WEEKLY UPDATE

"It's Getting Better, A Little Better All the Time"

As vaccination programmes have accelerated across the globe, many governments – in particular, across North America and Europe – have begun to ease lockdown restrictions. The resulting gradual reopening of businesses and stores has bolstered household and corporate confidence, as witnessed by the preliminary Purchasing Manager Index (PMI) reports for May. Is the economic crisis now behind us? And what would that mean for markets?

The PMI reports are monthly surveys of many thousands of businesses worldwide, covering manufacturing and services, which provide a timely measure of activity. Respondents are asked whether business has improved or deteriorated, and the results are collated on a scale of 0 to 100 so that the 50-point level marks the dividing line between expansion and contraction in activity. Needless to say, surveys plumbed historical depths last year as the pandemic unfolded and over half of the world's inhabitants were placed in lockdown. This year, confidence is back with a bang.

In the euro zone, the May reports delivered another upside surprise compared with consensus expectations. The composite index – which covers all sectors – reached a post-pandemic high at 56.9 points, up 3.9 compared with April. The country-level surveys for France and Germany gained 6.3 and 2.9 points respectively, which implies that periphery economies like Italy and Spain must have gained around 5 points. This is corroborated by mobility indicators which show that Italy and Spain are already back at last summer's levels, which augurs well for strong consumer spending on goods and services over the summer months.

The pickup in confidence across the region was driven by services. Here again, France delivered the largest upside surprise as the country began to exit lockdown. On the other hand, the manufacturing survey for the euro zone came out largely unchanged – down only 0.1 points versus April. Much of this softness was concentrated in Germany where industry has been quite hard hit by supply bottlenecks, notably in semiconductors. Moreover, it should be noted that the manufacturing index is distorted by the supplier delivery times subindex, which has added around 3 points to the total. This index is telling us that delivery times are much, much longer than at the peak of the previous cycle in 2018, which means that when supply chain disruptions ease, confidence levels in industry will actually decline.

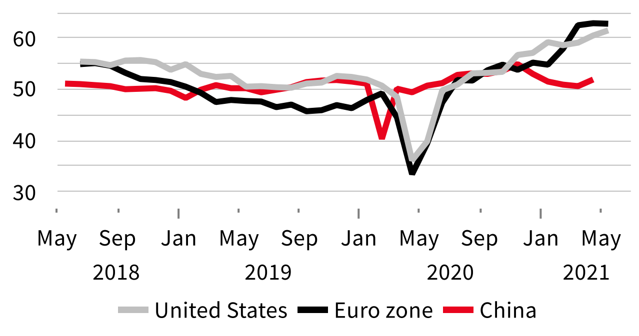
In the US, the PMI reports were extremely strong too. The manufacturing survey beat expectations at 61.5 points, up from 60.5 in April, on better sentiment on production and new orders. Here, too, respondents noted swelling backlogs due to component shortages. In services, there was a huge rebound as reopening gathered a head of steam – the index hit 70.1 points, well above the 64.4 forecast. The composite index naturally followed suit reaching 68.1 points, the highest level since the post-Great Recession recovery in 2009.

It should be noted however that Q2's PMI surveys are likely to mark the high point of the recovery. As mentioned earlier, the index is constructed by comparing the number of respondents who see improvement with those who still see a downturn. It is not surprising that the numbers are so high at this stage in the cycle when almost everyone is seeing a post-pandemic pickup. As the recovery advances, the PMI indices are likely to revert lower, as has already happened in China – the high point in their manufacturing index came last November, since when it has eased back to 54.7 points, well below the current levels in the US and the euro zone.

Bottom line. May's PMI surveys serve to reinforce conviction in our scenario of synchronised global recovery in the second half of 2021. Moreover, inflation fears have begun to subside – a bit earlier than we expected – which has enabled bond markets to regain some of their recent lost ground. In this context, we remain convinced that equities are the most attractive asset class and we reiterate our preference for more cyclically sensitive markets like the euro zone and the UK.

