

# Weekly Macro and Markets View

1 July 2024



## Highlights and View

**French polls once again prove to be accurate as the first round of the legislative elections sees Marine Le Pen's RN party finish in first place**

Whether the RN secures an absolute majority depends on political agreements reached between other parties into the second round, with a relative majority slightly more likely.

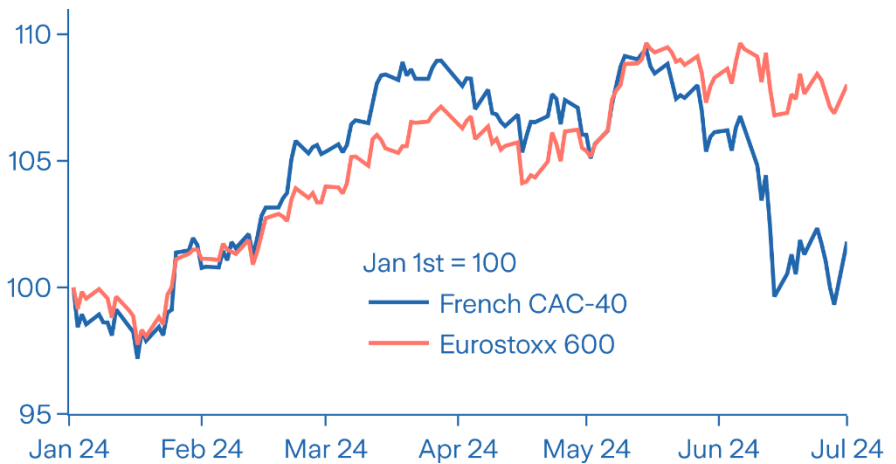
**US PCE Core inflation slows to an annual rate of 2.6% in May**

The monthly pickup in core prices was a modest 0.1%, helped by weaker than expected consumer spending.

**USDJPY marks a 38-year high, while EURJPY moves to an all-time high**

Despite verbal warnings, we believe renewed Ministry of Finance intervention would only occur if yen depreciation were to accelerate from here.

## The French electorate's view is unchanged from last month



Source: Bloomberg

There were few surprises in the first round of the snap French National Assembly elections. Based on exit polls and early counts the results appear as follows: National Rally got 33.4% of the vote, followed by the left-wing New Popular Front at 28%, and then Macron's centrist bloc at 20.8%. Given the high turnout of 67%, there will be a large number of possible three-way races next weekend. The key factor to watch now is negotiations between non-RN parties and whether they tactically withdraw their candidates and endorse competitors. Our base case here is for no overall majority in the parliament, with RN as the largest party and an initial possible coalition discussion with the traditional Republican right. Yet, the odds of an absolute RN majority remain significant and are highly dependent on the outcome of negotiations in the coming days. While the initial market reaction to a higher probability of a hung-parliament this morning is positive, with French bonds and equities trading higher, we still expect more volatility in the coming days and months. We do ultimately think that the market will adjust to the new parliament and 'cohabitation', but France's poor fiscal dynamics and the greater possibility of conflict with EU institutions will weigh on French bonds. We see scope for the CAC 40 to recoup recent losses against other European indices. Tail-risks are elevated, and any indication that Macron intends to resign (reversing previous statements) would be a significant market negative.

## US

### Consumer spending moderates

The third release of US GDP numbers shows that consumer spending slowed markedly in the first quarter. The latest data on personal income and spending indicate that the modest trend continued into the second quarter. Spending ticked up from 0.1% in April to 0.2% MoM in May, which in both cases was below income growth, showing that households prefer to save part of their income. The slower pace of consumer spending helps to reduce price pressure. PCE Core inflation slowed to only 0.1% MoM, pushing down the annual rate to 2.6%.

Consumer confidence has deteriorated marginally, driven by slightly lower expectations. Meanwhile, the labour market continues to show signs of softening with continuing jobless claims reaching the highest level since November 2021. While the S&P 500 was briefly boosted by lower inflation expectations, it fell back quickly and ended the week with a minor loss of -0.1%. The Nasdaq managed to eke out a small gain of 0.2% after having been up by almost 2% over the course of the week.

