Confidence must be earned
Amundi
ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of June 7, 2021 By research Amundi

The week at a glance

- Markets: Equities traded within a tight range this week with the MSCI World AC up by +0.1% as of Thursday evening.
- United States: The ADP measure of private employment gained 978 thousand jobs in May, pointing to a stronger labour market.
- Eurozone: Headline inflation is back to 2% in the Eurozone, on strong base effects from energy prices.

KEY FIGURE

5.8%

Lower level of US unemployment rate reached in May

Focus

Accommodative stance expected to be confirmed at next week's ECB meeting

Next week's ECB meeting is likely to see the central bank sending an accommodative, dovish message to financial markets, confirming that talk of winding down the pandemic emergency purchase programme (PEPP) look quite premature. The flow of communication of the past two weeks was broadly along the same lines, namely on the dovish side, starting from President Lagarde's comments downplaying tapering risks, followed by statements from most other ECB members, who were quite consensual on the need to keep a persistent strong stimulus for the time being. The ECB's dovish communication contrasted with fears of the unwinding of Quantitative Easing (QE) and contributed to the recent retracing of longer bond yields and to tighter Euro area spreads. Nevertheless, financing conditions still look somehow tighter, as they have since the March meeting, on the back of higher bond yields and also a slightly stronger euro. Therefore, despite the improvement in the macro outlook, the dynamic of recent financing conditions does not point to the need to reduce the current path of purchases. Summer seasonal trends point to generally lower volumes of activity in primary markets, ultimately supporting a slowdown in ECB purchases, too. However, we expect the central bank to dismiss signals of reducing the stimulus and to keep a flexible approach in terms of QE volumes over the next quarter, in order to maintain easy financing conditions.

KEY DATES

8th June	9th June	10th June	10th June
Japan GDP	Brazil IBGE inflation	US Consumer Price Index (CPI)	ECB monetary policy committee

Source: Amundi Research.

Our weekly analysis

Private sector business activity growth accelerated in May

Private sector business activity expanded at a very sustained rate in May, supported by solid global demand, which led new orders and output volumes to rise at their quickest pace since mid-2006. Accordingly, international trade flows improved, as well as firms reported strengthening demand from key international trade partners, which provided further support to May's gains in activity. The sustained growth in business activity was led by a survey-record increase in the US and UK, along with a steep uptick in the Eurozone, which offset more moderate growth in Asia as it eased in China, while Japan and India experienced a contraction in activity.

At a global level, services outperformed manufacturing for the second consecutive month, as the ongoing lifting of Covid-19 restrictions led to a strong rise in activity across the pandemic's hardest hit sectors, confirming their ongoing bottoming-out.

Confidence on future business activity remains strong, as both manufacturers and service providers expect higher activity over a 12-month horizon, which encouraged firms to increase employment levels to cope with strengthening demand and rising capacity pressures.

Intense supply chain disruptions and shortages of inputs led to a further significant rise in input prices, which drove inflationary pressures higher in May as firms sought to increasingly pass higher prices on to clients. Supply chain disruptions and bottlenecks, along with the mounting inflationary pressures remain key elements to monitor as sources of growth constraints.

Indice	Performance			
Equity markets	06/04/2021	1 W	1 M	YTD
S&P 500	4193	-0.3%	0.7%	11.6%
Eurostoxx 50	4083	0.3%	4.0%	14.9%
CAC 40	6513	0.4%	4.2%	17.3%
Dax 30	15649	0.8%	5.3%	14.1%
Nikkei 225	28942	-0.7%	0.4%	5.5%
SMI	11531	0.9%	5.1%	7.7%
SPI	14870	0.9%	5.6%	11.6%
MSCI Emerging Markets (close -1D)	1384	1.7%	3.6%	7.1%
Commodities - Volatility	06/04/2021	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	72	3.6%	4.7%	39.3%
Gold ($/ounce)	1888	-0.8%	5.8%	-0.6%
VIX	17	0.4	-2.4	-5.6
FX markets	06/04/2021	1 W	1 M	YTD
EUR/USD	1.22	-0.1%	1.4%	-0.3%
USD/JPY	110	-0.2%	0.2%	6.2%
EUR/GBP	0.86	-0.2%	-0.9%	-4.0%
EUR/CHF	1.09	-0.3%	-0.4%	1.2%
USD/CHF	0.90	-0.1%	-1.8%	1.5%

