

Business surveys point to healthy growth in Q2 but doubts hover over US inflation



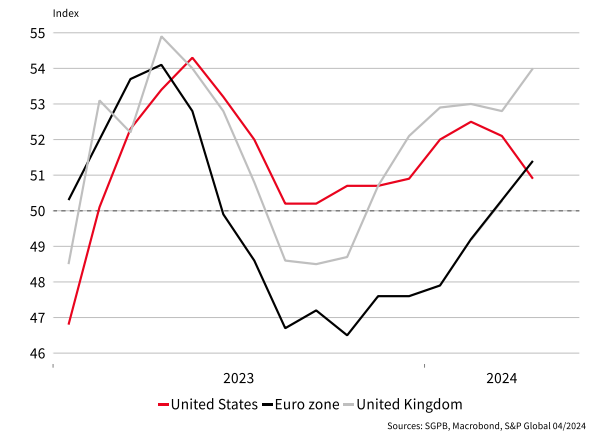
The week brought a raft of economic data, including major business surveys for April in both the United States and Europe. Figures confirmed our outlook of positive growth with ongoing regional variations. The market response was to send long-term bond yield higher.

In the euro area and United Kingdom, indicators continue to show modest growth and gradually falling inflation. April's purchasing managers' surveys show clearly improving sentiment in the European services sector offsetting more gloom in manufacturing. Overall, PMIs moved further into positive territory, from 50.3 to 51.4 in the euro area and 52.8 to 54 in the United Kingdom. By country, we saw a further uptick in Germany's IFO index while France's INSEE business sentiment survey – which has more comprehensive sector coverage than the PMI – was broadly stable. The price components of both surveys up ticked slightly, matching our view that squeezing out the last of inflation will be a slow business.

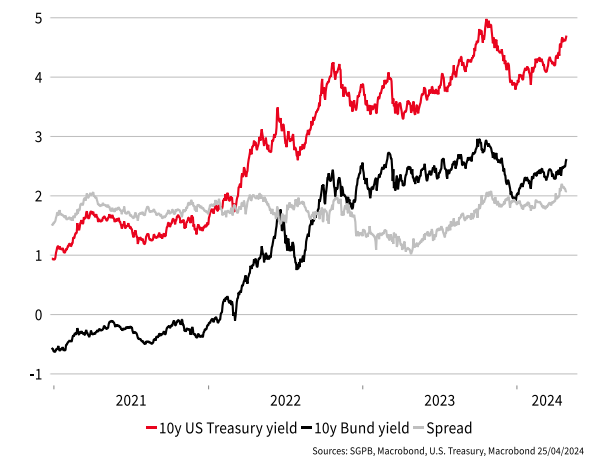
US growth edges down but doubts hover over sticky inflation. The initial estimate of US growth in Q1 came below expectations, increasing by just 1.6% qoq at an annualised rate compared to 3.4% in the last quarter of 2023. But we should not read too much into one weak number. This is one of the first data that has disappointed the United States since several quarters. Furthermore, private domestic demand – i.e. household and business spending – continues to growth at a solid rate. The negative surprise was mainly driven by the slowdown of government expenditures and net exports. Finally, these are initial figures, based on preliminary data and estimates that may well be revised in coming months. Meanwhile, the PMI sentiment survey for April confirmed a still positive business outlook, even if it has come off the boil somewhat. Turning from the economic figures to inflation, the consumer price deflator (PCE index: the Fed's preferred inflation measure) shows price pressures still bubbling, with annualised inflation running at 2.6% and services inflation rising again at 4%.

Long bond yields are diverging as markets expect central banks to move out of sync. This week's data remain consistent with a generally benign global economy in 2024 but with continuing disparate trends between regions. Doubts raised by the latest US inflation figures have prompted a further revision of rate-cutting paths. Money markets are now discounting just over one rate cut by the Federal Reserve this year, in December, but still expect three by the ECB and two by the Bank of England over the same period. This more hawkish reading of US policy has been widening the gap between US and German 10-year yields for weeks now and pushing up the dollar versus European currencies.

Composite PMI of main developed economies



Germany and US long term sovereign yields



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

All data taken from Bloomberg and Macrobond on the 22/03/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

Our Macro Comments

Events of the week



As expected by the consensus, the Bank of Japan did not change its key rates which remain at 0.1%. Having been warned that the rise in Japanese rates would be cautious, investors were awaiting possible measures to support the yen, which is at its lowest level against the dollar since 1990. The Japanese authorities do not seem in a hurry to intervene for the time being to support its currency, with the BoJ maintaining its sovereign bond purchase programme. Following this meeting, the USD/JPY exchange rate increased to 156.6.



Company results in the United States and Europe are in the news on the markets. Around 40% of the US have published their results, with profits beating expectations by 10%. In Europe, the picture is more mixed, with profits beating expectations by 6.5% but slowing sharply (-7%). The energy sector stood out for its lower earnings over the year due to the fall in energy prices, particularly gas. Nevertheless, with a majority of positive surprises, companies are confirming that the developed economies are holding up well, particularly household consumption.