US and euro zone manufacturing PMI are very strong

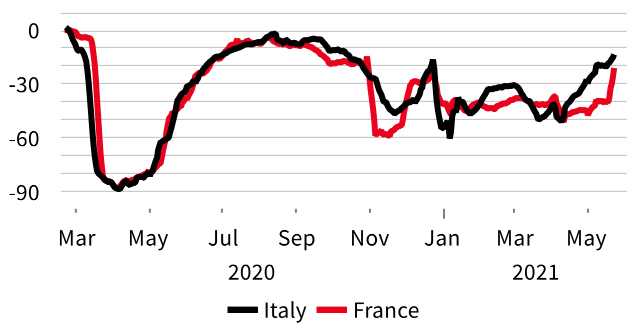
Markit Manufacturing PMI



Sources: SGPB, Macrobond, IHS Markit, 05/2021

Mobility indicators have surged again recently

Google mobility indicator - retail & recreation (in %)



Sources: SGPB, Macrobond, Google, 23/05/2021

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

OUR MACRO COMMENTS

This week and next

EUROZONE

- The German economy contracted by 1.8% QoQ and -3.1% YoY in Q1, slightly worse than advance estimates of -1.7% and -3% respectively.
- The German IFO business climate index increased from 96.6 to 99.2 in May, whereas economists had forecast an increase to 98.2. Optimism improved, with the business expectations index rising from 99.2 to 102.9., against forecasts of 101.4.
- France's INSEE consumer confidence survey came in at 97 in May, up from 95 in April on improvements in households' financial situation and employment prospects.

Next week's key events		Per.	Prev.	Cons.
3 June	Euro zone CPI YoY P	May	1.6%	1.8%
4 June	Euro zone retail sales YoY	Apr	12.0%	9.6%

UNITED KINGDOM

- The BoE has unveiled plans to make its corporate bond purchase scheme (CBPS) more "green" as the UK government aims to achieve net zero carbon emissions by 2050. The bank would set targets for the overall emissions of its holdings, as well as investing in green corporate bonds when they are available.
- BoE policy-maker Gertjan Vlieghe said interest rates could be raised next year if recovery continues smoothly.
- CBI retail reported sales came in at 18 in May from 20 the previous month, while consensus had forecast 30.

Next week's key events		Per.	Prev.	Cons.
1 June	Markit manufacturing PMI F	May	66.1	66.1
1 June	Nationwide house prices YoY	May	7.1%	9.2%

UNITED STATES

- The US economy grew 6.4% QoQ annualised (ann.) in Q1, above Q4's 4.3% but slightly below the preliminary 6.5% estimate.
- The PCE price index rose 3.7% QoQ ann. in Q1 compared to a rise of 1.5% in Q4 2020. Core PCE was up 2.5% QoQ ann. in Q1 compared to an increase of 1.3% posted in the prior quarter.
- Durable goods orders declined for the first time in 11 months, down 1.3% MoM, well below 0.7% increase expected by the consensus.
- Nondefense capital goods orders ex aircraft rose from 1.6% MoM to 2.3% in April, well above a 0.8% increase expected.
- In the week ending 21st May, initial jobless claims fell from 478k to 406k, the lowest level since March 2020, whereas economists had forecast a fall to 425k.

Next week's key events		Per.	Prev.	Cons.
1 June	ISM manufacturing PMI	May	60.7	60.8
4 June	Nonfarm payrolls	May	266k	621k

ASIA & EMERGING COUNTRIES

- BoJ Governor Haruhiko Kuroda said that the uneven nature of the global recovery could aggravate inequality which, together with "increasing worldwide concern" over climate change, brings fresh challenges for policymakers. He also underlined the importance of considering "underlying structural changes" in technology and industry when looking at the post-pandemic economy.
- Japan's leading economic index rose from 98.9 to 102.5 in March, whereas consensus had expected 103.2.
- Russian industrial output rose from 2.3% to 7.2% YoY in April, above the 6.5% gain expected by the consensus.

Next week's key events		Per.	Prev.	Cons.
31 May	China NBS non-manuf. PMI	May	54.9	55.0
1 June	China Caixin manufacturing PMI	May	51.9	52.0

Sources: DataStream, Bloomberg, 28 May 2021. Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Managers' Index, CPI = Consumer Price Inflation.

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1,22	1.21
GBP/USD	1,42	1.42
EUR/CHF	1,09	1.11
USD/JPY	109,8	107.0
Brent	$69,5	$67.5
Gold (oz.)	$1891	$1900

NB Please see the changes to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance.

THIS WEEK'S Q&A

What is the outlook for the Swiss Franc against GBP?

