

Europe Readies For Summer Arrivals

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Mon 5/31	Markets Closed for Memorial Day		--		--
Tue 6/1	ISM Manufacturing Index	May	61.0	▲	60.7
Wed 6/2	Federal Reserve Beige Book		--		--
Wed 6/2	Wards Total Vehicle Sales	May	18.00M	▼	18.51M
Thu 6/3	ADP Employment Change	May	700K	▼	742K
Thu 6/3	ISM Services Index	May	62.6	▼	62.7
Fri 6/4	Change in Nonfarm Payrolls	May	665K	▲	266K
Fri 6/4	Unemployment Rate	May	5.9%	▼	6.1%
Europe					
Mon 5/31	U.K. Markets Closed for Bank Holiday		--		--
Mon 5/31	OECD Economic Outlook		--		--
Tue 6/1	OPEC+ Meeting		--		--
Tue 6/1	EZ Unemployment Rate	Apr	8.1%	-	8.1%
Tue 6/1	EZ Consumer Price Index (Preliminary Estimate)	May	1.9% Y/Y	▲	1.6% Y/Y
Wed 6/2	EZ Producer Price Index	Apr	7.6% Y/Y	▲	4.3% Y/Y
Fri 6/4	EZ Retail Sales	Apr	-1.0% M/M	▼	2.7% M/M
Asia Pacific					
Mon 5/31	Japan Industrial Production (Preliminary Estimate)	Apr	4.0% M/M	▲	1.7% M/M
Mon 5/31	Japan Retail Sales	Apr	-1.0% M/M	▼	1.2% M/M
Mon 5/31	China Non-manufacturing PMI	May	55.0	▲	54.9
Mon 5/31	China Manufacturing PMI	May	51.1	-	51.1
Tue 6/1	South Korea Exports	May	47.5% Y/Y		
Tue 6/1	Caixin China Manufacturing PMI	May	52.0	▲	51.9
Thu 6/3	Caixin China Services PMI	May	56.0	▼	56.3

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- **Job gains are set to accelerate** in May, consistent with improvement in higher frequency data, as the economy continues to reopen.
- **ISM manufacturing and services indices** for May are set to remain strong. Easing restrictions will support services, while supply chain issues will weigh on input prices.

Europe

- All eyes will be on the **EZ CPI print for May**. Base effects and other temporary factors should propel headline inflation near the ECB target of 2%. A print higher than that would likely stoke renewed fears of runaway inflation.
- **EZ retail sales** should confirm the upswing as economies fully reopen.

Asia Pacific

- **China PMIs for May** should show continued strength in manufacturing, fueled by robust global demand.
- The April 23 State of Emergency may weigh slightly on **Japan retail sales** for April, while **Industrial Production** should remain strong amid still-strong exports.

Institute's Central Scenario

European economic data is surprising to the upside, pointing to a strong Q2 rebound, while the region prepares to welcome summer travelers, which will support its tourism-dependent economies. In the U.S., the release of pent-up demand is helping the services sector take off.

However, higher prices may hinder consumer spending in the coming months. In Asia, while pockets of contagion remain, progress in vaccination campaigns should trigger a more balanced rebound there as services activity recovers. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
Euro Data Show Summer is Finally Coming

European data released in the last week has consistently surprised on the upside, pointing to a very solid Q2 in all five major European economies. PMIs (released May 21) show resurgent service sectors in May (EZ: 55.1, GE: 52.8, FR: 56.6, UK: 61.8), even if some mobility restrictions remain. Continued strength in manufacturing is pushing the composite indices to levels last seen in 2018. Retail sales, industrial sales, and confidence indicators (both consumer and business) also surged this month, hitting the highest points since 2007 in various countries.