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## Japan

The yen marks a 38-year high vs. the US dollar and a record high vs. the euro

The yen continues to depreciate, with the USDJPY reaching a fresh 38-year high and the EURJPY surging to a record high of 173.47. While The Ministry of Finance intervened when the currency pair reached the 160 mark in late April of this year, it has refrained from intervening so far in this latest weakening bout. Verbal warnings by Vice Finance Minister Kanda to counter currency moves initiated by speculators seem to have only a very short-term impact. We do not see any immediate appetite for currency intervention unless the yen were to

appreciate quickly towards 162-163 versus the US dollar. Meanwhile, the latest quarterly Tankan survey, published today, did not show any significant changes to three months ago. The Non-Manufacturing PMI for large companies remained close to the level in Q1, which marked the highest level since the early nineties. Capex plans remain solid while further upside price pressure is expected.

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## Australia

Rising CPI pressures keep the RBA on high alert

Australia's monthly CPI reaccelerated from 3.6% YoY to 4%, exceeding already hawkish expectations of 3.8%. The Trimmed Mean CPI spiked from 4.1% to 4.4%, with services inflation jumping to 4.8% YoY. Consumer inflation expectations for June also rose from 4.1% to 4.4%. This reacceleration of inflation is a worrying sign for the Reserve Bank of Australia (RBA), which has maintained a hawkish tone despite holding rates steady in June. The market is now pricing in more than a 20% chance of a rate hike in the August meeting. Credit growth was at a healthy level,

with home lending remaining strong while house prices continued to rise in June, up around 8% from a year ago. There will be little new data available before the RBA's next meeting in August on which it can rely to assess its rate hike options. Our base case remains that the RBA will keep rates unchanged, holding them for longer. However, if upcoming data continue to suggest that inflation is problematic, another rate hike cannot be ruled out.

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## Mexico

Banxico maintains the monetary policy rate at 11.0%, in line with market anticipations

In a split vote, four members opted to keep the MPR unchanged, while one member voted for a 25bp cut. In its statement, Banxico left the door open for additional cuts if inflation remains in line with projections. Despite this, it maintained a moderate tone regarding the magnitude of the cuts, anticipating that conditions would remain tight going forward. On the other hand, it slightly adjusted its projection for core inflation in Q4 from 3.8% to 3.9%. This adjustment was primarily driven by the recent currency depreciation, triggered by

uncertainty surrounding eventual reforms by the new government and the upcoming United States elections. We anticipate that the MPR will be cut to 9.75% in the coming year, a decision largely dependent on when the Federal Reserve initiates its cycle of cuts and the convergence of inflation toward the midpoint of the target range at 3%.

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## APAC Equity Markets

Diverging country index moves amid a flat MSCI APAC

Japan's Topix managed to break out of its Q2 trading range, rising 5.4% over the last two weeks in response to a favourable economic outlook following a setback in economic activity and consumer confidence in the first half of the year. Both China's H-shares and Hong Kong's Hang Seng index have retraced about half of the 23% April/May rally, but appear to be stabilising, while the uptrend in Taiwan and Korea equity markets remains intact. Australia's ASX200 index remained mostly flat this week, lacking a clear catalyst for movement in either

direction. ASEAN equities had mixed results. Indonesian stocks recovered some heavy year-to-date losses, rising over 3% for the week. We expect the recovery to continue given attractive valuations and the potential easing of currency pressures as a result of projected Fed rate cuts, attracting investors back to Indonesia. Other ASEAN markets were lacklustre, with Thai equities remaining the worst performer.

## What to Watch

- In the US, the ISM surveys as well as the latest batch of labour market data will give important insights into the current state of the US economy.
- As with last week, investors will be closely watching the run-up to the second round of the French elections and what it implies for the odds of an RN majority. Eurozone inflation will be released on Tuesday and is expected to fall to 2.5% YoY.
- In the UK, the general election will be held on Thursday. The Labour party is widely expected to win a significant majority.
- Japan will release the household survey for May and announce the final outcome of the 'shunto' wage negotiation round. On Sunday, Tokyo gubernatorial elections will be held. Australia's retail sales and export data for May will be published. June CPI data will be released in Taiwan, South Korea, Indonesia, Thailand and the Philippines. Hong Kong will report retail sales data for May.
- The CPI and PMI releases are the key data points for Switzerland this week.

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Investment Management  
Mythenquai 2  
8002 Zurich