FINMETRIX

# MARKET COMMENTARY

ANALYSIS OF THE MONTH

FINANCIAL RISK MANAGEMENT

# JUNE 2024

## INTRODUCTION

### GOOD DAY

The month of June was marked by rare lulls in the midst of turbulent times. Here at home, the Bank of Canada began lowering interest rates, much to the relief of businesses. In the United States, consumers are beginning to lose confidence in the future as the Fed continues to hold rates high. The resounding success of far-right parties in the European elections has caused panic among companies in the eurozone, who have abruptly halted orders and investments. In the UK, the crisis persists, with 22% of households still unable to make ends meet. Finally, the real estate crisis is worsening in China, despite the Xi Jinping government's stimulus measures, driving Chinese and foreign investment out of the country.

What else? June 2024 will not be forgotten with this historic comeback of the Edmonton Oilers from a deep hole of 0-3 in the series to come back strong until the third period of Game 7 of the Stanley Cup Final. Sadly, We the North, will not be bringing home the Cup this year, but that's just an "*Au Revoir mes Frères*", whispered along the lines of that nostalgic melody.

Enjoy your reading!

# CAD


## ZOOM ON ▼
## THE CANADIAN DOLLAR

# MORE DETAILS

In June, USDCAD was first trading at 1.3627 to open the month and closed just around 1.3700 while hitting a peak of 1.3779 on June 10th. On the 5th, the Bank of Canada cut its key rate by a quarter point to 4.75%, the first time this has happened in four years. Experts at financial consultancy Morgan Stanley now predict that the Bank of Canada will make three more similar rate cuts, bringing it down to 4% hypothetically by the end of the year.

This change in monetary policy is largely due to the fact that inflation has been below 3% since the start of the year. Bank of Canada Governor Tiff Macklem himself said he was "pleased" to see inflation under control and was "confident" that further interest rate cuts would be forthcoming.

For Canadian businesses, this is a welcome relief. A survey conducted by the Canadian Federation of Independent Business (CFIB) last April revealed that, because of high interest rates, 42% of SME businesses had had to increase their prices, 41% had experienced a drop in sales, and 39% were facing intense financial stress. The situation had become downright "alarming", according to CFIB analyst Alchad Alegbeh and economist Laure-Anna Bomal.

Consumers are also feeling better, thanks to lower inflation. The disposable income of Canadian households rose by an average of 1.9% in the first quarter, according to Statistics Canada data. As for their debt levels, they fell to CAD 1.76 for each dollar of disposable income in the first quarter, compared with CAD 1.78 in the previous quarter.

# USD


## ZOOM ON ▼ THE AMERICAN DOLLAR

# MORE DETAILS

The DXY index climbed in June, opening at 104.14 at the beginning of the month to finish around 105.92. For its last meeting, the Federal Reserve (Fed) maintained its key interest rate at the current range of 5.25%- 5.5%. This range has been stable at this level since July 2023, following 11 increases by the Fed to aggressively try to counter inflation.

This monetary policy is finally starting to pay off, as the Bureau of Labor Statistics reported that 12-month inflation was 3.3% in May, compared with 3.5% in April. May's score was below most analysts' forecasts. On a monthly basis, inflation was flat in May, the first time this has happened since July 2022.

The slow decline in inflation conceals wide disparities. On an annual basis, the housing component of the Consumer Price Index (CPI) rose by 5.4% in May. It is the second-highest-growing category, after transport services, up 10.5%. Another sign of the continuing tension in the real estate market: the national rent index of Zumper, an apartment search company, rose by 1.2% in May; it had not exceeded 1% since October 2022. As a result, national median rents are now respectively USD 1,504 and USD 1,865 for one- and two-bedroom apartments.

The University of Michigan's consumer confidence index fell in June by 3.5 points to 65.6 while consensus was calling on a score of 72. "U.S. households are still fearful of future price increases coupled with a general weakening of incomes, which is causing them to be cautious in their consumption", says Joanne Hsu, Director of Consumer Surveys at the University of Michigan. She points out that the situation should change the day the Fed "initiates an interest rate cut" like the Bank of Canada and the European Central Bank (ECB) have implemented recently.

