

Market Comment | Cautious markets ahead of this week's events

Global Financial Markets Unit
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- **Negative data in the US.** The Dallas Fed manufacturing activity index plunged unexpectedly in May (to -20.8 points from -13.9; consensus: -8.0) while the Chicago purchasing managers' index also dropped unexpectedly (to 49.3 from 50.4; consensus: 50.5). Moreover, the consumer confidence index declined, against estimates of an increase (by 2.1 points to 92.6; consensus: 96.1). On another front, US personal spending rebounded in April by more than expected (by 1.0% MoM; consensus: 0.7%; previous: 0.0%). Meanwhile, personal income rose in line with estimates (by 0.4% MoM).
- **Loans to the private sector inched up in the EZ in April, while prices remained in negative territory in May.** Euro zone money supply increased in April by less than expected and slowed relative to the previous month (by 4.6% YoY; consensus: 5.0%; previous: 5.0%). However, growth in loans to non-financial corporations came to 1.2% in April compared with 1.1% in March, while the growth rate of loans to households stood at 1.5% in April (1.6% in March, [\(see\)](#)). Meanwhile, the euro zone inflation rate increased slightly in May (+0.1 pp) although it remained in negative territory as expected (by -0.1; previous: -0.2%) due mainly to the fall in energy prices (-8.1%) [\(see\)](#).
- **Cautious markets ahead of this week's events.** The odds of a rate hike in the US during the summer continue to rise and are one of the main drivers ahead of a week full of events, mainly the Chinese PMI, US payrolls and the ECB and OPEC meetings. On bond markets, US Treasury yields remained at their highest levels since the end of April (2Y: 0.9%, 10Y: 1.85%) due to the Fed's hawkish tone in the last few days. Meanwhile, European yields remained almost unchanged across the board as the markets are not pricing in new additional measures from Thursday's ECB meeting. Tomorrow, 1 June, will be the first day on which the ECB will implement the corporate bond purchase programme, which the market has been pricing in, but the possibility of extra movement in debt markets cannot yet be discounted. In equity markets the worse-than-expected manufacturing data in the US hit global markets which had been almost unchanged until the release of US activity data. The European indices dropped (EuroStoxx: -1.0%, IBEX: -1.1%, DAX: -0.8%, CAC: -0.7%) on a day that saw several significant releases of macroeconomic data. Meanwhile, the US indices remained unchanged after a positive opening in the first session of the week. The only exceptions were Asian markets, led by Chinese indices. The Chinese equity markets rebounded (Shanghai: +3.3%) due to speculation about the inclusion of mainland Chinese shares (A-shares) in the MSCI. The inclusion of these assets could increase demand, since the MSCI index is the benchmark of numerous global equity funds. In FX markets, the USD showed a mixed performance against its major peers (EUR: +0.1%, GBP: -0.6%, JPY: +0.2 %). In the same vein, EM currencies had varying responses against the US dollar (RUB: -0.9%, BRL: -1.0%, CLP: +0.1%, COP: -0.7%, MXN: +0.4%, TRY: +0.1%) despite the improvement in oil prices ahead of the OPEC meeting (Brent: +0.4%, Wtx: +1.1%)

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Table 1

*CDS, EMBI & MSCI indices with one day delay

**Credit spread (BAA) with two days delay

***S&P GSCI with one day delay

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