

WEEKLY MARKETS ROUND-UP

Executive Summary

12th June 2023

Top news: awaiting US CPI, the FED, the ECB and the BoJ – last week was rather quiet following the resolution of the debt ceiling drama. Equity markets were pretty much flat, while scarce US economic data came in slightly more negative than expected (US ISM Services data slightly lower and weekly unemployment claims slightly higher). The Canadian Central Bank did surprise however with a further +25 bps hikes after a 3 months pause. The week ahead should be more animated, starting with the US CPI on Tuesday which is expected to drop further on negative base effects (see next page). Yet the focus will be on the monthly progression going forward. Headline is supposed to come in at +0.2% and Core at +0.4% MoM. Wednesday will then see PPI and the FOMC statement. The FED is expected to hold, yet retain a hawkish tone. The ECB will follow on Thursday, probably with a +0.25% hike bringing its benchmark rate at 4% (another hike is then expected in July). Two important US manufacturing indexes as well as US retail Sales will also be released. Friday will then see the BOJ, which is expected to remain ultra dovish, as well as US Consumer Sentiment and Inflation Expectations.

Equity: the Nasdaq100 and the Nikkei225 are slightly off their 52 weeks highs and are Overbought. The S&P500 is also close to achieving such new highs. Europe did so in April and has since been consolidating. Generally, equities are still trending up, yet with the VIX volatility index now below 14, complacency and risk/reward remain an issue.

Fixed Income: short term yields are pricing out prospective rate cuts and retesting up. Longer term ones are following, less dynamically. We believe the whole US and German yield curves may shift back up into the Summer and then drop.

FOREX: the rebound on the US Dollar paused last week, yet we believe it should soon continue into July (perhaps to below 1.05 on EUR/USD and to above 145 on USD/JPY). The US Dollar then seems to weaken again into late Summer.

Commodities: Oil remains subdued for now despite the OPEC+ and Saudi production cuts. We still believe it could bounce at some point into the Summer. Gold is still consolidating, inversely to the US Dollar, and potentially into July.

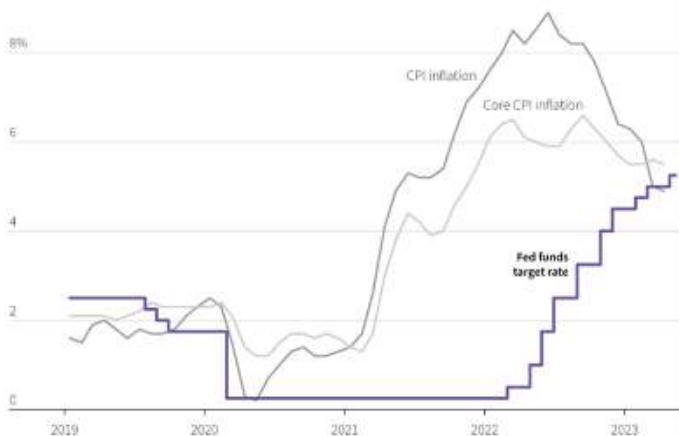
	Currencies	Price	Performance since 52 Week Low			Performance since 52 Week High			Performance	Trend	Exaggeration
			Date Low	Low Price	Rise %	Date High	High price	Decline %			
S&P500 Index	USD	4 303	Oct-22	3 577	20,3%	Aug-22	4 305	-0,0%	12,1%	up	slightly OB
Nasdaq100 Index	USD	14 528	Dec-22	10 679	36,0%	Jun-23	14 558	-0,2%	32,8%	up	slightly OB
Dow Jones Industrials Index	USD	33 906	Sep-22	28 726	18,0%	Nov-22	34 590	-2,0%	2,3%	neutral	neutral
EuroStoxx50	EUR	4 290	Sep-22	3 279	30,8%	Apr-23	4 409	-2,7%	13,1%	up	neutral
Swiss Market Index	CHF	11 259	Sep-22	10 073	11,8%	May-23	11 595	-2,9%	4,9%	neutral	neutral
Nikkei225	JPY	32 287	Jan-23	25 717	25,5%	Jun-23	32 507	-0,7%	23,7%	up	OB
Shanghai Composite	CNY	3 230	Oct-22	2 893	11,6%	Jun-22	3 409	-5,2%	4,6%	neutral	neutral
US 10Y Treasury Yield	%	3,75%	Aug-22	2,58%	1,2%	Oct-22	4,25%	-0,5%	-0,1%	neutral	neutral
German 10Y Bund Yield	%	2,38%	Aug-22	0,76%	1,6%	Mar-23	2,75%	-0,4%	-0,2%	up	neutral
US 20Y Treasuries (TLT ETF, 17-18Y duration)*	USD	102	Nov-22	92	10,6%	Aug-22	120	-14,8%	4,3%	neutral	neutral
US Investment Grade (LQF ETF - 8-9Y duration)*	USD	107	Oct-22	98	9,0%	Aug-22	113	-5,8%	3,2%	neutral	neutral
US High Yield (HYG ETF, 3-4Y duration)*	USD	75	Oct-22	69	8,1%	Aug-22	76	-1,9%	4,2%	neutral	neutral
EM USD Sovereigns (EMB ETF, 7-8Y duration)*	USD	85	Oct-22	76	12,0%	Aug-22	88	-3,7%	2,7%	neutral	neutral
EUR/USD		1,07	Sep-22	0,96	12,0%	May-23	1,11	-2,9%	0,4%	neutral	neutral
GBP/USD		1,26	Sep-22	1,07	17,8%	May-23	1,26	-0,4%	4,0%	neutral	neutral
USD/JPY		139	Jan-23	128	8,9%	Oct-22	150	-7,2%	6,2%	neutral	neutral
USD/CHF		0,90	May-23	0,88	2,0%	Nov-22	1,01	-11,0%	-2,4%	neutral	neutral
AUD/USD		0,67	Oct-22	0,62	8,7%	Feb-23	0,71	-5,5%	-1,1%	neutral	neutral
Brent Oil (per Barrel)	USD	75	May-23	72	3,4%	Jun-22	122	-38,8%	-12,9%	down	neutral
Gold Spot (per Ounce)	USD	1 961	Sep-22	1 624	20,7%	May-23	2 050	-4,4%	7,5%	neutral	neutral

