

Financial markets on hold

France: private sector activity down in June

Private sector activity in France fell again in June, for the second month in a row, penalised by a drop in demand in an uncertain political context linked to the parliamentary elections on 29 June and 7 July.

The PMI index stood at 48.2 in June, continuing its moderate contraction after 48.9 in May.

The manufacturing and services sectors fell in June, to 45.3 (46.4 in May) and 48.8 (49.3 in May) respectively.

The companies surveyed attribute this drop in activity mainly to a fall in the number of customers and a decline in new orders.

The results of the European elections and the surprise dissolution of the French National Assembly are likely to have raised serious concerns among companies about the economic policies of the next government, prompting many of them to suspend orders and investment in France.

Despite this unfavourable environment, employment continued to grow in the private sector in June, but only in the services sector.

Number of the week

95,9

Consumer confidence in the Euro Zone (June)



Economic slowdown in the Euro Zone

France's weak performance contributed to the fall in the Euro Zone PMI index.

Activity continues to expand for the fourth month in a row, but at a much slower pace in the Euro Zone in June.

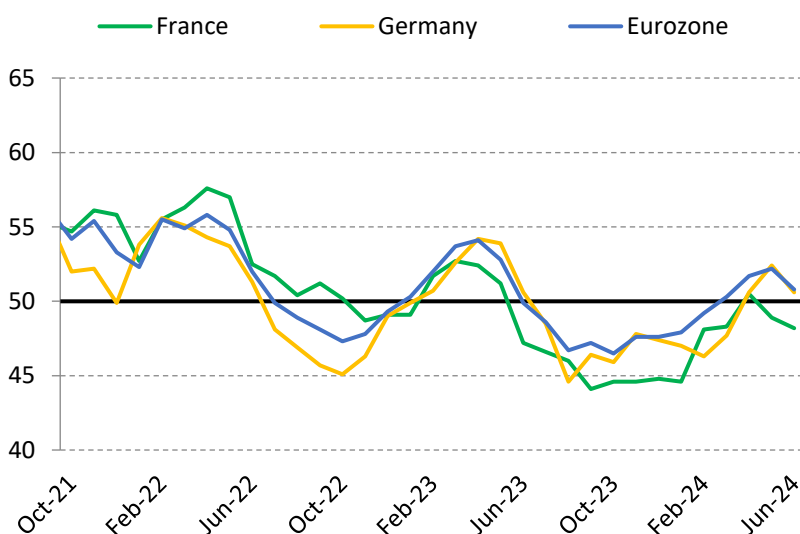
The index measuring manufacturing output fell sharply to 46 from 49.3 in May, reflecting a decline in activity against a backdrop of an accelerating fall in new orders.

In a sign of continuing gloom, business confidence in the Eurozone fell to its lowest level since February.

The Euro Zone emerged from recession in the first quarter, with growth of 0.3%.

Nevertheless, economic growth is likely to remain moderate: the European Commission is forecasting GDP growth of 0.8% for 2024 as a whole, then 1.4% for 2025.

PMI Composite Index



The composite PMI index, which includes the manufacturing and services sectors, shows a deceleration in activity in the Eurozone, falling by two points over the month. The decline mainly affected the manufacturing sector.

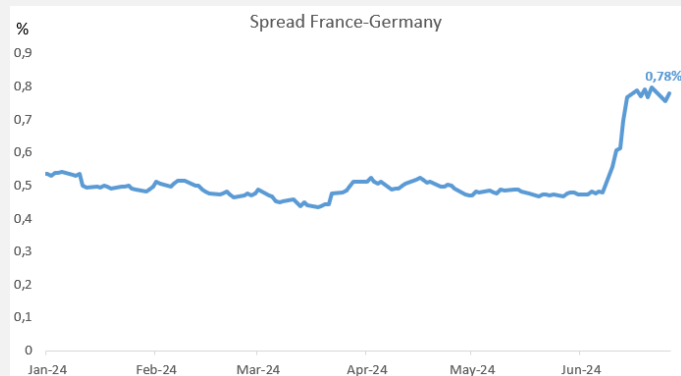
Source : Amundi, Bloomberg



Political crisis in France: what impact on the economic outlook?

The situation in France remains unclear as to the direction the country might take after the parliamentary elections. Market concerns about fiscal balances and future economic measures continue to put pressure on French assets. The yield spread between French sovereign bonds remains at its widest, at almost 80 bp, or just under double the level that prevailed before the announcement of early parliamentary elections.

Nevertheless, at this stage, the markets are far from anticipating the worst-case scenario, i.e. the introduction of a policy that would undermine growth and cause public finances to slide sharply out of control. This risk premium is likely to persist for some time.



