



PKB's Market Espresso

Short. Rich. Strong.

Eurozone – CPI on Friday !

Disinflationary trend remains **bumpy** in Europe – Friday's CPI is expected to show a slight **uptick** in inflation.

- **CPI m/m*** for May is expected to rise by **0.2%**
- This **rise** largely **reflects** base effects in the **energy** and **transport services** components of the basket
- **2/3** of today's observable **inflation** is attributable to the much more sticky **services** inflation – energy and core goods prices will remain volatile and not provide any support in the near future
- Nevertheless... **ECB** should not be derailed and proceed with a **first rate cut in June!**

* *month-over-month*

Positive vibes in Germany

- In April the **IFO Business Climate Index rose to 90.4**
- This is the **4th consecutive** monthly advance
- The **current assessment** is still lagging though



- The **Citi Economic Surprise** for the Eurozone is also recovering
- It **topped at 57.1** in March after a steady recovery from a trough of **-146.50 in July 2023**
- **Equity investors** are taking notice:
 - German and Spanish equities **+12.1% ytd***
 - Italian equities **+14.5%**

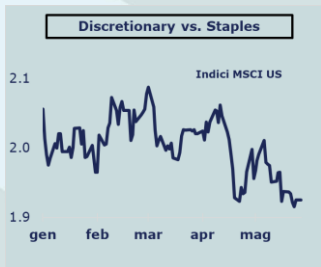
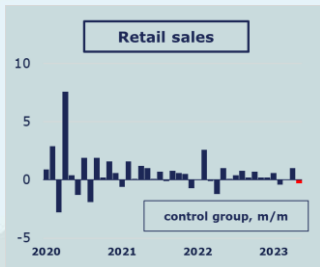
* Year-to-date

Fed, running out of time

- The next 10 days should provide **interesting insights** into whether the **Fed** might cut rates before December
- The second update for the **first quarter GDP**, the **PCE deflator** (so dear to the Fed...), **personal income** and **spending data**, **PMI** and **ISM**, followed by **factory orders** and **durable goods** orders will be released
- The bar is relatively high to shift the balanced mood of the Fed committee, but if the data were to show that economic activity is slowing, with the labour market more fragile and consumption declining, it will be interesting to observe any **changes in the wording** of the various Fed governors to see if the **meeting** at the very **end of July (31) is still live**
- In the last week, the market **reduced the scope** of the **Fed's cuts** until December by 10 basis points (**now at 34 basis points**)

Consumer fatigue

- **Retail sales** on May 15th were a bit disappointing
- The “control group” **fell -0.3%** against expectations of +0.1%
- Results from Walmart and Target were good, but...
- ...both noted that consumers are **trading down**



- While **delinquencies** on mortgages remain well behaved...
- ... those on **auto loans** and especially on **credit cards** are on the rise
- Consumer **staples** are outperforming their **discretionary** brethren

US – China tensions escalate

Another round in the trade conflict with China has been passed by US President Biden. In addition, multiple threats are perceived throughout the country. Experts are already comparing the anti-China mood in the US with the **hysteria during the time of President Joseph McCarthy**, when members of the Communist Party were hounded out of fear of espionage.

- The litany of US accusations manifests unsubstantiated **fears under the cover of national security**. The fears are not just limited to IT technology, automobiles and medical equipment.
- Recently US President Joe Biden is **ramping up tariffs on Chinese-made solar panels, steel and other goods**, also including a hefty 100% border tax on **electric cars** from China.
- **China** said it was opposed to the hikes and would **take retaliatory measures**.
- The **European Union** will inform electric car importers on 4th of June **whether customs duties will be levied**. If the decision is positive for this case, **other sectors** are likely to follow quickly.
- Experts see not only China but also the USA and Europe will suffer as a result of the sanctions and tariffs and, last but not least, **free global trade will be the loser** and have a lasting **negative impact on growth**.

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