June 27, 2022

Monday Briefing – 27th June 2022

HIGHLIGHTS

- Fears about imminent recession dominated financial markets with investors evaluating economic threats and scaling back expectations about inflation and interest-rate hikes.
- This drove a sovereign bond rally and helped equities snap a three-week losing streak, while recession worries also weighed on commodity prices.
- Last week's drop in commodities and pullback in bond yields was a reminder that prices respond to changing conditions,] and that there is still a path for the Fed to move more gradually in the latter half of the year.
- Flash PMIs for Europe and the US painted a noticeable slowdown for growth, but also showed that input inflation, although still elevated, fell to its lowest level in five months.
- Fed Chair Powell testified before Congress and reiterated the FOMC's unconditional commitment to dealing with inflation while arguing that inflation expectations appeared to remain anchored. This seemed to play a role in boosting sentiment in both equity and fixed income markets.
- The threat of energy shortages in Europe dominated headlines with Germany raising the country's gas risk level to the 2nd stage of the emergency plan, and its economy minister

warning of a “Lehman-like effect in the energy system”.

- Yields on 10-year German bunds had their largest daily decline in over a decade and 3rd biggest drop on record while yields on the 2-yr saw their biggest drop since 2008.
- In the corporate world, the US Supreme Court rejected a multibillion-dollar appeal from Bayer AG, refusing to shield the company from claims that its top-selling Roundup weedkiller causes cancer. Bayer “respectfully disagrees” with the Court’s decision. Retailers (this time Zalando), fired another warning shot about changing consumption habits because of the inflationary spike. JPMorgan Chase & Co. said it was laying off some employees and reassigning others in its mortgage business, citing inflation and rising mortgage rates for the slowing US housing boom.
- Next week, the main macro highlights will be the June CPI numbers released for Germany (Wednesday), France (Thursday) and Italy and the Eurozone on Friday. The ECB's Forum on Central Banking will be the key event to watch. The G7 summit and NATO will keep geopolitics on investors' radars.

ECONOMIC CALENDAR

Monday – China Industrial Profits (May). France Unemployment data (May). US Durable Goods Orders and Pending Home Sales (both May).

Tuesday – Germany Gfk Consumer Confidence (July). France Consumer Confidence (June). Italy Industrial Sales (April). US Goods Trade Balance (Adv May), Home Price Index (April), Conference Bboard Consumer Confidence (June). Japan Retail Sales (May).

Wednesday – Japan Consumer Confidence (June). Spain Inflation (Preliminary, June), Retail Sales (May) and Business Confidence (June). Eurozone M3 Money Supply (May), Economic Sentiment and Consumer Confidence (June). Germany Inflation (Preliminary, June). US GDP and PCE Prices (Final, Q1). Japan Industrial Production (Preliminary, May).

Thursday – China NBS PMI (June). Germany Retail Sales (May). UK GDP (Final, Q1). France Inflation (Preliminary, June), Household Consumption and PPI (May). Germany Unemployment (June). Eurozone Unemployment (May). US Personal Income and Spending (May), PCE Index (May), Weekly Jobless Claims. Japan Unemployment Rate (May), Tankan Index (Q2). OPEC Meeting.

Friday – US, Eurozone, China (Caixin) Manufacturing PMI (Final, June). Eurozone Inflation (Flash, June). US ISM Manufacturing PMI (June).

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