Confidence must be earned

Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of July 19, 2021

By Amundi Research

The week at a glance

- Markets: Equity markets relatively stable and still under the influence of long interest rates.
- United States: More persistent sources of inflation are strengthening, providing additional upward pressure on inflation.
- Eurozone: The confidence underlying the manufacturing sector remains very strong as firms report optimistic business outlooks.

KEY FIGURE

5.4%

US Headline Inflation in June

Focus

Bonds issued as part of the Next Generation EU fund (NGEU) to support member states hit by the COVID-19 pandemic are proving to be a hit with investors. On Tuesday 13 July, the Commission issued €10 billion in 20-year bonds with a coupon of 0.45%, for which demand was ten times higher. This brought the total raised by NGEU to €45 billion in four weeks, more than half of the amount anticipated for 2021 (around €80 billion). Between now and the end of the year, there will be further issuance of “tens of billions” in short-term securities. Investors, at this point, are mainly fund managers, banks, insurance companies and private equity, and for the most part they are European. The Commission expects greater participation by non-European foreign investors on shorter maturities.

On the same date, the NGEU’s first pay-outs were approved by the European Council. Twelve countries (Austria, Belgium, Denmark, France, Germany, Greece, Italy, Latvia, Luxembourg, Portugal, Slovakia and Spain) are now in a position to use the European funds and have requested initial financing from the funds allocated to them. Subsequent pay-outs under the mechanism will be conditional on compliance by each country with their commitments. The overarching goal is implementation rather than financing.

KEY DATES

July 22nd	July 27th	End of July	August 5th
ECB Governing Council	US Fed monetary policy meeting	China Politburo meeting to review economic policy	Bank of England monetary policy meeting

Source: Amundi Research.

Our weekly analysis

Chinese growth: shifting gear

China's real GDP growth slid to 7.9% YoY in the second quarter from 18.3% YoY in the previous quarter, mainly reflecting the distortion of base effects. In sequential terms, growth improved to 1.3% QoQ from 0.6% QoQ after seasonal adjustment, underpinned by the rebound in services consumption after the relaxation of pandemic control.

Despite the rebound, services consumption expenditure has not fully returned to its pre-Covid level. Its two-year average growth is 4.8%, slower than in 2019 and 0.6 percentage points lower than overall consumption expenditure growth. Nevertheless, the labour market continued to improve in the second quarter, driving income growth to recover further from the dip in 2020. The household excess savings rate dropped notably, paving the way for a further rebound in consumption in the second half of this year.

On the investment side, capital expenditure in manufacturing led the acceleration in June, while housing and infrastructure investments softened. Aviation & spacecraft equipment, ICT hardware and medical instruments were the top runners in the first half of the year. With ongoing policy efforts to promote domestic supply chains, industrial upgrades and innovation, manufacturing investment should continue to be the main driver for overall investment.

While resilient for now, export growth will inevitably normalise down given the reopening of other economies. With softer external demand growth, mixed investments and gradually improving consumption, China's growth should continue to drift downward towards its long-term trend. We expect annual growth to soften further to around 7% in the next quarter and 5% in the final quarter, before rebounding to 5.5% in 2022.

With moderated growth and contained inflation, the policy stance has become more supportive. The People's Bank of China (PBOC) lowered the reserve requirements for its banks, indicating that it wanted to maintain accommodative liquidity conditions. Credit growth stabilised in June and is likely to register smaller declines in the second half compared to the first of this year, pointing to slower deleveraging ahead. These signals suggest that policymakers will continue to be selective about tightening this second half.