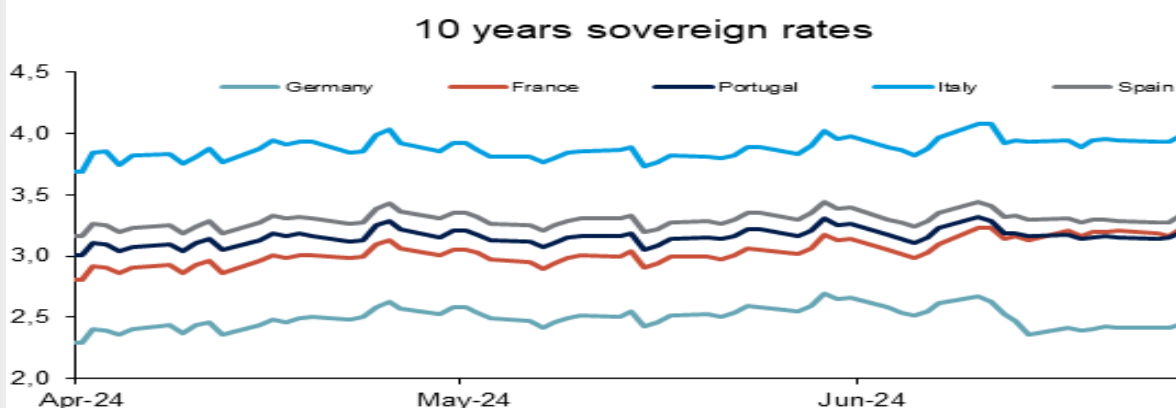
Source : Amundi, Bloomberg



We pay close attention to the smooth functioning of the financial markets

Christine Lagarde, President of the ECB, 17 June 2024

Market Impact



Eurozone government bond yields rose on Wednesday as investors awaited inflation data from the United States and some European Union members due on Friday, as well as the first round of French parliamentary elections on Sunday. The risk premium on French debt remained at its highest level since the Eurozone crisis. The yield on 10-year government bonds stands at 2.45% (+4 bp) for the Bund, 3.22% (+6 bp) for the OAT and 3.99% (+7 bp) for the BTP. The spread between the OAT and the Bund now stands at 73 bp.

Source : Amundi, Bloomberg



The 10-year Treasury yield reached 4.33% (+8 bp), its highest level for a fortnight, impacted by the contagion in the Eurozone and Michelle Bowman's statements.

Source : Amundi, Bloomberg



United States: how will interest rates evolve?

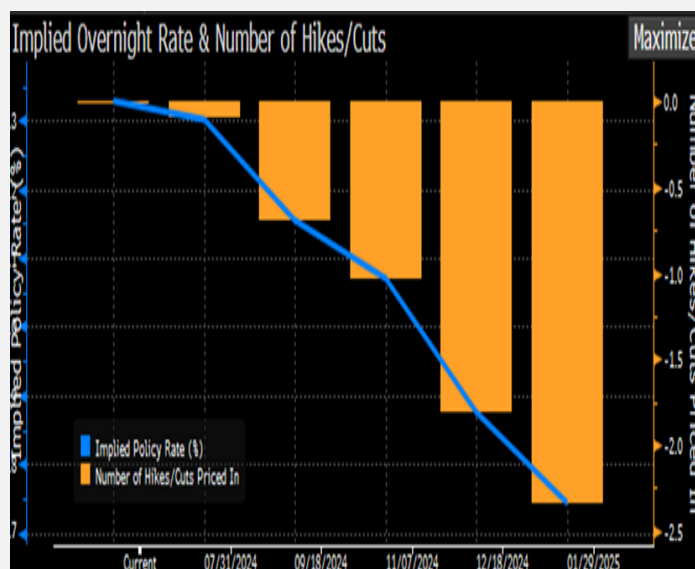
Fed member Michelle Bowman said that the target range for Fed Funds rates could be kept at its current level *"for some time"* to keep inflation under control. She would be in favour of a rate hike *"if progress on inflation were to stall or even reverse"*.

She added that regional conflicts could push up energy and food prices. Similarly, more flexible financial conditions or fiscal stimulus measures could contribute to higher inflation.

Since the start of the year, there has been only *"modest progress"* in terms of inflation. The Fed chief expects *"inflation to remain high for some time"*.

Michelle Bowman said that the divergence in strategy between the Fed and other central banks was likely to increase over the coming months, as Canada and the ECB had already started to cut rates.

Fed Funds rate cut forecast



The markets are still expecting 2 rate cuts in the US in 2024.

Source : Bloomberg

News



▶ **Spain** | 1st quarter GDP up to +0.8%

▶ **Germany** | IFO business climate index down to 88.6, below expectations

Agenda



▶ **28 June** | Publication of inflation in Germany (June)

▶ **28 June** | Publication of inflation in France (June)

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