

25 June 2021

THE WEEK AHEAD

Europe Readies to Open its Wallet

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 6/29	FHFA House Price Index	Apr	1.7% M/M	▲	1.4% M/M
Tue 6/29	Conference Board Consumer Confidence	Jun	118.8	▲	117.2
Wed 6/30	ADP Employment Change	Jun	510K	▼	978K
Wed 6/30	Pending Home Sales	May	-1.0% M/M	▲	-4.4% M/M
Thu 7/1	ISM Manufacturing	Jun	61.1	▼	61.2
Thu 7/1	Wards Total Vehicle Sales	Jun	17.10M	▲	16.99M
Fri 7/2	Change in Nonfarm Payrolls	Jun	670K	▲	559K
Fri 7/2	Unemployment Rate	Jun	5.7%	▼	5.8%
Fri 7/2	Trade Balance	May	-\$71.0B	▲	-\$68.9B
Europe					
Wed 6/30	EZ Consumer Price Index (Preliminary Estimate)	Jun	1.8% Y/Y	▼	2.0% Y/Y
Thu 7/1	EZ Unemployment Rate	May	8.0%	-	8.0%
Thu 7/1	OPEC Meeting		--		--
Fri 7/2	EZ Producer Price Index	May			7.6% Y/Y
Asia Pacific					
Sun 6/27	China Industrial Profits	May			57.0% Y/Y
Tue 6/29	Japan Jobless Rate	May	2.9%	▲	2.8%
Tue 6/29	Japan Retail Sales	May	9.4% Y/Y	▼	12.0% Y/Y
Wed 6/30	Japan Industrial Production (Preliminary Estimate)	May	-2.0% M/M	▼	2.9% M/M
Wed 6/30	China Nonmanufacturing PMI	Jun	55.3	▲	55.2
Wed 6/30	China Manufacturing PMI	Jun	50.9	▼	51.0
Thu 7/1	Caixin China Manufacturing PMI	Jun	52.0	-	52.0
Thu 7/1	Hong Kong Markets Closed for SAR Establishment Day		--		--

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

U.S.

- The **June employment report should show further improvement** in the labor market, driven by the reopening. However, the imbalance between supply and demand will likely continue through the summer, capping the pace of job gains.
- **Earnings season for 2Q21** begins next week.

Europe

- We will watch the **June consumer price index for the euro area and major economies**, particularly if data surprises to the upside.
- **OPEC is scheduled to meet on July 1.** We will watch for supply increases, given the impressive rebound in demand and rising prices.

Asia Pacific

- **China PMIs should remain in expansion**, but there will be focus on the nonmanufacturing sector—particularly in services—given the recent flare-up in cases in the Guangdong province.
- **Japan activity data**, including retail sales and industrial production, should continue to see headwinds from the State of Emergency imposed in April.

Institute's Central Scenario

The EU recovery fund took a step forward with the EU Commission approving the detailed spending plans. Meanwhile, Markit PMIs showed generalized strength, particularly in the U.S. and Europe, adding more support to our baseline outlook for strong growth. In the U.S., housing data eased slightly, but demand is set to remain strong over the medium-term. In Asia, exports are set to normalize, and we expect external demand to remain strong in the near-term, supporting the recovery. Please see our [Monthly Macro Dashboard](#).

IN REVIEW

EU Institutions Green Light Recovery Spending

The EU Commission approved detailed spending plans put forward by governments in the €750 billion EU recovery fund (named NextGenerationEU). Approval by the European Council, expected within a month, is the last hurdle before EU governments start receiving the money, which is a worthy sum: 13% of all grants and loans requested, or roughly €100 billion. The initial issuance of EU bonds to fund these disbursements has been a success, with books oversubscribed seven-times. Markets have noticed: companies in sectors closely related to the green transition and digitalization, two focus areas of the recovery fund, have performed well. Europe has been the top stock market performer year-to-date and, with the ECB the only major central bank still not thinking about thinking about tapering, the rally seems set to continue—Delta variant permitting.

PMI Strength Continues

Generalized strength in Markit flash PMIs this week show that the recovery refuses to stop, adding more support to our central scenario (see the Dashboard link on Page 1).

