.0%
Or, USD/oz	2,035	0.4%	-0.5%	11.4%	10.8%
Copper, USD/metric ton	8,439	-1.3%	-0.4%	0.5%	-7.1%
Platinum, USD/oz	882	-2.2%	-6.0%	-17.2%	-8.6%
Palladium, USD/oz	916	-5.7%	-12.5%	-48.8%	-35.7%
Silver, USD/oz	22.35	-3.2%	-10.5%	-6.7%	6.4%

<b>FX rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
EUR/USD	1.08	0.0%	-1.6%	1.2%	1.2%
EUR/CHF	0.95	0.2%	-0.7%	-3.4%	-4.8%
USD/GBP	0.79	-0.3%	0.3%	-4.8%	-5.1%
USD/JPY	150.77	0.3%	2.3%	15.3%	10.8%
USD/BRL	4.96	0.4%	1.3%	-7.2%	-4.5%
USD/CNY	7.20	0.1%	1.6%	4.3%	4.8%
USD/RUB	92.05	0.0%	3.9%	26.1%	22.6%

<b>Equity indices</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
Developped markets	0.6%	8.0%	10.9%	10.2%
Euro area	2.3%	11.7%	26.7%	15.8%
Germany	2.8%	8.9%	25.1%	15.0%
France	1.8%	9.4%	20.6%	10.0%
United Kingdom	-0.5%	2.7%	2.3%	-3.7%
Switzerland	-0.1%	5.7%	6.4%	3.2%
United States	1.8%	11.4%	32.0%	28.3%
Japan	1.8%	13.1%	41.4%	33.9%
Brazil	0.1%	3.2%	22.4%	24.7%
Hong Kong	0.2%	-2.7%	-16.4%	-19.8%
India	-0.4%	8.1%	18.2%	21.7%
China	-0.2%	-1.1%	-10.9%	-16.4%

Source : Bloomberg, au 29/02/2024. -1S = variation sur 1 semaine, -3M = variation sur 3 mois, -12M= variation sur 12 mois, Début d'année = variation depuis le début de l'année. Actions ; rendement total en devise locale. Obligations souveraines = rendement à 10 ans. Les chiffres sont arrondis.

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