Source: Bloomberg, Amundi Research – 06/04/2021 – 15:00 pm

Indice	Performance			
Credit markets	06/04/2021	1 W	1 M	YTD
Itraxx Main	+50 bp	-1 bp	-1 bp	+2 bp
Itraxx Crossover	+245 bp	-3 bp	-10 bp	+4 bp
Itraxx Financials Senior	+58 bp	-1 bp	-2 bp	-1 bp
Fixed Income markets	06/04/2021	1 W	1 M	YTD
ESTER OIS	99.07	-1 bp	-5 bp	-23 bp
EONIA	-0.48	-	-	+2 bp
Euribor 3M	-0.55	--	-1 bp	--
Libor USD 3M	0.13	-	-4 bp	-10 bp
2Y yield (Germany)	-0.67	-1 bp	+3 bp	+3 bp
10Y yield (Germany)	-0.20	-2 bp	+3 bp	+37 bp
2Y yield (US)	0.15	+1 bp	-1 bp	+3 bp
10Y yield (US)	1.60	-	-	+68 bp
Eurozone Sovereigns 10Y spreads vs Germany	06/04/2021	1 W	1 M	YTD
France	+36 bp	+1 bp	-	+13 bp
Austria	+24 bp	-	-	+8 bp
Netherlands	+14 bp	-1 bp	-1 bp	+6 bp
Finland	+17 bp	-	-1 bp	+1 bp
Belgium	+33 bp	+1 bp	-1 bp	+15 bp
Ireland	+39 bp	-	--	+12 bp
Portugal	+66 bp	+1 bp	-2 bp	+6 bp
Spain	+66 bp	-	-1 bp	+4 bp
Italy	+108 bp	-1 bp	-1 bp	-3 bp

Asset class

	MARKET	AMUNDI ANALYSIS
Equity	**Equities traded sideways this week** with the MSCI World AC up by +0.1% as of Thursday evening. By region, the US was slightly down (-0.4%). Europe (+0.5%) and Japan (+0.6%) were more resilient but, above all, Emerging markets (+1.9%) outperformed. The reporting season being now behind us, market participants' attention has turned back to inflation. The better-than-expected improvement in US job creations revived fears of wage pressure and, hence, of a sooner-than-expected tightening by the Fed.	After last year's rerating of Price-Earnings ratios, earnings growth is now likely to play a more prominent role in market trends. In the shorter term, however, equity markets could become more tentative, as many recovery metrics appear to be peaking. With this in mind, stock-picking is expected to become more selective.
Fixed Income	**Quiet week on the bond markets**, while investors waited for the publication of the US employment report for May, which gives more visibility about when Federal Reserve's bond-buying tapering discussions would start. US 10Y yields rose by 3bp to 1.62%. 10Y German bond yield was stable over the week after its decline last week after the ECB indicated that it would maintain the pace of the Pandemic Emergency Purchase Program (PEPP) over the next few months. Italy's 10-year government bond yield fell by 2 bp to 0.81%.	The non-farm payrolls was slightly worse than economists' expectations, but marked an improvement over the April report. The labour market remains the priority: the timing of unwinding Quantitative Easing with tapering will depend on its evolution. Some FOMC participants were eager to start talks about tapering at the upcoming meetings if the economy continues to make rapid progress, and it revealed some concerns about inflation and the cost of keeping financial conditions accommodative for too long. The Fed should start communicating about tapering at the Jackson Hole conference in August, for a tapering starting at the beginning of 2022.
Credit	**The stable picture for credit markets was confirmed last week**, with limited moves in spreads and risk sentiment remaining supportive. High yield bonds tightened slightly on average, while, as in previous weeks, investment grade risk premia were almost unchanged.	Within credit markets, high-beta segments look to be more supported from the persistent search for carry and quite supportive technicals, while valuations offer less potential in high-rated corporate bonds. These is also evident from recent market sessions, with high yield and subordinated bonds generally outperforming most of the Investment Grade area. The asset class remains quite resilient to the short-term volatility coming from both rates and the equity side.
Foreign	**The US dollar appreciated vs all G10 currencies, in particular vs the New Zealand dollar**, as a surprisingly strong US economic rebound poses a threat to the assumption that interest rates will stay low for a long period of time. Emerging currencies were a mixed bag. The Brazilian real and Colombian peso gained vs the USD while the Turkish lira and Peruvian sol fell.	We see room for an appreciation of the USD vs EUR, thanks to the fiscal booster, which is building a growth US premium vs the rest of the world, and a repricing into the US carry advantage. Emerging currencies appear fairly valued in the short term. There is still some more upside for Latam currencies and Russian rouble. But volatility is expected to remain high.
Commodities	**Commodities paused overall despite divergent returns**. WTI and Brent jumped to $68 and $71, respectively, on strong demand expectations. Gold corrected to $1873, while base metals plummeted by -1.8%.	The economic environment and commodity inventory super-cycle expectations are supporting the commodities markets rally despite efforts, primarily from Chinese authorities, to cool down the markets. Gold will be driven by near-term Fed announcements on possible fine-tuning of monetary policy. Oil is expected to stay in its current range of $60-70 in the next few months despite recent strong movements. Base metals should move higher, in line with the economic recovery and the potential shortage in some specific commodities, although the most acute phase for undersupply imbalance should be behind us.