The Swiss Franc is traditionally considered a strong safe-haven currency for a number of reasons. Its political stability and neutrality complement a highly competitive economy with strong macro fundamentals. As such, the CHF is one of the traditional destinations for flight-to-safety trades during times of market turmoil.

Switzerland ranks highly on many global competitiveness rankings – for example, it ranks third in IMD's 2020 table while the UK is in 23rd place out of 63. This ranking is reflected in the disproportionately large numbers of global industry leading companies for such a small nation. It also means that Switzerland runs a structural surplus on its trade and current account balances. In the two years running up to the pandemic crisis in 2020, Switzerland ran a current account surplus of 6.7% of GDP, and our economists estimate the surplus was unchanged last year, whereas the UK ran deficits of -3.7% in 2018, -3.1% in 2019 and an estimated -3.5% in 2020.

Switzerland's government finances are also in better shape than many of its neighbours. Switzerland has run surpluses almost every year since 2006, most recently +1.5% of GDP in 2019. Our economists estimate that the 2020 budget was in balance and that 2021 will see a deficit of -0.5% of GDP. The UK on the other hand has run uninterrupted deficits since the 2001-2002 fiscal year, culminating in -16.9% of GDP in 2020-2021 while 2021-2022 is projected to see a -9.7% deficit. This of course means wide divergence in the size of the debt burden. Our economists estimate that net public debt will reach 106.7% of GDP in the UK this year and 43.2% in Switzerland.

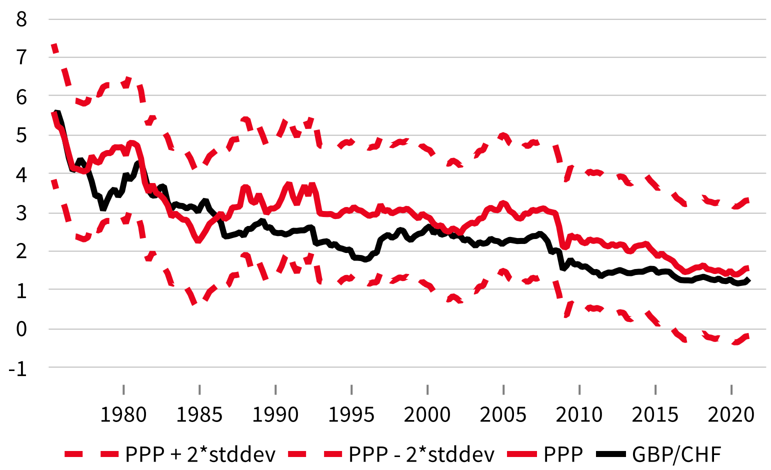
One of the key determinants of fair value for exchange rates is the level of erosion caused by inflation – countries with low inflation tend to see their currencies appreciate against those with relatively higher inflation. Since 2000, headline Swiss inflation has averaged 0.4% per annum versus 2.0% in the UK over the same period. The chart shows this factor for purchasing power parity.

These strong fundamentals have exerted massive upward pressure on the Swiss Franc over the years, which has forced the Swiss National Bank into a series of foreign exchange interventions in an attempt to brake the rise. The Swiss economy is particularly sensitive to trade with the European Union (43% of the total) and so the SNB has targeted the EUR/CHF cross-rate, intervening massively in 2020 to prevent EUR/CHF breaking below 1.05. Against sterling, the Swiss Franc has been in a structural uptrend in recent decades. GBP/CHF has fallen from high of over 4.50 in the early eighties to 1.27 at present.

Looking ahead, the UK shows signs of strong recovery from the coronavirus crisis. The composite purchasing managers index (PMI) rose to 60 in April, from 56.4 the previous month and the highest level since November 2013. Moreover, with restrictions on mobility and social interaction coming down, retail sales in Great Britain rose 5.4% in March compared with the previous month, far above the 1.5% expected.

The UK has made much faster progress on vaccinations than has Switzerland, with 92.8 jabs per 100 inhabitants versus 49.2, meaning that the UK will be able to reopen its economy quicker. As a result, we expect the cyclical upturn in activity to start in earnest in Q2 in the UK, followed some months later by Switzerland and the euro zone.

Bottom line. In the near term, we expect some upside in sterling against the franc, reaching 1.30-1.31 in the next three months. Thereafter, the franc should recover some lost ground and our 12-month target is 1.24-1.25. Longer term, Switzerland's strong fundamentals should push the franc higher towards the 1.18-1.20 range.



