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Amundi
ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention
of professionals

Edition of July 26, 2021

By research Amundi

The week at a glance

- **Markets:** Stock markets in the US and Europe remained positive this week. US bond yields declined to 1.20% on the 19th, on worries that the Delta variant of the coronavirus could dampen the recovery in services.
- **United States:** Weekly initial jobless claims rose by 51k to 419k from 368k (350k expected) for the week ended July 17.
- **Eurozone:** The Eurozone July Composite flash PMI stood at 60.6, up from 59.5 in June.

 KEY FIGURE

2%

ECB inflation target needed for it to deviate from current low interest rate levels

Focus

Oil markets were driven by OPEC+ meetings, increasing volatility and concerns around the supply/demand equilibrium. Demand is expected to rise in line with the renewal of economic activity, however, it will remain below pre-Covid-19 levels in 2021. For the moment, production is far below the levels reached in 2019 due to the production cut agreed upon in 2020 in order to stabilise prices above \$60. Recently, oil rose upwards of \$70 due to a potential near-term shortage. An agreement was thus needed between OPEC members to match demand with supply. This was reached in the end, although there were some tough exchanges between the UAE and the Saudis on increasing production quotas. All in all, the final outcome confirms our central case for the \$65-\$70 range at end-of-year. Risks are on the upside due to potential shortages related to a stronger recovery or OPEC members lacking sufficient commitment to their agreements.



KEY DATES



26 July

IFO expectations Germany

28 July

Fed monetary policy meeting

End July

China: Politburo meeting

5 August

BoE monetary policy meeting

Source: Amundi Research.

Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry.

Our weekly analysis

ECB: the dovish tilt is confirmed

Following the strategy review, the ECB had planned to communicate its new forward guidance (FG) on Thursday 22 July. Christine Lagarde insisted on what she called the “three legs” of this new FG.

More precisely, the Governing Council expects the key ECB rates to remain at their present or lower levels until:

(i) It sees inflation reaching 2% well ahead of the end of its projection horizon...

(ii) and durably for the rest of the projection horizon.

(iii) It judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term. This may also imply a transitory period in which inflation is moderately above target.

Thus, the ECB does not intend to act only on the basis of its forecasts. Particular attention will be paid to realised core inflation. At the end of the day, it is striking to see how judgemental the FG is, without additional quantitative metrics. Unsurprisingly, this FG was not adopted unanimously as there were minor divergences within the GC. But there was “agreement to disagree at the margin” according to Ms Lagarde.

The volume of asset purchases under the PEPP was not discussed (premature). TLTROs were not discussed either. The ECB has made a formal request to the European Commission to accelerate the inclusion of the “owner-occupied housing costs” component in the CPI, in line with its strategy review. Meanwhile, the ECB will use alternative measures to estimate the impact of housing costs on inflation.

In practice, the ECB's new position leaves all doors open. In the absence of a real inflationary threat in the Eurozone in the coming two years, the priority will be to maintain accommodative monetary and financial conditions and avoid any further financial fragmentation. This is all the more important as the risks associated with the pandemic remain high. Against this backdrop, we believe that no rate hike should be expected for several years. And we maintain the view that the asset purchases under the PEPP will be (at least partially) redeployed in some way into the regular APP after March 2022. We do not expect any tapering by then, unless there is a clear lull on the pandemic front.

| Index | Performance | | | |
|-----------------------------------|-------------|-------|-------|-------|
| | 23/07/2021 | 1 W | 1 M | YTD |
| Equity markets | | | | |
| S&P 500 | 4367 | 0.9% | 3.0% | 16.3% |
| Eurostoxx 50 | 4100 | 1.6% | 0.6% | 15.4% |
| CAC 40 | 6549 | 1.4% | 0.0% | 18.0% |
| Dax 30 | 15660 | 0.8% | 1.3% | 14.2% |
| Nikkei 225 | 27548 | -1.6% | -4.6% | 0.4% |
| SMI | 12087 | 0.5% | 1.6% | 12.9% |
| SPI | 15551 | 0.6% | 1.7% | 16.7% |
| MSCI Emerging Markets (close -1D) | 1326 | -1.0% | -2.5% | 2.7% |
| Commodities - Volatility | | | | |
| Crude Oil (Brent, \$/barrel) | 74 | -0.1% | -2.2% | 41.9% |
| Gold (\$/ounce) | 1803 | -0.5% | 1.4% | -5.0% |
| VIX | 17 | -1.4 | 0.8 | -5.7 |
| FX markets | | | | |
| EUR/USD | 1.18 | -0.3% | -1.3% | -3.6% |
| USD/JPY | 110 | 0.4% | -0.4% | 7.1% |
| EUR/GBP | 0.86 | -0.3% | 0.1% | -4.3% |
| EUR/CHF | 1.08 | -0.2% | -1.1% | 0.2% |
| USD/CHF | 0.92 | 0.1% | 0.2% | 3.9% |



