



R&R Weekly Column
By Brunello Rosa



Major Central Banks Are Set To Begin A New Phase

The Bank of England concluded the April-May cycle of major central bank meetings last week, confirming that a new phase is about to begin. Already in March, the Swiss National Bank (SNB) was the first to cut rates in developed markets in this cycle, from 1.75% to 1.5%. Last week the [Swedish Riksbank followed the SNB, cutting its repo rate from 4.0% to 3.75%.](#)

As we discussed in our [review](#), the Bank of England has already opened the door to a cut in its Bank Rate in June, although such a move cannot yet be considered a done deal. As governor Bailey said, it's neither a "fait accompli", nor an event that can be "ruled out." A key issue will be the inflation and labour market data of the next two months; two full sets of data will be available before the 20th of June, with the second inflation release being scheduled for May 19th, the day before the MPC meeting. In May, the April CPI inflation figures will show a large drop from the current 3.2% due to base effects, but the May figure released in June may show an upward surprise that could convince the MPC to wait until August before announcing the first rate cut of this cycle. Additionally, Bailey may want to achieve a larger consensus and prefer to wait six more weeks rather than push through the MPC a decision with a razor-thin majority.

Also in Europe, as we discussed [in our recent review](#), the ECB is considering its first 25bps rate cut a fait accompli, and it is clear that all the discussion within the Governing Council (CG) at the moment is about the Bank's next moves. The doves within the GC would prefer to cut rates at every meeting until December, to bring the deposit rate to 2.75%. On the other hand, the hawks would rather reduce the number of rate cuts to a minimum, perhaps to only two by the end of the year. As usual, a compromise will be reached, and three cuts by the end of the year are likely warranted. Data will tell if there is space for an additional rate cut in the next seven months.

On the other side of the pond, [the US Federal Reserve has instead made clear](#) that this is still no time to start cutting rates. The domestic economy in the US is still too strong, in spite of its [recent deceleration](#), and its labour market too is robust (in spite of the recent [relative softening](#)) to begin an easing phase. We are now looking at the second half of the year to see the Fed start to cut rates, which it may do twice before the end of the year. On the other hand, we believe that the view that foresees the Fed hiking rates, instead of cutting them, is unfounded.

Finally, finishing our tour of the major central banks with a jump to the other side of the Pacific, the Bank of Japan is in a totally different phase compared to those of Europe or North America. After having [ended its negative deposit rate facility and its Yield Curve Control policy](#), it is now in its tightening phase. The market would have expected more action from the Bank to have taken place since March, but instead the BoJ has remained prudent about its next moves; it is still unconvinced about the sustainability of inflation above the 2% target over the medium term. This has caused the Yen to depreciate further since the policy action took place, forcing the Ministry of Finance to supposedly [intervene in the market](#), so far unsuccessfully. Only a real change in tack in the policy stance (relative to the Fed's) could convince market participants that the Yen will not depreciate further.

Our Recent Publications

📖 [Review: Bank of England Opens The Door to a Cut In June \(But It's Not A Done Deal Yet!\)](#), by Brunello Rosa and Nato Balavadze, 9 May 2024

📖 [US Builds "The NATO of the Indo-Pacific" With the QUAD](#), by Mirko Giordani, 8 May 2024

📖 [Preview: BOE To Remain on Hold in May, While Providing Signals About Upcoming Cuts](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 6 May 2024

📖 [FOMC Review: The Fed Pushes Back The Timing Of The First Rate Cut, But Confirms Its Easing Bias And Signals That Rate Hikes Are Unlikely](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 2 May 2024

Looking Ahead

The Week Ahead: EZ QOQ GDP To Advance; Inflation To Edge Down In US; Headline Inflation To Remain Unchanged In EZ

In the US, in April, headline and core inflation is expected to edge down to 3.4% y-o-y (*p*: 3.5%) and 3.6% y-o-y (*p*: 3.8%). In April, retail sales are likely to decelerate to 0.4% m-o-m (*p*: 0.7%).

In the EZ, in Q1, according to the second estimate, GDP growth is expected to advance by 0.3% q-o-q (*p*: -0.1%) and 0.4% y-o-y (*p*: 0.1%). In April, headline inflation is seen remaining unchanged at 2.4% y-o-y (*p*: 2.4%), while core inflation is likely to cool off to 2.7% y-o-y (*p*: 2.9%). In March, IP is likely to contract by -0.3% m-o-m (*p*: 0.8%). In May, ZEW Economic Sentiment Index is seen rising to 46.1 (*p*: 43.9).