The week in data

Country	Data	Actual	Last	Forecast
Germany	HCOB Composite PMI Flash APR	50,5	47,7	48,6
Germany	Ifo Business Climate APR	89,4	87,9	88,9
United States	GDP Growth Rate QoQ Adv Q1	1,60%	3,40%	2,50%
United States	PCE Price Index YoY MAR	2,70%	2,50%	2,60%
United States	Core PCE Price Index YoY MAR	2,80%	2,80%	2,60%
France	HCOB Manufacturing PMI Flash APR	44,9	46,2	44,9
France	HCOB Services PMI Flash APR	50,5	48,3	48,9
France	Business Confidence APR	100	103	102
Japan	BoJ Interest Rate Decision	0,10%	0,10%	0,10%
United Kingdom	S&P Global Services PMI Flash APR	54,9	53,1	53
Euro Area	HCOB Composite PMI Flash APR	51,4	50,3	50,8

Source : Macrobond, April 26th 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
Germany	Inflation Rate APR
Tuesday	
France	GDP Growth Rate Q1
France	Inflation Rate APR
Germany	GDP Growth Rate Q1
Euro Area	GDP Growth Rate Q1
Euro Area	Inflation Rate APR
Wednesday	
United States	ISM Manufacturing PMI APR
United States	Fed Interest Rate Decision
Thursday	
Switzerland	Inflation Rate APR
Friday	
France	Industrial Production MAR
Euro Area	Unemployment Rate MAR
United States	Non Farm Payrolls APR
United States	Average Hourly Earnings APR



Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,91	3,91	1,91	2,90
USD SOFR O/N	5,31	5,31	5,31	4,30	4,80
JPY TONAR O/N	0,08	0,08	-0,01	-0,02	-0,03
GBP SONIA O/N	5,20	5,20	5,19	3,43	4,18
CHF O/N	1,36	1,38	1,65	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,11	3,00	2,83	2,98	2,89
10Y Bund	2,58	2,46	2,30	2,44	2,38
10Y BTP	3,97	3,90	3,89	4,55	4,25
10Y JGB	0,88	0,86	0,63	0,41	0,48
10Y Bonos	3,38	3,30	3,25	3,51	3,42
10Y Swiss	0,72	0,74	0,91	1,57	1,05
10Y Gilt	4,32	4,27	4,08	3,66	3,70
10Y USNote	4,65	4,59	4,18	3,88	3,43

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,24	3,16	3,00	3,12	3,31
EUR Corporate Baa	4,04	3,98	3,98	4,65	4,49
GBP Corporate Baa	4,94	4,91	4,77	4,59	4,73
USD Corporate Aaa	5,14	5,10	4,70	4,62	4,23
USD Corporate Baa	5,90	5,89	5,50	5,70	5,39
USD EM aggregate	7,40	7,42	7,30	7,52	7,34

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	88,05	1,3%	10,2%	2,4%	13,2%
Or, USD/oz	2 316	-2,0%	15,0%	26,8%	16,4%
Copper, USD/metric ton	9 698	1,5%	13,4%	15,5%	13,0%
Platinum, USD/oz	919	-4,0%	0,9%	-13,7%	-16,5%
Palladium, USD/oz	1 023	-0,3%	6,0%	-42,8%	-32,4%
Silver, USD/oz	27,12	-4,7%	19,1%	13,3%	9,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	0,5%	-2,0%	0,0%	-3,2%
EUR/CHF	0,98	0,6%	3,8%	-1,0%	-0,6%
USD/GBP	0,80	0,2%	2,5%	-3,2%	0,2%
USD/JPY	155,00	0,2%	5,4%	18,5%	16,3%
USD/BRL	5,16	-1,2%	4,9%	-3,3%	2,2%
USD/CNY	7,25	0,1%	2,3%	5,0%	4,6%
USD/RUB	93,17	-1,0%	5,0%	27,6%	13,0%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	2,3%	4,4%	12,4%	11,9%
Euro area	1,5%	9,3%	29,4%	14,8%
Germany	1,8%	7,1%	28,6%	14,5%
France	1,4%	8,5%	22,7%	8,4%
United Kingdom	2,5%	6,8%	7,9%	2,4%
Switzerland	1,2%	1,6%	6,0%	0,1%
United States	1,0%	4,2%	32,1%	25,0%
Japan	1,8%	7,2%	43,3%	33,9%
Brazil	0,5%	-2,4%	17,3%	21,9%
Hong Kong	5,8%	8,2%	-13,0%	-12,9%
India	1,2%	3,9%	20,7%	22,5%
China	-1,2%	7,5%	-9,0%	-11,1%

Source: Bloomberg, on 26 April 2024, 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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