ZURICH

# Weekly Macro and Markets View

27 May 2024

## Highlights and View

**Nvidia once again manages to beat high expectations, giving a strong outlook**

The stock price rose more than 9% after the earnings report, providing a welcome boost to the broader mark.

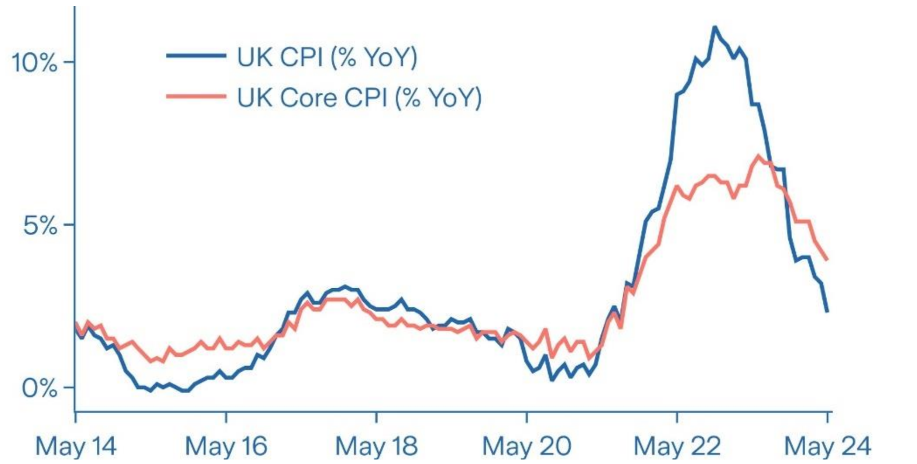
**Headline inflation slows to 2.3% YoY in the UK while core CPI recedes to 3.9% YoY**

The significant slowdown in inflation is reassuring though stubbornly high service inflation makes a near-term rate cut unlikely.

**Mexico's Q1 GDP experiences strong 1.6% YoY growth**

The robust Q1 GDP data, coupled with the March IGAE economic activity index signals expansion across the manufacturing, construction, and services sectors, and underscores strong growth momentum.

## Sunak calls for an election as UK inflation falls substantially




Source: Bloomberg

The UK economy continues to recover from the mild recession it went through in the second half of last year though it is expected to shift down a gear from its strong start in the first quarter. At 52.8, the Composite PMI shows that business activity remains solid in May, helped by a resurgence in manufacturing production. Reassuringly, input price inflation keeps falling both in manufacturing and services. Weaker price pressure helped to push down the pickup in charged prices to the lowest level in three years. Meanwhile, consumer price inflation slowed substantially in April though slightly less than the Bank of England expected. Headline CPI dropped to an annual rate of 2.3% from 3.2% in March while Core CPI receded to 3.9% YoY from 4.2%. A healthy economic environment, low unemployment and a substantial fall in inflation are all likely to have influenced PM Sunak's decision to call for a general election on July 4, much sooner than many had expected. The combination of robust growth and still elevated core inflation make a near-term rate cut unlikely despite the BoE's recent dovish shift. Accordingly, gilt yields rose substantially last week, which was also a drag on the stock market with the FTSE 100 underperforming both the S&P 500 as well as the Euro Stoxx 50.

## Chile

### The Central Bank enacts a 50bps rate cut amidst the release of Q1 economic data

The Central Bank of Chile (BCCH) unanimously decided to implement a 50bp cut in the Monetary Policy Rate (MPR), marking a deceleration from previous reductions and setting the rate to 6.0%. This action brings the cumulative decrease since the commencement of the easing cycle to 525bps. The BCCH's Board signalled a continuation of the MPR cutting cycle, with the extent and scheduling of these adjustments contingent on the trajectory of macroeconomic indicators and their inflationary repercussions. It is projected that the central bank will continue at a more conservative pace. We anticipate the MPR will be at 5.25-5.50% by the close of 2024, which is 75-100bps higher than our initial yearly forecasts. At the week's outset, Q1 GDP growth was reported at 2.3% YoY, falling short of market expectations of 2.5%. Sector-wise, all sectors made positive contributions, with the mining sector leading, followed by trade and services. The forecast suggests sustained growth momentum, with the mining and export sectors expected to be pivotal in driving economic expansion.