Economic indicators

	MARKET	AMUNDI ANALYSIS
United States	**The ADP measure of private employment gained 978 thousand jobs in May**, pointing to a stronger labour market. The increase in payrolls shows widespread gains across most industries, with the sharpest acceleration in high-contact services, such as education & health, and leisure & hospitality.	While the Fed's latest Beige Book points to labour shortages as a serious problem for companies and has been confirmed by other surveys, this month's ADP report could suggest that labour shortages are starting to clear. In addition, the move by 24 states to opt out earlier from the enhanced Federal unemployment programs could be encouraging people to search more actively for work from now on.
Eurozone	**Eurozone Harmonised Index of Consumer Prices (HICP) rose to 2.0% YoY in May**, up from April's 1.6% YoY, according to the latest preliminary release by Eurostat. Core Consumer Price Index (CPI) remained below 1%, settling in at 0.9% YoY, up from 0.7% YoY.	Eurozone inflation reached its highest level since October 2018, with the rise in energy prices as the key driver. At a country level, the largest rise took place in Germany, whose inflation index rose to 2.4% YoY. We expect headline Eurozone inflation to continue to rise in the coming months, driven by the combined impact of energy inflation base effects and reopening-induced inflation, as some sectors take advantage of pent-up demand to raise prices along with manufacturers' passing on part of the increase in input prices. Germany will remain the key driver (reaching 2.5% in the fourth quarter), after which most of this year's increase in inflation is likely to be reversed next year as base effects fade, with a smaller, shorter-lived increase in the Eurozone than in the US.
Japan	**The MoF's corporate survey for the first quarter 2021 shows the corporate sector continued to recover from the pandemic.** Sales in all industries as a whole grew by 0.6% QoQ in the first quarter, driven by manufacturers (+3.4%). Non-manufacturers saw a small decline in sales (-2.1%), due to the government's renewed state of emergency. Profit margins in both sectors rebounded further.	The recovery of corporate earnings was driven by manufacturing, supported by demand from the US and China. Capital Expenditures of manufacturers registered its first gain since the last quarter of 2019, indicating an upbeat outlook for the global economy. In contrast, the underperformance of the non-manufacturing sector reflects soft domestic demand, clouded by renewed restrictions and slow vaccinations.
Emerging Market	**On 4th June, the Reserve Bank of India (RBI) held its policy rate at 4% and confirmed its accommodative stance for as long as necessary**. While extending and marginally increasing the QE program into third quarter of this year (G-SAP 2.0), the RBI announced additional measures, such as a liquidity window for contact-intensive sectors and a special liquidity facility for small industries development banks.	The RBI's decision was broadly expected in both its orthodox (unchanged policy rate) and unorthodox (QE extension) toolboxes. At the margin, a tilt towards more dovishness comes from a mildly larger size of G-SAP 2.0 vs G-SAP 1.0. Domestic economic conditions and global liquidity conditions inform our outlook for the RBI's leaving its policy rates unchanged over 2021 while ad hoc extending its credit/liquidity support.