Among the largest EZ economies, headline inflation is expected to: *i*) increase by 2.2% y-o-y (*p*: 2.2%) in Germany; *ii*) edge down to 2.2% y-o-y (*p*: 2.3%) in France; and *iii*) ease off to 0.9% y-o-y (*p*: 1.2%) in Italy.

In the UK, in March, unemployment rate is likely to edge up to 4.3% (*p*: 4.2%).

The Quarter Ahead: US To Impose New Tariffs On Chinese EVs; Israel Escalates Pressure On Rafah; Israel Arms Sale

US To Announce New Tariffs On Chinese Electric Vehicles. The announcement, expected next week, will build upon measures initiated by Trump. The plan includes targeted levies on EV-related industries such as batteries and solar cells, alongside existing tariffs. This review of tariffs on Beijing, which started in 2018, aims to address trade imbalances. Biden's extension of Trump's 27.5% tax on Chinese EV imports has significantly limited Chinese-made cars in the US market.

Israel pushes back into northern Gaza, increases military pressure on Rafah. Israel deployed tanks into eastern Jabalia in northern Gaza following intense aerial and ground attacks overnight. Health officials reported 19 deaths and numerous injuries. The death toll in Gaza due to Israel's military operation has exceeded 35,000 Palestinians, leading to severe devastation and a humanitarian crisis.

Israel arms sale. The Biden administration stated that Israel's utilization of U.S.-supplied weapons in Gaza likely breached international humanitarian law. However, due to wartime conditions, U.S. officials could not definitively confirm this in particular airstrikes. The UK foreign secretary Cameron stated that implementing a ban on arms sales to Israel would only bolster Hamas. He clarified that while he does not endorse a major ground offensive in Rafah, the UK will not follow the US in halting some arms exports. He emphasized that the UK supplies only 1% of Israel's weapons and urged Israel to enhance civilian protection and facilitate humanitarian aid access.

Last Week's Review

Real Economy: UK QoQ GDP Advanced; EZ PMI Increased; BoE Stayed On Hold

In the US, in May, Michigan Consumer Sentiment fell to 67.4 (*c*: 76; *p*: 77.2).

In the EZ, in April, HCOB Services and Composite PMIs increased to 53.3 (*c*: 52.9; *p*: 51.5) and 51.7 (*c*: 51.4; *p*: 50.3). In March, retail sales increased by 0.7% y-o-y (*p*: -0.5%) and 0.8% m-o-m (*c*: 0.6%; *p*: -0.3%).

In the UK, in Q1, according to preliminary estimate, GDP advanced by 0.6% q-o-q (*c*: 0.4%; *p*: -0.3%) and 0.2% y-o-y (*c*: 0.0%; *p*: -0.2%). In March, IP decelerated to 0.5% y-o-y (*c*: 0.3%; *p*: 1.0%).

BoE stayed on hold. In the UK, the BoE maintained its Bank Rate at 5.25%.

Financial Markets: Stock Prices and Bond Yields Increased; Dollar Rose; Oil Prices Are Unchanged, While Gold Prices Rose

Market Drivers: In the US, the stocks market was up due to robust earnings and impressive reports from tech giants. In Europe, shares closed higher driven by stronger corporate earnings and growing optimism about imminent interest rate cuts by major central banks.

Global Equities: Increased w-o-w (MSCI ACWI, +1.7%, to 782.06). The US S&P 500 index edged up (+1.9% w-o-w, to 5222.68). In the EZ, share prices declined (Eurostoxx 50, +3.3% w-o-w, to 5,083.55). In EMs, equity prices increased (MSCI EMs, +1.0%, to 1,071.64). Volatility fell to 12.55 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury yields are virtually unchanged (+0 bps to 4.50%). The 2-year US Treasury yields increased (+6 bps to 4.87%). The German 10-year bund yields increased (+2 bps to 2.51%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.1%, to 105.31; EUR/USD +0.1%, to 1.08). In EMs, currencies edged up slightly (MSCI EM Currency Index, +0.0% w-o-w, to 1,725.61).

Commodities: w-o-w, oil prices virtually unchanged (Brent, 0.0% to 82.78 USD/b). Gold prices rose w-o-w (+2.5% to 2,366.9 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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