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N° 158 // May 14, 2024

● **Topic of the week:**

- The thematic research piece will resume next week



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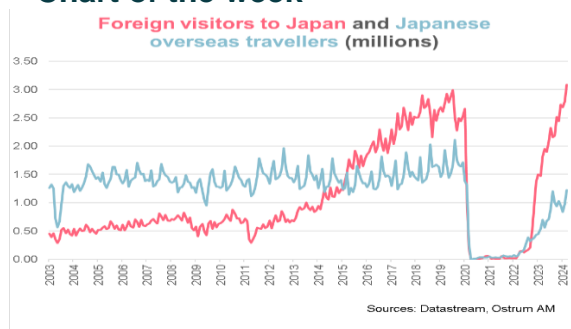


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● **Market review: US CPI prints remain *the* key market mover**

- Euro area activity surveys keep improving;
- BoE notes progress on inflation;
- T-note yields hovering about 4.50%;
- Italy: demand for BTP Valore wanes somewhat.

● **Chart of the week**



The Japanese tourism sector has been booming in the past few years. Of course, the covid epidemic interrupted growth in the tourism sector from 2020 to 2022 but the weakness in the yen continues to spur foreign demand for Japan stays.

The number of tourist arrivals hit 3 million in March. Conversely, the number of Japanese tourists overseas remain well below pre-Pandemic levels.

● **Figure of the week**

**100%**

Source : WSJ

100%, which represents a quadrupling of US tariffs on Chinese electric vehicles to be signed into law this week.

● **Market review**

## US CPI prints remain *the* key market mover

**Whilst Fed monetary easing remains on the agenda, US inflation data could spark another bout of volatility in the markets.**

The financial week ended with long-term rates stabilizing around 4.50% on the T-note and 2.50% on its German counterpart. Volatility is expected to be reignited by the release of the US Consumer Price Index, which is crucial for the anticipated interest rate cycle. Raphael Bostic, despite being cautious about inflation, seemed to confirm the accommodative stance of the Fed. The UK's Monetary Policy Committee noted progress on the inflation front, raising the prospect of a rate cut as early as June. Against this backdrop, risky assets rebounded by 3% on major European stock exchanges. The US S&P and Chinese indices also saw a 2% gain. With the Bund hovering around 2.50%, sovereign credit experienced slight profit-taking, particularly in Greek debt. Corporate bonds are showing a more positive trend, with a slight tightening of swap spreads. High yield (-8 basis points) is following the lead of stock indices. The yen remains volatile despite the Bank of Japan's interventions the previous week. Janet Yellen had highlighted the difficulty of unilateral intervention in the foreign exchange market. The Japanese currency has depreciated beyond 155 yen against the US dollar.

Last week, economic data was sparse in the United States. However, the Fed's quarterly survey revealed a reduced inclination to tighten credit conditions and a concurrent recovery in credit demand, with the exception of the corporate credit segment. The relaxation of financial conditions observed in the markets is now extending to bank credit. This is expected to intensify with the Fed's tapering in June. Nevertheless, consumer credit slowed in March, likely foreshadowing a deceleration in retail sales in April. The University of Michigan's survey showed that household confidence remains low, reflecting ongoing concerns about inflation (expected at 3.5% over the next year). As a result, the U.S. Consumer Price Index (CPI) will continue to be a key market indicator this week. Inflation swap rates indicate a 3.35% annual

increase in April, in line with economists' consensus. In the Euro area, activity surveys continued to improve in April, in line with the economic recovery observed in the first-quarter GDP figures. However, factory orders remain lackluster in Germany. In France, the 1.3% increase in wages between January and March likely point to easing inflation pressures in the services sector in months ahead, aligning with the European Central Bank's price stability objective. A rate cut in June now appears a done deal.

In the United Kingdom, the decline in consumer price inflation is likely to prompt monetary easing in the coming months, despite the recent strengthening of economic activity. The 7-2 vote balance underscores the gradually assertive accommodative bias within the MPC.

