

ECB cuts as expected, but strong US job figures cast doubt on Fed action

Asset prices danced to the tune of US jobs data last week, while the ECB rate decision elicited only a muted reaction.

The US economy is appearing to revert to normal. ISM indices revealed a contraction in manufacturing activity (48.7 vs. 49.6 expected) for the second month in a row, with new orders declining sharply. However, services recovered in May (53.8) after falling below the all-important 50 line in April.

Even though prices paid were down, factory orders rose by 0.7% in April, providing reassurance that the economy is not slowing too fast.

Hopes dashed of Fed easing in near future

With regard to the job market, the US government's JOLTS survey revealed that the number of job offers in April fell to their lowest level since February 2021, dropping to 8.06 million compared with 8.35 million in the previous month. The normalisation of the labour market is key to reducing upward pressure on wages, which obviously feeds through to inflation. Sadly, official data from the Bureau of Labour was much stronger than expected, thwarting hopes of monetary easing by the Fed any time soon. The US added 272,000 jobs in May compared with 165,000 in April, while wage growth remains a cause for concern. Unemployment edged up to 4%.

In this setting, the bond market initially headed south before recovering on Friday in the wake of US job figures. The US 10-

year yield ended the week at 4.43% and its German counterpart at 2.62%. In Europe demand, economic activity and hiring trends strengthened in May. Business confidence also improved. Echoing this better news, the Eurozone composite PMI rose from 51.7 in April to 52.2 in May.

ECB cuts policy rates by 25bp

The prices paid and invoiced index (PPI) contracted by a further 1% in April, supporting business sentiment as production costs ease.

But all eyes were on the ECB in Europe. Although the rate cut had been widely anticipated, Christine Lagarde's post-decision speech was less upbeat than expected, casting a cloud over further easing.

In detail, the ECB cut its policy rates by 25 basis points (bp) to 3.75%-4.5%. But Christine Lagarde's message was on the cautious side. The ECB revised its inflation forecasts upwards (2.5% in 2024 and 2.2% in 2025), signalling that the fight against price appreciation was not yet over. She also reiterated that the ECB's monetary policy was data-dependent and, by lowering rates this time, it was not committing to any particular trajectory.

Stock indices ended the week in positive territory, with the S&P 500 up 1.32%, the tech-oriented Nasdaq gaining 2.38% and the Stoxx 600 Europe putting on 1.04%.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.90	0.97	12'254.76	5'051.31	18'557.27	8'001.80	8'245.37	5'346.99	17'133.13	38'683.93	1'073.14
Trend	➔	⬇️	⬆️	➔	➔	⬇️	⬇️	⬆️	⬆️	➔	➔
YTD	6.54%	4.26%	10.03%	11.72%	10.78%	6.08%	6.62%	12.10%	14.13%	15.60%	4.83%

(values from the Friday preceding publication)



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