To prepare for the summer season, the EU has agreed to introduce mutually recognizable certificates that will allow free travel within the bloc. The documentation will provide proof its holder has been vaccinated, recovered from the illness, or has had a recent negative test. All EU member states will accept visitors who hold the passes without asking them to quarantine. Intra-EU travel is crucial for the tourist season there; arrivals from abroad represent 40% of all tourists in the three top destinations (France, Italy, and Spain). Of those foreign tourists, 75% come from other EU countries, hence authorities' focus on making intra-EU travel easy.

U.S. Services Takes the Baton

The U.S. economy is booming as restrictions ease, but price pressures still appear temporary. The Markit flash PMI for May hit a new high as the services sector takes off—with the services PMI reaching a record 70.1. The manufacturing sector remained strong, but the divergence between new orders and production points to continued supply chain bottlenecks, which is putting upward pressure on input prices. Our baseline outlook continues to view these price pressures as temporary, as they should ease when supply and demand come back in-line.



Source: Bloomberg. As of May 27, 2021.

The Conference Board consumer confidence data confirms shoppers are ready to unleash their pent-up demand as restrictions ease, but higher prices may dial back the pace of purchases in coming months absent any wage gains. While consumer confidence changed very little over the month, the present conditions sub index rose to a crisis-high, while the expectations component took a step back. The decline in consumers' expectations is due in part to inflation anxiety weighing on consumers' buying plans over the next six months. Expectations for big-ticket items, such as autos and homes, fell in May. This could suggest higher prices are viewed as temporary and people will wait for price pressures to ease again, rather than accelerating buying plans ahead of expectations for persistently higher prices. Meanwhile, income expectations remained well below pre-crisis levels, suggesting that consumers do not anticipate meaningful wage growth. Overall, the data supports our baseline view for a strong near-term rebound, accompanied by temporary price pressures.

Faster Vaccinations Offer Asia Signs of Hope

While the pandemic is dotting the region with pockets of concern—notably Taiwan, Malaysia, Vietnam, and Thailand, where cases have spiked recently—there is room for optimism. The surge in India is abating, with daily new cases in the global hotspot dropping 40% from the peak two weeks ago. Meanwhile, China has rapidly increased its vaccination rate in recent weeks, inoculating over 500 million people to date—more than the U.S., the U.K., and Germany combined. Now vaccinating more than 15 million people per day, China could be the first Asian economy to reach herd immunity (by Q4 2021). Japan has also approved the Moderna and AstraZeneca vaccines, now giving the country three brands of shots, including the Pfizer vaccine already in use.