Source: Bloomberg, Amundi Research – 23/07/2021 – 15:00 pm

| Index | Performance | | | |
|---|-------------|-------|--------|--------|
| | 23/07/2021 | 1 W | 1 M | YTD |
| Credit markets | | | | |
| Itraxx Main | +46 bp | -1 bp | -- | -1 bp |
| Itraxx Crossover | +233 bp | -5 bp | +2 bp | -8 bp |
| Itraxx Financials Senior | +54 bp | -1 bp | -- | -5 bp |
| Fixed Income markets | | | | |
| ESTER OIS | 98.99 | -1 bp | -5 bp | -31 bp |
| EONIA | -0.48 | - | - | +2 bp |
| Euribor 3M | -0.54 | - | -1 bp | - |
| Libor USD 3M | 0.14 | - | -1 bp | -10 bp |
| 2Y yield (Germany) | -0.73 | -4 bp | -7 bp | -3 bp |
| 10Y yield (Germany) | -0.40 | -5 bp | -22 bp | +17 bp |
| 2Y yield (US) | 0.20 | -2 bp | -6 bp | +8 bp |
| 10Y yield (US) | 1.30 | +1 bp | -19 bp | +39 bp |
| Eurozone Sovereigns 10Y spreads vs Germany | | | | |
| France | +34 bp | - | - | +11 bp |
| Austria | +23 bp | +1 bp | +2 bp | +7 bp |
| Netherlands | +13 bp | +1 bp | +1 bp | +4 bp |
| Finland | +25 bp | - | +11 bp | +9 bp |
| Belgium | +32 bp | +1 bp | +1 bp | +13 bp |
| Ireland | +38 bp | +1 bp | +1 bp | +11 bp |
| Portugal | +61 bp | - | -- | +1 bp |
| Spain | +69 bp | +5 bp | +6 bp | +7 bp |
| Italy | +104 bp | -2 bp | -3 bp | -7 bp |

 **Asset class**

| | MARKET | AMUNDI ANALYSIS |
|--|--|---|
| <p>Equity</p>  | <p>Stock markets in the US and Europe remained positive this week. Tech shares drove US stocks higher despite the unexpected jump in jobless claims that increased concerns about the economy. Investors bought tech stocks as optimism on the sector grows ahead of big earnings reports next week.</p> | <p>Earnings are expected to remain robust. A breather is probably due going into the summer, but relative valuation will prevent a consolidation leading to a bear market. In Europe, the end of lockdowns is favouring a start of cyclical recovery. Also, the Pacific markets (including Japan) should benefit from their cyclical behaviour. Value laggards and Emerging markets are the place to be.</p> |
| <p>Fixed Income</p>  | <p>US bond yields declined to 1.20% on Monday on worries that the Delta variant of the coronavirus could dampen the recovery in services. It rebounded from this 5-month low to 1.29%, following relatively robust economic data and corporate earnings. 10-year German yields extended their fall by 5bp to -0.40%. Peripheral spreads tightened after the ECB meeting. Inflation-adjusted 10-year yields inched to minus 1.10%, not far off the record lows around minus 1.11% last touched in January.</p> | <p>The focus of July's meeting was to adapt the ECB's forward guidance on interest rates to the new price stability objective. The ECB has signalled that it is likely to maintain its very expansionary monetary policy for a very long time, saying there will be no rate hikes until the euro area exits its low inflation equilibrium and is on track to reach 2% on a sustainable basis. No decision on bond purchase. We will have to wait for September for more guidance on the asset purchases deployment in 2022: through an extension of PEPP/current APP size or through a PEPP tapering but together with an increased APP size.</p> |
| <p>Credit</p>  | <p>Spreads widened very slightly during this week. Risk aversion continues to gain ground with the spread of the Delta variant, but is not having too much of an impact on this resilient asset class. The correlation between CDS spreads and stocks was stronger than that between bond spreads and stocks, although it remained limited.</p> | <p>In the short term, technical factors in the credit market remain favorable in the coming weeks with a slowdown in issuance in July due to (1) the second quarter earnings season and (2) the summer break, which should contribute to a tightening of spreads, at least until the end of the month and assuming that asset prices continue to view the delta variant as a short term risk with limited impact in the medium term.</p> |
| <p>Foreign Exchange</p>  | <p>The Canadian dollar was up vs the US dollar this week as oil prices rose, ahead of data that could offer clues as to the domestic economy's strength coming out of the lockdowns. The other G10 currencies were down vs the greenback. In the Emerging economies, only the Chilean peso, the Russian Ruble, and the Indian Rupee rose against the US dollar.</p> | <p>Growth remains in favour of the USD thanks to the fiscal boost. This is building a US growth premium vs RoW, and we are seeing room for further gains of the USD vs the EUR. Emerging currencies appear, on average, cheap. Further upsides for Latam currencies and the Russian Ruble, but volatility is expected to remain high.</p> |
| <p>Commodities</p>  | <p>Commodities were generally flat this week. The WTI and the Brent hovered around \$72 and \$73 respectively on OPEC+ decisions on easing production cuts. Gold averaged around \$1800, with base metals slightly higher.</p> | <p>The economic picture and central bank monetary policies remain supportive of commodities, despite concerns around new waves. Gold will be driven by Fed decisions and rate movements (nominal and real). Oil should remain around \$70 in the near term, and supply will dominate price swings. Base metals should move higher, in line with the economic recovery and a potential shortage of certain commodities.</p> |