## Eurozone

### Tip-toeing towards lower rates

A first rate cut by the ECB on June 6 is looking more and more likely with every passing day as ECB speakers take their opportunities to publicly announce their intentions. The path afterwards is not as clear, with continued uncertainty about inflation. We continue to expect three rate cuts this year, which implies no cut in July and a gradual and conservative path lower. One data point last week that emphasised the need for caution was the higher negotiated wage growth figure for Q1 2024, which rose back up from 4.5% to 4.7% YoY. Some ECB members were quick to point out that they think this reflects the lagged impact of past negotiations, and that they still see compelling evidence for faltering wage pressure overall. Nevertheless, this data serves as a reminder that the risk of sticky inflation cannot be ignored. Lastly, Eurozone economic activity signals continue to improve with the overall Composite PMI increasing further in May. One exception here was in France, which unexpectedly fell into contractionary territory.

## North Asia

### The devil is in the details for economic activity data

Japan's PMIs for May reveal a mixed picture. The Manufacturing PMI finally managed to climb above the boom/bust mark of 50 for the first time since the same time last year. Output and new orders were the main drivers for the improvement, while new export orders came in weaker. The Services PMI, though solidly above 50, seems to have lost some steam following a steady improvement. April exports grew at a solid pace, up 8.3% YoY on higher export prices, as export volume continued to decline, down 3.2% YoY. CPI inflation weakened from 2.9% to 2.4% YoY as the impact of higher food prices and lodging charges has peaked. Core CPI measures also softened, in line with expectations. Meanwhile, South Korea's export growth seems to have slowed in the first 20 days of May, but following working-day adjustments the picture is far more positive, with daily export momentum improving to 17.7% YoY. The Bank of Korea left rates unchanged at 3.5% with a somewhat dovish outlook. Taiwan's April industrial production and export orders were brisk.

## India

### The RBI's record dividend payout to the government provides a tailwind for growth

Thanks to increased interest earnings on foreign bonds due to higher global rates and a rise in sales of FX reserves, the Reserve Bank of India (RBI) has paid a record-high dividend of INR 2.1tn to the government for FY2024, surpassing initial budget expectations. The improvement in fiscal revenues could potentially boost growth through higher budget spending or lower public debt, which would benefit private investment. The new government, to be formed after the election, will present a revised budget for FY2025 in June or July. Meanwhile, the HSBC Flash India PMI data suggest strong private sector output, record export growth, and the highest employment increase since 2006. The service sector has led the expansion while manufacturing also showed robust growth. New export orders surged, and the future output component indicates a notable improvement in confidence among private firms regarding near-term output prospects. Overall, India's growth momentum remains exceptionally positive.

## Credit

### US High yield supply surges, but CCCs still vulnerable to default

Credit spreads were mixed last week, with derivatives lagging bonds and US High Yield (HY) spreads underperforming most other sectors due to heavy issuance. Corporate bond yields widened as concerns of higher-for-longer policy rates re-emerged but spreads remain near historic tights. Strong demand was visible in very low new issuance concessions in USD Investment Grade (IG) issuance, as investor demand is underpinned by the attractiveness of all-in yields. Also, sentiment as reflected in fund flows was positive, especially for US HY funds, which saw the highest weekly inflow since November, according to Lipper. US HY supply rose to the third highest weekly issuance this year. In contrast, European HY issuance was quite weak, below the strong pace seen in early May. We expect HY companies to keep coming to market as progress in pushing out maturity walls continues. However, not all HY issuers face the same refinancing conditions and CCC-rated issuers are still absent from the market and unable to address their maturities, which will keep them vulnerable to default.

## What to Watch

- This week we will receive the German ifo and GfK consumer confidence figures, which are expected to show a further increase in recent optimism. We will also receive inflation data for a variety of countries. Inflation is expected to increase a small amount in May.
- In Switzerland, Q1 GDP data and the KOF economic barometer will show how economic activity is holding up.
- Japan will report the usual end-of-month economic activity indicators while the NBS PMIs for May will be released in China. Australia will publish CPI, retail sales and building approval data for April as well as capex and construction data for Q1. India's Q1 GDP data are expected to remain strong, though slightly softer than in Q4. Korea and Thailand will release industrial production data for April.

## Disclaimer and cautionary statement



**Zurich Insurance Group Ltd**

Investment Management
Mythenquai 2
8002 Zurich

173008049 01/22) TCL

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