Widespread vaccinations should trigger a more balanced recovery in the region as services recover. In China, April industrial profits remained strong, with a two-year average growth of 22.6%, versus 11.9% prior. Upstream mining and raw materials sectors boomed, while downstream sectors (such as furniture and textiles) faced headwinds due to high commodity prices. This was most notable in consumer goods, which is recovering steadily but still not back to pre-pandemic levels. In Japan, external and internal sectors continue to diverge, with the April services PMI declining sharply and remaining in contractionary levels. Manufacturing PMI remains in expansion, with output and employment sub-indices suggesting firms are preparing to further ramp-up production.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.01%	0 bps	0 bps	0 bps	-7 bps	-5 bps	-6 bps
3 Month USD Libor	0.14%	-1 bps	-5 bps	-5 bps	-10 bps	-24 bps	-10 bps
3 Month Euribor	-0.54%	2 bps	0 bps	-1 bps	-1 bps	-26 bps	1 bps
3 Month U.S. T-Bill	0.02%	1 bps	-1 bps	-2 bps	-7 bps	-10 bps	-6 bps
2-Year U.S. Treasury	0.14%	-2 bps	-3 bps	-1 bps	-2 bps	-4 bps	2 bps
10-Year U.S. Treasury	1.57%	-11 bps	0 bps	11 bps	70 bps	87 bps	66 bps
10-Year German Bund	-0.21%	-10 bps	5 bps	5 bps	37 bps	22 bps	36 bps
10-Year U.K. Gilt	0.75%	-9 bps	1 bps	-5 bps	45 bps	55 bps	56 bps
10-Year JGB	0.07%	0 bps	0 bps	-9 bps	5 bps	7 bps	5 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.92%	N/A	0.7%	0.1%	-0.5%	-3.5%	-3.2%
Barclays Capital U.S. TIPS	1.03%	N/A	0.6%	1.2%	2.3%	7.1%	0.9%
Barclays Capital U.S. Aggregate	1.49%	30	0.7%	0.2%	-0.1%	-0.1%	-2.3%
Barclays Capital Global Aggregate	1.11%	32	0.6%	0.5%	0.2%	5.1%	-2.4%
Barclays Capital U.S. ABS	0.41%	25	0.1%	0.2%	0.2%	2.7%	0.2%
Barclays Capital U.S. MBS	1.73%	14	0.3%	-0.1%	-0.1%	-0.3%	-0.7%
Barclays Capital U.S. Corporate Investment Grade	2.12%	85	1.1%	0.5%	0.1%	4.3%	-2.9%
BAML Euro Corporate Investment Grade	0.35%	86	0.4%	-0.2%	-0.2%	5.1%	-0.8%
Barclays Capital U.S. Corporate High Yield	4.11%	303	0.3%	0.3%	1.4%	15.8%	2.1%
BAML European Currency High Yield Non-Financial	2.73%	311	0.2%	0.2%	0.8%	14.2%	2.2%
CS U.S. Leveraged Loans	4.72%	443	0.2%	0.6%	1.0%	14.1%	3.0%
CS Western European Leveraged Loans Non-USD	4.17%	408	0.2%	0.5%	0.9%	12.8%	2.6%
JPM CEMBI Broad Diversified	4.33%	297	0.3%	0.6%	0.3%	11.3%	0.4%
JPM EMBI Global Diversified	4.96%	335	0.7%	0.8%	1.3%	10.1%	-1.4%
JPM GBI-EM Global Diversified	4.94%	N/A	0.4%	1.6%	-0.8%	8.0%	-2.8%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,195.99	1.34%	2.0%	0.3%	10.5%	42.5%	12.4%
Euro STOXX 600 (Local)	445.22	2.80%	2.0%	1.1%	9.9%	27.6%	11.6%
U.K. FTSE 100 (Local)	7,026.93	3.00%	1.1%	0.9%	8.4%	15.8%	8.8%
Japan Nikkei 225 (Local)	28,642.19	1.52%	2.1%	-1.7%	-1.1%	34.7%	4.4%
China Shanghai Composite (Local)	3,593.36	1.96%	2.3%	4.4%	2.4%	26.2%	3.5%
MSCI AC World (Local)	708.52	1.74%	2.0%	0.5%	5.6%	39.7%	10.8%
MSCI Emerging Markets (Local)	1,351.95	1.94%	1.5%	-0.8%	-1.5%	43.0%	5.5%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	513.90	1.3%	3.2%	7.7%	32.6%	69.3%	25.5%
WTI Crude (\$/bbl)	66.21	4.6%	6.8%	7.6%	45.3%	90.8%	36.9%
Copper (\$/lb)	4.53	-1.2%	1.9%	10.7%	36.9%	85.9%	29.0%
Gold (\$/oz)	1,899.75	0.6%	7.1%	9.0%	4.9%	10.4%	0.6%
U.S. Dollar Index	90.04	-0.2%	-0.8%	-0.9%	-2.1%	-9.0%	0.1%
Euro (USD/EUR)	1.22	0.0%	1.1%	0.7%	2.7%	11.2%	-0.1%
British Pound (USD/GBP)	1.41	-0.2%	1.7%	1.0%	6.0%	14.3%	3.3%
Japanese Yen (Yen/USD)	109.04	0.4%	0.9%	2.3%	4.6%	1.3%	5.6%
Chinese Yuan (CNY/USD)	6.39	-0.7%	-1.5%	-1.0%	-2.7%	-10.4%	-2.2%

Source: FactSet and Bloomberg. As of May 26, 2021.

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21-1665804