 **Economic indicators**

| | MARKET | AMUNDI ANALYSIS |
|---|--|--|
| <p>United States</p>  | <p>Weekly initial jobless claims rose by 51k to 419k from 368k (350k expected) for the week ended July 17, while ongoing jobless claims stood at 3236k (3100k expected), declining by 29k compared to the previous week's 3265k.</p> | <p>The number of Americans filing for unemployment benefits rose to a two-month high during the week ended July 17, according to the latest report from the Labour Department. However, the uptick in claims last week appears to be mostly driven by one-off factors and weekly data volatility, with several elements pointing to a potential for further healthy labour gains ahead. The claims report showed the overall number of Americans continuing to receive benefits dropping to 3.24 million, the lowest since the pandemic began, confirming that the unemployed are progressively returning to work as the economy reopens.</p> |
| <p>Eurozone</p>  | <p>The Eurozone July Composite flash PMI stood at 60.6, up from 59.5 in June, according to the latest release by IHS Markit. The manufacturing PMI moderately declined to 62.6 from June's 63.4, while the Service PMI further improved to 60.4 from 58.3.</p> | <p>Private sector business activity expanded at a strong pace in July, benefiting from the easing of Covid-19 restrictions. The service sector is the main beneficiary, with a strong rise in business activity reported across all major sub-sectors. Manufacturing reported a further rise in output volumes, sustained by very dynamic demand despite being increasingly affected by the severe supply chain disruptions that continue to constrain output volumes. Inflationary pressures continue to increase, as both input and output prices rose at a very steep rate. Confidence in the future outlook remains strong, although it has declined somewhat compared to the previous month due to concerns over the Delta variant.</p> |
| <p>Japan</p>  | <p>Real exports continued to rise strongly in June by 0.5% MoM. The expansion was driven by demand from the US (+1.0% MoM) and China (+2.6% MoM). Meanwhile, real imports also recorded a solid gain of 1.9% MoM.</p> | <p>Japanese manufactures are benefiting from the recovery of the global capex cycle, in particular semiconductor equipment orders from China and the capital goods & automotive demand from the US. The strong external demand will continue to bolster corporate earnings. That being said, since import growth outpaced exports in the second quarter, net exports will have a slightly negative impact on growth.</p> |
| <p>Emerging Market</p>  | <p>Russia's central bank (CBR) hiked the policy rate again by 100bps to 6.5% on July 23rd, as inflationary pressures have intensified and inflation expectations remain at multi-year highs. While real GDP returned to its pre-crisis level in the second quarter, the growth in domestic demand is outpacing that of supply. Real GDP growth is forecast at 4-4.5% for 2021.</p> | <p>June inflation yoy reached 6.5%, accelerating from 6% in May - well above the target range of 4%, and has remained unchanged since. According to the CBR, annual inflation is expected to slow down to 4-4.5% in 2022 and stay close to 4% from 2023 onwards. The CBR left the door open for further rate hikes in the future.</p> |



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