# EUR


## ZOOM ON ▼ THE EURO

# MORE DETAILS

The EURUSD started off trading at 1.0851 at the beginning of June to finish its run at 1.0701. The month certainly began with some good news. First, we learned that the eurozone had indeed emerged from recession in the first quarter, with gross domestic product (GDP) growth of 0.3%. In addition to that, inflation was revealed to be 2.6% in May, compared with 6.1% a year earlier. This prompted the European Central Bank (ECB) to lower its key interest rate by a quarter point to 3.75%.

But then, the European elections which took place on June 9 resulted in a resounding success for far-right parties, particularly in France, Germany, Austria, Italy, Hungary and Poland. The blow was so strong in France that President Emmanuel Macron even dissolved the National Assembly, sowing chaos among political parties and voters alike. The result? European companies began to panic.

According to S&P Global, the Eurozone manufacturing PMI index plummeted in June, dropping over 30 days from 49.3 to 46 (a score below 50 denotes a decline in activity). "A considerable number of companies reacted by suspending orders and investments, especially in France", says Cyrus de la Rubia, economist at Hamburg Commercial Bank (HCOB), pointing out that this foreshadowed "a prolonged sluggish economy".

Generally speaking, sales prices in the eurozone have been falling steadily for just over a year. But manufacturing costs suddenly started to rise again in June, the first time this has happened since February 2023. Cyrus de la Rubia believes this should translate into "renewed inflation" in the coming months. Moreover, he notes, "early indications are that this is already the case in Germany".
"All this supports my view that the ECB is likely to pause its interest rate cuts in July," concludes Franziska Palmas, economist at Capital Economics.

# GBP


## ZOOM ON ▼ THE POUND

# MORE DETAILS

Over the course of June, GBPUSD opened at the level 1.2732 and finished its run just around 1.2637. The Bank of England left its key rate unchanged at 5.25%, despite the fact that inflation reached the 2% target for the first time since August 2021. This is because a number of economic indicators are still worrying experts, in particular wage growth and the underlying inflation index, which is still high due mainly to manufacturing costs.

Almost all 65 economists questioned by Reuters expect the Bank of England to act on interest rates in August. By contrast, only 30% of investors believe this will happen then, with the vast majority believing that the start of the interest rate cut will only come in November.

The UK appears to be heading for a change of government that shall be confirmed by the July 4 elections, with Keir Starmer's Labour Party well ahead of Prime Minister Rishi Sunak's Conservatives in the polls. Both Labour and the Conservatives have pledged not to increase the tax burden on Brits, as it is already high; government budget forecasts last March exposed the fact that tax as a proportion of gross domestic product (GDP) was on course to reach its highest level since 1948.

Although inflation is now under control, Britons are cautious about spending. Each of them visited a supermarket an average of 16.3 times during June, which is less than a year ago, according to data from research firm Kantar. Food sales only grew by 1%, the weakest performance since June 2022.

That said, there is a sudden sense of optimism matching the start of summer and coinciding with Euro 2024. "In order to attract the countless soccer fans in their doors, grocery stores are giving discounts of up to 40% on beer," says Kantar analyst Fraser McKevitt, adding that, during the previous Euro, pubs saw their sales "jump by 60%" compared to other months of the year. "The crisis isn't over yet. Still, 22% of households can't make ends meet", says Fraser McKevitt.

# CNY


## ZOOM ON ▾ THE RENMINBI

# MORE DETAILS

The USDCNY climbed in June from 7.2442 to 7.2628, following the trend of a weakening renminbi. In fact, the yuan is down 2.2% against the US dollar since the start of the year. In June, it reached its weakest level in seven months. This is a sign that investors' patience is wearing thin after months of waiting in vain for the Chinese authorities to adopt effective stimulus measures, particularly with regard to the collapsing real estate sector.