Indice	Performance			
Equity markets	16/07/2021	1 W	1 M	YTD
S&P 500	4365	-0.1%	3.3%	16.2%
Eurostoxx 50	4034	-0.8%	-2.8%	13.5%
CAC 40	6445	-1.3%	-3.1%	16.1%
Dax 30	15556	-0.8%	-1.0%	13.4%
Nikkei 225	28003	0.2%	-4.4%	2.0%
SMI	12007	0.1%	0.2%	12.2%
SPI	15447	0.2%	0.5%	15.9%
MSCI Emerging Markets (close -1D)	1348	2.3%	-1.6%	4.4%
Commodities - Volatility	16/07/2021	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	73	-3.0%	-1.5%	41.5%
Gold ($/ounce)	1824	0.9%	0.7%	-3.9%
VIX	16	0.2	-1.7	-6.3
FX markets	16/07/2021	1 W	1 M	YTD
EUR/USD	1.18	-0.6%	-1.6%	-3.4%
USD/JPY	110	0.1%	-0.5%	6.8%
EUR/GBP	0.85	0.1%	-0.3%	-4.3%
EUR/CHF	1.08	-0.1%	-0.5%	0.3%
USD/CHF	0.92	0.6%	1.2%	3.9%

Source: Bloomberg, Amundi Research – 16/07/2021 – 15:00 pm

Indice	Performance			
Credit markets	16/07/2021	1 W	1 M	YTD
Itraxx Main	+47 bp	+1 bp	--	--
Itraxx Crossover	+237 bp	+3 bp	+2 bp	-4 bp
Itraxx Financials Senior	+54 bp	--	--	-4 bp
Fixed Income markets	16/07/2021	1 W	1 M	YTD
ESTER OIS	99.00	-1 bp	-5 bp	-30 bp
EONIA	-0.48	-	--	+2 bp
Euribor 3M	-0.55	--	--	--
Libor USD 3M	0.13	--	-	-11 bp
2Y yield (Germany)	-0.68	-1 bp	--	+2 bp
10Y yield (Germany)	-0.35	-6 bp	-10 bp	+22 bp
2Y yield (US)	0.23	+2 bp	+3 bp	+11 bp
10Y yield (US)	1.32	-4 bp	-26 bp	+41 bp
Eurozone Sovereigns 10Y spreads vs Germany	16/07/2021	1 W	1 M	YTD
France	+33 bp	-2 bp	-5 bp	+10 bp
Austria	+21 bp	--	-3 bp	+6 bp
Netherlands	+12 bp	--	-4 bp	+3 bp
Finland	+24 bp	--	+6 bp	+8 bp
Belgium	+30 bp	-1 bp	-5 bp	+12 bp
Ireland	+36 bp	-2 bp	-5 bp	+10 bp
Portugal	+60 bp	-3 bp	-3 bp	-
Spain	+63 bp	-2 bp	-2 bp	+1 bp
Italy	+104 bp	-1 bp	+2 bp	-7 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	Equity markets relatively stable and still under the influence of long rates. Their decline has favoured growth stocks since mid-May and has been detrimental to value stocks, which had strongly outperformed in the previous six months.	Equity markets have to deal with falling long rates, sending a signal of doubt about the recovery, and a recently opened earnings season that should be reassuring. We continue to favour stock-picking over directional approaches.
Fixed Income	10-year US Treasuries yield peaked at 1.42% on Wednesday following the release of the CPI (Consumer Price Index), which rose the most in 13 years and beat expectations. Yields fell back to 1.32% on Thursday after dovish comments from Fed Chairman Jerome Powell. German 10-year bonds ended the week lower for the third week in a row. It fell 3bp to -0.34%, to a 3-month low. The drop was due to the spread of the more infectious Delta variant and favorable technical factors with a slowdown in supply, net emissions will turn very negative in the coming weeks.	Our fundamental assessment has not changed significantly, we believe bond yields should rise. Growth risks around the delta variant should be manageable in Europe and improving data in the third quarter as well as the Fed giving more information on the tapering schedule should allow bond yields to recover from current very low levels. Technical factors explain part of the rally with the unwinding of short bets and demand from momentum traders and pension funds.
Credit	Spreads were mostly unchanged if not a touch higher in another lacklustre week, with risk aversion gaining some ground but failing to impact a resilient asset class. Credit default swap (CDS) spreads were more correlated than cash bond spreads to equities, but to a limited extent. The primary markets continued apace, but volumes of new deals are likely to slow down in the second half of July and to decrease in August.	Fundamental trends continued to improve in credit metrics, while default rates fell further in June: according to the last figures published by Moody's, US High Yield default rates closed the previous month's gap with European High Yield and both are now at the 4% level. Technical support is here to stay, especially in Europe, which should keep valuations tight in a less active secondary market.