Sources: SGPB, Macrobond, BoE, OECD, 26/05/2021

SOCIETE GENERALE
Private Banking

MARKET PERFORMANCE

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-0.48 %	0 bp	→	0 bp	2 bp	-2 bp
3mth Euribor (EUR)	-0.54 %	1 bp	→	-1 bp	1 bp	-26 bp
3mth Libor (USD)	0.13 %	-2 bp	↓	-5 bp	-10 bp	-23 bp
3mth Libor (GBP)	0.08 %	0 bp	→	2 bp	6 bp	-16 bp
10-year US Treasury bond	1.61 %	-2 bp	↓	15 bp	70 bp	93 bp
10-year German bond	-0.17 %	-7 bp	↓	9 bp	40 bp	25 bp
10-year French bond	0.19 %	-9 bp	↓	20 bp	53 bp	20 bp
10-year UK bond	0.81 %	-3 bp	↓	-1 bp	62 bp	62 bp

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0.3%	↑	0.0 %	-0.9 %	4.7 %
BAML EURO Corp HY	0.3%	↑	1.3 %	2.3 %	13.5 %
BAML GBP Corp IG	0.4%	↑	0.5 %	-3.9 %	3.6 %
BAML US IG	0.4%	↑	0.4 %	-2.8 %	4.3 %
BAML US HY	0.4%	↑	1.5 %	2.2 %	15.5 %
BAML Global EM Sov. External Plus	0.5%	↑	2.0 %	-1.9 %	12.6 %

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1.22	-0.3 %	↓	1.0 %	-0.2 %	10.8%
EUR/CHF	1.09	-0.3 %	↓	-0.3 %	1.1 %	2.6%
GBP/USD	1.42	0.1 %	↑	2.0 %	3.9 %	16.0%
USD/JPY	109.8	1.0 %	↑	3.0 %	6.4 %	1.9%
USD/BRL	5.24	-0.8 %	↓	-6.4 %	0.9 %	-0.7%
USD/CNY	6.38	-0.8 %	↓	-1.4 %	-2.2 %	-11.0%
USD/RUB	73.5	-0.2 %	↓	-1.2 %	-0.8 %	3.4%

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0.1 %	↑	0.3 %	-1.3 %	-0.9 %
United Kingdom (3-7yr)	0.1 %	→	0.4 %	-1.6 %	-1.4 %
Germany (3-7yr)	0.2 %	↑	-0.2 %	-1.1 %	-0.8 %
Japan (3-7yr)	0.0 %	→	0.3 %	-0.1 %	-0.2 %

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	709	1.1 %	↑	8.6 %	10.6 %	42.7 %
Eurostoxx 50	4 039	1.1 %	↑	12.8 %	15.7 %	36.3 %
DAX	15 407	0.2 %	↑	11.8 %	12.3 %	32.2 %
CAC 40	6 436	1.7 %	↑	14.5 %	17.8 %	41.1 %
S&P 500	4 201	1.0 %	↑	10.6 %	12.5 %	40.6 %
FTSE 100	7 020	0.0 %	→	9.6 %	10.4 %	18.1 %
SMI	11 340	1.7 %	↑	10.8 %	8.9 %	20.2 %
Topix	1 911	0.8 %	↑	3.4 %	6.9 %	25.9 %
IBOV Brazil	124 367	1.4 %	↑	13.0 %	4.5 %	41.4 %
MICEX Russia *	3 739	2.8 %	↑	11.7 %	13.7 %	36.4 %
MSCI EM	1 354	2.0 %	↑	1.7 %	5.6 %	49.6 %
SENSEX 30 India	51 115	3.2 %	↑	4.2 %	7.3 %	63.6 %
Hang Seng (H-K)	29 113	2.6 %	↑	1.4 %	7.9 %	29.3 %
Shanghaï Composite	3 609	2.9 %	↑	2.8 %	3.9 %	27.2 %

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$69.5	6.8 %	↑	5.2 %	34.0 %	100.2 %
Gold	$1 891	0.6 %	↑	9.5 %	-0.3 %	11.2 %
Copper	$10 205	1.7 %	↑	11.7 %	31.7 %	95.3 %

Source: DataStream, on 27 May 2021.

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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