Shanghai's benchmark stock market index had risen by 20% between February and May but has since fallen by 6%. Foreigners who had returned to the market since February, after leaving in 2023, became sellers again last month, withdrawing 33 billion yuan (CAD 6.2 billion) from Shanghai. As for Chinese investors, they injected 129 billion yuan (CAD 24.3 billion) into Hong Kong; a sign that they are giving up hope of a rapid economic recovery in China and preferring to turn to assets that are both close by and promising.

New data reveal persistent difficulties in the Chinese real estate market. New home prices fell by almost 4% in May, compared with 3% the previous month. On a monthly basis, the fall in property prices was the worst in almost a decade, according to Reuters calculations. Property investment, meanwhile, fell by 10% in the first five months of the year. These figures clearly show that the Xi Jinping government's latest support measures for the real estate sector are "totally ineffective", note economists at investment bank Goldman Sachs.

On a positive note, analysts at investment bank JPMorgan Chase note various early signs of improvement in the Chinese economy, such as household spending, up 3.7% year-on-year in June. "The business climate in China has been struggling for several years, but a wind of optimism has been felt since last March", confides Mary Erdoes, Managing Director, Asset and Wealth Management, at JPMorgan Chase, who visits the Middle Kingdom on a regular basis.

# COMMO


## ZOOM ON ▼ BITCOIN

# MORE DETAILS

Over one month, Bitcoin has lost almost 10% of its value, down to around 61,300 USD. But on a one-year scale, its appreciation was 102%. According to Fiona Cincotta, Senior Financial Markets Analyst at City Index, the fact that inflation is now under control in many countries including the US and the UK, it has put a "damper" on Bitcoin's surge of recent quarters. As the supply of Bitcoin is limited, this cryptocurrency is seen by investors as a hedge against inflation," she explains. But now that inflation is experiencing a widespread downturn, Bitcoin is becoming less attractive.“

US broker Peter Brandt, head of The Factor financial newsletter, believes that Bitcoin is set for a "steady decline to at least 60,000 USD". And should it break the symbolic 60,000 USD barrier, it could fall "all the way down to 48,000 USD". This is because the cryptocurrency hasn't hit a new high in over three months, contributing to bearish sentiment among analysts.

However, Peter Brandt doesn't believe that the fundamentally bearish scenario will prove true. In his view, a particular phenomenon he calls a "pump" should occur when Bitcoin approaches USD 60,000. If you look closely at the Bitcoin chart, you'll sometimes notice "a bump followed by a collapse, evoking the image of a pump being raised before being lowered with a sudden jolt". "When such a pattern - often subtle - appears in a Bitcoin chart, it's often a sign of imminent bullish prices", the broker argues. Now, he predicts that this pattern will occur precisely around the 60,000 USD mark, as it did when Bitcoin reached USD 42,300 earlier this year.

According to Brandt, this phenomenon is generally misread by inexperienced investors. They buy during the "pumping" phase and then sell at a loss during the "dumping". Experienced investors, on the other hand, should have a better idea when the unloading is complete, and invest as soon as the bull market begins.

# SEEN IN OUR PERISCOPE

## EURO 2024

Tourists flocking from all over Europe to attend the Euro 2024 soccer tournament are expected to "bring in 1 billion euros [CAD 1.46 billion] for Germany", according to the economic research institute Ifo. This would boost German gross domestic product (GDP) by 0.1 percentage points in the second quarter.

Some 600,000 supporters from abroad are expected to set foot in Germany until the final on July 14. This will generate an estimated 1.5 million overnight stays, not to mention spin-offs for restaurants and equipment manufacturers, who will be selling armfuls of branded shirts and balls.

Source: Die Zeit

Link: HERE

## FIRED FOR PRETENDING TO WORK

US bank Wells Fargo fired a dozen employees in May on the grounds that they had deceived their managers "into believing they were teleworking when they weren't".

These employees knew that their computer keyboard activity was remotely observed by their employer when they teleworked. They used an electronic gadget that made their keyboard active when they weren't working. Suspicious, the employer made unannounced visits to some and punished the offenders.

Source : The Financial Times

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