Foreign Exchange	The New Zealand dollar jumped on Wednesday vs. the USD after a surprisingly hawkish tone by the central bank and a strong inflation reading on Friday. Norway's Krone also lost ground against the US dollar, due to declining oil prices. Emerging currencies vs. USD: the Brazilian real and Turkish Lira appreciated while Eastern European currencies and the Chilean Peso depreciated.	Growth continues to favour the USD thanks to the fiscal booster. This is building a US growth premium vs. Rest of the world and we see space for a further appreciation of the USD vs. the EUR. Emerging currencies appear, on average, cheap. We see further upside for Latam currencies, the Ruble and the Indonesian Rupiah, but volatility is expected to remain high.
Commodities	Commodities jumped this week overall, due to agriculture. The WTI and Brent fell to $71 and $73 respectively on OPEC+ talks about easing production cuts. Gold moved above 1800, while base metals went slightly higher.	The economic picture remains supportive for commodities despite growth and new waves of concern. Gold will be anchored to Fed decisions and rate movements. Oil should remain at around $70 in the near term, with prices being driven by OPEC+ decisions on production. Base metals should move higher in line with the economic recovery and a potential shortage of certain commodities.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	The United States inflation rate rose by 0.9% MoM in June, an increase of 5.4% YoY. Similarly, the core CPI (Consumer Price Index) rose by 0.9% compared to the previous month, a 4.5% increase on the same month last year.	The June CPI shows that the reopening and supply chain disruption dominated the rise in prices in June, confirming that strong transitory factors are at play. Accordingly, used vehicle prices accounted for a third of the rise in the CPI, expanding by 10.5% MoM, while there were significant price increases across airfares, hotels, car rentals and transportation services, all of which were driven by reopening-related strong demand. However, more persistent sources of inflation are strengthening as well, providing additional upward pressure on inflation, with owners' equivalent rent of residences (OER) rising by 0.3% MoM and shelter by 0.5% MoM.
Eurozone	Euro area industrial production declined by -1.0% MoM in May according to the latest release by Eurostat. Compared to May 2020, industrial production rose by 20.5%.	After expanding by 0.6% MoM in April, industrial production fell in May due to a broad decline in output volumes across the main product categories, namely non-durable consumer goods (-2.3% MoM), energy (-1.9% MoM), capital goods (-1.6% MoM) and intermediate goods (-0.2% MoM). Conversely, production output in durable consumer goods rose by 1.6% compared to the previous month. The confidence underlying the manufacturing sector remains very strong as firms report optimistic business outlooks, despite being increasingly affected by supply bottlenecks and severe supply chain disruptions.
Japan	The BoJ left its policies unchanged as expected at its July monetary policy meetings. It released the new Outlook Report, revising Fiscal Year 2021 GDP growth down slightly to 3.8% from 4.0% but upgrading Fiscal Year 2022 growth. For inflation, it revised up core CPI forecasts for both Fiscal Years 2021 and 2022 to 0.6% and 0.9% from 0.1% and 0.8% respectively.	The BoJ's latest assessment on the economy is largely unchanged from last quarter. Its growth revisions reflect a delayed recovery due to the recent impacts of Covid-19 and slow vaccination. The upgrade of the core CPI (excluding fresh food) was a result of higher energy prices and not an indication of stronger underlying inflation. The central bank is likely to stay behind the curve.
Emerging Market	Another Latin American central bank became a hiker this week. The Central Bank of Chile (BCCh) hiked by 25bps to a still highly accommodative 0.75%, kicking off the normalisation process on the back of strong growth, a rapidly closing output gap and rising inflation. BCCh has guided for gradual policy normalisation while remaining below neutral throughout the forecast horizon.	The policy rate at the lower effective bound is out of sync with economic realities in Chile. But the central bank can go about policy normalisation in a gradual way thanks to a more benign starting point, dynamics and anchored inflation expectations (in 2023). We see another 100bps of hikes in the second half of this year (to 1.75%) and rates moving to lower ranges of neutral thereafter.