



# PKB's Market Espresso

Short. Rich. Strong.

# Inconclusive Powell

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**Nothing new** was said during Powell's testimony to Senate - recent readings have pointed to "**modest further progress**" on inflation – with **more good data needed** to strengthen confidence that 2% is in reach

- Lowering interest rates too little or too late could put the economy and labor market at risk....
- ....but at the same time cutting too much or too soon could stall the progress on inflation
- Powell's remarks suggest **no action** by Fed at the end of **July**
- Traders now pricing **70% chance** of a move in **September** and **two cuts** in **2024**

# US Data - Progress on inflation?

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A solid **US payrolls** report with a **deceleration** in wages supports gradual **progress** on **inflation**

- **Nonfarm payrolls** rose in June by **206k** (above estimates of 190k but **down from 272k in May**)
- **Unemployment rate** rose to **4.1%** (from 4.0%) with **average hourly earnings** cooling (3.9%, slowest advance in 3 years)
- More people entered **labor force** (participation rate rose to 62.6%)
- Previous two-month data was **revised down by 111k**
- The data points to a slowing down of the labour force, which should be **welcome news for the Fed**
- Next up **US inflation** numbers on Thursday – **Core CPI** for June expected to rise **0.2% m/m** hinting to a **disinflationary trend**

# Left, Center and Right

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- Against all forecast, the far-right **Rassemblement National** (RN) ends up **third** with **143** seats
- Early polls pointed to a resounding victory, close to an absolute majority
- The big surprise came from the **Nouveau Front Populaire** (NFP), a broad coalition on the left
- With **182** seats, **the NFP was the** (surprise) **winner**
- **Ensemble**, President Macron's coalition, came out **second** with **168** seats
- In light of this result, two scenarios are possible:
  - a **minority government**, exposed to a no-confidence vote
  - a **technocratic government**, with a broad coalition
- As new elections cannot be called before June 2025, the months ahead are going to be challenging
- So far, equity markets have remained calm: **equities** are slightly up and the **spread** has gone from 80 to **62bps**

# Europe's economies under pressure

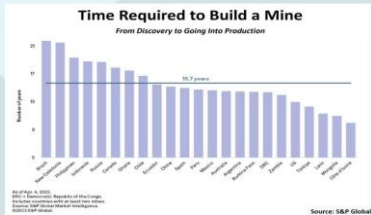
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- **German factory orders unexpectedly plummeted** in May - the latest setback to the recovery in Europe's largest economy. Demand dropped 1.6% from April — defying analyst estimates for a 0.5% increase. The result extends the slump to five months, **highlighting the persistent struggles of German manufacturers.**
- The **IFO Business Climate** of the **German** economy has **surprisingly deteriorated further**, making more calls for new government support for growth. The German economy is struggling to overcome stagnation.
- In addition, **major political upheavals are underway** that could also lead to uncertainty on the stock markets in Europe as the year progresses. These include the elections outcome in **France**, the shift to the right in the **EU Parliament** and in the **Netherlands**, the left-slip in **UK** as well as possible early elections in **Germany.**
- **Conclusion:** ECB should **speed up lowering rates** to support economies, but Lagarde says recently ECB needs more data to reassure it on inflation.

# Commodities: Constraints drive the upside

We see further signs for a **price upside** for commodities in the near future as the **calculations for new mines** have been based on the macro assumptions we experienced over the last 20-30 years: Low energy costs, historically low interest rates, relatively low labour and material costs, etc.. **We are currently facing almost the opposite situation!**

- **ESG efforts** will likely exacerbate the situation, creating one of the most **constrained long-term supply dynamics** in metals we have seen in history.



- The **construction boom** driven by onshoring, revamping the electric grid, new data centre developments, new industrial capabilities, and infrastructure developments are all poised to **increase the long-term demand** for these commodities.
- Finally the **global average time to build a mine** has increased to **nearly 16 years.**

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