MARKIT PMIS

Region	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
U.S. Manufacturing	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.6
U.S. Services	56.9	58.4	54.8	58.3	59.8	60.4	64.7	70.4	64.8
EZ Manufacturing	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.1
EZ Services	46.9	41.7	46.4	45.4	45.7	49.6	50.5	55.2	58
UK Manufacturing	53.7	55.6	57.5	54.1	55.1	58.9	60.9	65.6	64.2
UK Services	51.4	47.6	49.4	39.5	49.5	56.3	61	62.9	61.7
Japan Manufacturing	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53	51.5
Japan Services	47.7	47.8	47.7	46.1	46.3	48.3	49.5	46.5	47.2

Source: Bloomberg. As of June 24, 2021.

June PMIs showed another month of strong activity. Against expectations of some softening, EZ manufacturing remained unchanged at its all-time high of 63.1, while the service sector continued its ascent, reaching 58. As a result, the composite PMI index reached 59.2, the highest since 2006. Consensus forecasts for Q2 GDP increased to 1.2% (5% annualized) Q/Q.

Elsewhere, PMIs show the U.S. ended the second quarter on solid ground. The manufacturing PMI reached a series high, while the continued reopening is supporting demand for services. Strong demand continues to outpace supply across the economy and is keeping input prices elevated for companies and led the employment subindex to show slowing job growth in June.

In Japan, the manufacturing flash PMI continued to moderate in June, while services showed a slight improvement. Supply

shortages of raw materials and parts, such as semiconductors, are likely weighing on the manufacturing sector, with the supplier delivery time index showing lengthening delivery times nearing those seen in April 2020, at the height of the pandemic. The new export orders index also declined somewhat but remains at elevated levels, suggesting that while external demand is moderating, it will continue to support industrial production activity. Meanwhile, services remains in contraction but should show continued improvement now that recent restrictions have started to ease and vaccinations are picking up. The service sector rebound should increasingly drive the overall recovery in the second half of the year.

U.S. Housing Data Eased, but Demand Stays Strong

Existing and new home sales in the U.S. edged slightly lower in May, but demand remains robust and levels are above those seen before the crisis. While demand may ease somewhat from the unsustainably high pace, fundamentals—such as millennials entering the market—should continue supporting strong demand in the coming years.

Even though demand is set to stay strong, supply remains extremely tight. New and existing home inventories are near record lows, following an underproduction of homes over the past decade, creating a supportive environment for new home construction. Given the solid fundamentals, Barings housing market experts remain positive on the medium-term outlook.

Asia Exports Fading?

Recent trade data from Asia has been showing clear signs of moderation. Taiwan May exports grew 34.5% Y/Y from 42.6% prior, coming in below expectations. China's exports also showed signs of softening, growing 27.9% in May, from 32.3% prior. South Korea flash exports for June also continued to ease, rising by 29.5% Y/Y, from 53.2% prior. The fading momentum in exports largely reflects a normalization of external demand amid the waning fiscal impulse in the U.S., as well as a payback from strong readings in prior months. There have been only mixed signs of supply chain constraints, so far. While the latest Japan PMI survey highlighted elevated delivery times, robust growth in South Korea auto exports (62.2% Y/Y) suggest only limited downside risks of supply disruption from chip shortage. Taiwan's rise in COVID-19 cases from May to early June also appears to have had only a marginal impact on the export sector. Overall, while export strength should continue its normalization, it will likely remain at elevated levels in the near-term and should remain supportive of the region's recovery.