The US 10-Yr note's volatility remains significant. The amplitude of the variations reached 8 basis points over three sessions before closing near 4.50%. The inflation component of the UofMich survey has led to a further deterioration of prices. However, the current valuation levels leave a potential downside of about 15 basis points if the scenario of 3 rate cuts in 2024 is maintained by the Fed in June. The Bund is trading around 2.50%. The T-note spread has tightened to around 200 basis points since the FOMC with the latest surveys in the euro area. Sovereign spreads remain relatively stable but have widened by 2 to 5 basis points over the past week, with a decrease in volumes in certain European markets. The 10-year OAT is trading around 48 basis points. Italian bonds (134 basis points) have slightly widened (+2 basis points). The interest of individual savers in the new BTP Valore has somewhat decreased to 11.2 billion euros, compared to an average of 18 billion euros in the last three transactions. This represents a marginally negative signal for Italian sovereign bonds.

The European credit market is showing a positive trend, similar to the equity markets, driven by favorable earnings season. Spreads on euro IG (77 basis points against swaps) have decreased by 1 basis point, and high yield is once again outperforming. However, positioning on contracts has decreased for the S&P 500 and oil, according to CFTC data.

**Axel Botte**

● Main market indicators

<b>G4 Government Bonds</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
EUR Bunds 2y	2.96%	+5	+10	+55
EUR Bunds 10y	2.5%	+3	+14	+48
EUR Bunds 2s10s	-46bp	-1	+4	-7
USD Treasuries 2y	4.84%	+1	-5	+59
USD Treasuries 10y	4.48%	-1	-4	+60
USD Treasuries 2s10s	-36.8bp	-2	+1	+1
GBP Gilt 10y	4.14%	-8	+1	+61
JPY JGB 10y	0.94%	+4	+1	-27
<b>€ Sovereign Spreads (10y)</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
France	49bp	+0	+2	-5
Italy	135bp	+2	+2	-32
Spain	79bp	+1	+2	-17
<b>Inflation Break-evens (10y)</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
EUR 10y Inflation Swap	2.25%	+0	-6	+12
USD 10y Inflation Swap	2.59%	+0	-6	+17
GBP 10y Inflation Swap	3.69%	-5	-13	+16
<b>EUR Credit Indices</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
EUR Corporate Credit OAS	110bp	-2	+1	-28
EUR Agencies OAS	57bp	+0	-3	-13
EUR Securitized - Covered OAS	61bp	-1	-4	-18
EUR Pan-European High Yield OAS	348bp	-8	-2	-51
<b>EUR/USD CDS Indices 5y</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
iTraxx IG	53bp	-1	-7	-6
iTraxx Crossover	299bp	-7	-36	-15
CDX IG	50bp	+0	-6	-6
CDX High Yield	335bp	+1	-28	-21
<b>Emerging Markets</b>	<b>13-May-24</b>	<b>1 wk (bp)</b>	<b>1m (bp)</b>	<b>2024 (bp)</b>
JPM EMBI Global Div. Spread	368bp	-7	+45	-16
<b>Currencies</b>	<b>13-May-24</b>	<b>1 wk (%)</b>	<b>1m (%)</b>	<b>2024 (%)</b>
EUR/USD	\$1.079	0.186	1.553	-2.3
GBP/USD	\$1.255	-0.119	0.812	-1.4
USD/JPY	JPY 156	-1.257	-1.026	-9.5
<b>Commodity Futures</b>	<b>13-May-24</b>	<b>-1 wk (\$)</b>	<b>-1m (\$)</b>	<b>2024 (%)</b>
Crude Brent	\$83.3	\$0.0	-\$6.2	9.0
Gold	\$2 344.5	\$20.5	-\$38.9	13.6
<b>Equity Market Indices</b>	<b>13-May-24</b>	<b>-1 wk (%)</b>	<b>-1m (%)</b>	<b>2024 (%)</b>
S&P 500	5 223	1.85	1.94	9.5
EuroStoxx 50	5 075	2.38	2.42	12.2
CAC 40	8 204	2.59	2.41	8.8
Nikkei 225	38 179	-0.15	-3.40	14.1
Shanghai Composite	3 148	0.23	4.26	5.8
VIX - Implied Volatility Index	13.33	-1.19	-22.99	7.1

Source: Bloomberg, Ostrum AM

## Additional notes

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Final version dated 14/05/2024

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