US CPI focus: strong negative base effect on Headline CPI, less so on Core CPI

Following 500 bps of hikes over the last 15 months, the FED Funds Rate has now caught up with falling CPIs (l-h. graph). This has historically been considered a minimum requirement in previous tightening cycles. Going forward, the FED remains committed to its 2% inflation target, yet has now shifted to a more data dependent stance wanting to see the effects of its policy. Since last month, the market has priced out the -50bps cuts that were expected by yearend (no cuts now expected) and still believes in 1 more hike (30% chance this week, 70% late July). A lot will depend on developments in the CPIs. Our r-h. graph shows the base effect of gradually leaving last year's hot data behind, and compares the results with different run rates going forward. Headline CPI is expected to come in at +0.2% MoM for May. A strong negative base effect should see the YoY drop into June towards 3%, yet without further drop in the monthly rate, it then stays there into year-end. Core CPI is expected to remain at +0.4%, which even if it drops to +0.2% thereafter would still imply a Core YoY rate above 3% into year-end. This is what is meant by the term "stickiness".

Fed expected to pause rate hikes

Most investors believe the Fed will keep rates unchanged at its June 13-14 meeting amid signs that inflation is cooling.



Note: Core inflation excludes food and energy costs.
Source: Refinitiv Datastream
Primis Magdals | Reuters, June 6, 2023

Y-o-Y Headline CPI Base effect (gradually replacing 2022 data)

M-o-M	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
2022 data	0,9%	1,2%	0,0%	0,2%	0,4%	0,5%	0,2%	0,1%



Y-o-Y Core CPI Base effect (gradually replacing 2022 data)

M-o-M	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
2022 data	0,6%	0,7%	0,3%	0,6%	0,6%	0,3%	0,3%	0,4%



Source: Primis.Swiss, US Bureau of Labor Statistics

Notes:

- Trend last 6 months:** this Primis original algorithm, weighs the slope of the trend over the last 6 months vs the slope of the trend over the last 3 months yet factorised by the Fibonacci retracement ratio (0.618). Values are normalised using the average price over each period. If this combined slope is above +0.05% the trend is then "up", below -0.05% then "down", otherwise it is "neutral".
- Overbought (OB) / Oversold (OS) measures:** this Primis original algorithm is computed by comparing the difference between the 8 days moving average and the 100 days combined with the 3 days vs the 15 days one and normalises this difference by dividing it by the 1 year standard deviation (circa 260 open market days). Values above 225% or under -225% are Overbought "OB", resp. Oversold "OS", values above 100% or under -100% are "slightly OB", resp. "slightly OS", otherwise there is no relevant exaggeration and the situation is then "neutral".

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