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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	0.05%	4 bps	4 bps	4 bps	-1 bps	-2 bps	-2 bps
3 Month USD Libor	0.15%	2 bps	0 bps	-5 bps	-10 bps	-15 bps	-9 bps
3 Month Euribor	-0.54%	1 bps	1 bps	0 bps	0 bps	-13 bps	1 bps
3 Month U.S. T-Bill	0.05%	1 bps	4 bps	4 bps	-4 bps	-11 bps	-3 bps
2-Year U.S. Treasury	0.25%	4 bps	10 bps	10 bps	12 bps	6 bps	13 bps
10-Year U.S. Treasury	1.48%	-8 bps	-15 bps	-17 bps	52 bps	76 bps	56 bps
10-Year German Bund	-0.18%	6 bps	-5 bps	16 bps	37 bps	26 bps	39 bps
10-Year U.K. Gilt	0.78%	3 bps	-7 bps	1 bps	49 bps	57 bps	58 bps
10-Year JGB	0.05%	0 bps	-3 bps	-2 bps	4 bps	4 bps	3 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	0.97%	N/A	0.4%	0.8%	1.0%	-3.0%	-2.8%
Barclays Capital U.S. TIPS	1.10%	N/A	0.7%	0.8%	2.7%	6.2%	1.4%
Barclays Capital U.S. Aggregate	1.52%	33	0.4%	0.8%	1.3%	-0.3%	-1.9%
Barclays Capital Global Aggregate	1.14%	33	-0.6%	-0.3%	0.6%	2.4%	-3.1%
Barclays Capital U.S. ABS	0.50%	23	0.0%	0.0%	0.2%	1.4%	0.1%
Barclays Capital U.S. MBS	1.80%	26	0.3%	0.0%	0.1%	-0.4%	-0.9%
Barclays Capital U.S. Corporate Investment Grade	2.08%	82	0.5%	1.7%	3.1%	3.0%	-1.7%
BAML Euro Corporate Investment Grade	0.33%	84	-0.2%	0.6%	0.0%	3.4%	-0.6%
Barclays Capital U.S. Corporate High Yield	3.90%	280	0.1%	1.3%	2.8%	13.1%	3.2%
BAML European Currency High Yield Non-Financial	2.61%	301	-0.1%	0.9%	1.6%	10.9%	2.9%
CS U.S. Leveraged Loans	4.80%	444	0.0%	0.4%	1.3%	10.3%	3.4%
CS Western European Leveraged Loans Non-USD	4.18%	406	0.0%	0.4%	1.2%	9.1%	3.0%
JPM CEMBI Broad Diversified	4.25%	292	0.1%	0.9%	1.8%	8.4%	1.1%
JPM EMBI Global Diversified	4.91%	336	0.0%	1.1%	3.4%	7.3%	-0.7%
JPM GBI-EM Global Diversified	5.03%	N/A	-1.6%	-0.4%	3.2%	4.9%	-3.5%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,241.84	1.33%	0.4%	2.2%	8.9%	37.6%	13.7%
Euro STOXX 600 (Local)	453.10	2.88%	-1.5%	1.9%	7.0%	23.3%	13.6%
U.K. FTSE 100 (Local)	7,074.06	3.00%	-1.5%	0.8%	5.6%	11.9%	9.5%
Japan Nikkei 225 (Local)	28,874.89	1.50%	-1.4%	2.0%	-0.4%	28.1%	5.2%
China Shanghai Composite (Local)	3,566.22	2.01%	1.4%	2.3%	4.5%	20.0%	2.7%
MSCI AC World (Local)	715.02	1.72%	0.1%	2.6%	8.2%	34.5%	12.6%
MSCI Emerging Markets (Local)	1,360.50	1.96%	0.2%	2.8%	4.4%	33.2%	7.0%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	528.35	-0.3%	4.3%	14.5%	30.6%	60.2%	29.0%
WTI Crude (\$/bbl)	73.08	1.5%	14.9%	26.5%	52.4%	80.9%	51.1%
Copper (\$/lb)	4.33	-1.4%	-3.7%	5.9%	21.9%	62.8%	23.2%
Gold (\$/oz)	1,791.60	-3.7%	-4.5%	3.8%	-4.4%	1.3%	-5.1%
U.S. Dollar Index	91.80	0.7%	2.0%	-0.6%	1.5%	-5.0%	2.1%
Euro (USD/EUR)	1.19	-1.4%	-2.0%	0.6%	-2.0%	5.4%	-2.3%
British Pound (USD/GBP)	1.40	-1.0%	-1.4%	1.3%	3.3%	11.5%	2.2%
Japanese Yen (Yen/USD)	110.80	0.8%	1.7%	2.0%	6.9%	4.3%	7.3%
Chinese Yuan (CNY/USD)	6.48	1.3%	0.7%	-0.5%	-0.9%	-8.3%	-0.9%

Source: FactSet and Bloomberg. As of June 23, 2021.

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