MARKETS WEEKLY

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GLOBAL ECONOMY

G7 nations 'just one millimetre' from historic tax deal

Some of the world's richest nations are within touching distance of a historic deal to close the net on large companies which do not pay their fair share of tax, France and Germany said after a day of talks in London. Rich nations have struggled for years to agree a way to raise more tax from large multinationals such as Google, Amazon and Facebook, which often book profits in jurisdictions where they pay little or no tax. A deal could raise tens of billions of dollars for governments at a time when coffers are empty after the coronavirus pandemic. But major disagreements do remain on both the minimum rate at which companies should be taxed, and on how the rules will be drawn up to ensure that very large companies with lower profit margins, such as Amazon, face higher taxes.

Source: Reuters

U.S. manufacturing gains steam; raw material, labor shortages mounting

U.S. manufacturing activity picked up in May as pent-up demand amid a reopening economy boosted orders, but unfinished work piled up because of shortages of raw materials and labor. The Institute for Supply Management (ISM) survey found companies and their suppliers "continue to struggle to meet increasing levels of demand," noting that "record-long lead times, wide-scale shortages of critical basic materials, rising commodities prices and difficulties in transporting products are continuing to affect all segments" of manufacturing. The ISM's index of national factory activity increased to a reading of 61.2 last month from 60.7 in April. Meanwhile, the Commerce Department said that construction spending rose 0.2% after surging 1.0% in March.

Source: Reuters

Euro zone producer prices rise more than expected in April

Euro zone producer prices rose more than expected in April, boosted by a surge in energy prices, data from the European Union's statistics office Eurostat showed. Eurostat said prices at factory gates in the 19 countries sharing the euro rose 1.0% month on month for a 7.6% year-on-year increase. Economists polled by Reuters had expected a 0.9% month rise and a 7.3% annual gain. Intermediate goods' prices rose the most in April against March, rising 1.8% with energy costs registering the second biggest increase of 1.0%. But in year-on-year terms, energy

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contributed the most, with prices surging 20.4% against April 2020 and intermediate goods up 6.9%. Separately, German Finance Minister Olaf Scholz said Germany is monitoring a recent rise in inflation closely but the government shares the assessment of central banks that the jump in consumer prices is largely driven by temporary factors.

Source: Reuters

German economy to grow between 3.4% and 3.7% this year – minister

The German economy, Europe's largest, should grow by between 3.4% and 3.7% this year, Economy Minister Peter Altmaier said, offering a more upbeat outlook than when the government raised its forecast at the end of April. "Overall, the German economy will have regained its pre-pandemic strength by the end of this year. That is a reason for optimism," Altmaier told. "We expect the German economy to grow somewhere between 3.4 and 3.7 percent this year. If things go very well, maybe a tenth or two more. And we expect it to grow by 4% next year," he added.

Source: Reuters

CENTRAL BANKS

Fed's Harker says it's time to 'think about thinking about' tapering

As the U.S. economy continues to recover from the coronavirus crisis and the labor market rebounds, it may be time for Federal Reserve policymakers to start thinking about the best way to slow the pace of its asset purchases, Philadelphia Fed Bank President Patrick Harker said. He said the Fed would not move suddenly when it begins to reduce the pace of the purchases, which were ramped up last year in an effort to stabilize markets and support the economy after it was upended by the pandemic. "We will remove accommodation carefully and methodically as the economy continues to strengthen," he said. Fed officials agreed at their last meeting to keep purchasing bonds at the current pace until there is substantial further progress toward the central bank's goals for inflation and maximum employment. Several policymakers acknowledged recently that they are closer to discussing when to reduce some of those purchases.

Source: Reuters

NY Fed says it will begin to sell corporate bond ETFs on June 7

The Federal Reserve will start selling its stakes in 16 bond exchange-traded funds next week, the Fed Bank of New York said , the first step in unwinding a nearly $14 billion corporate credit portfolio that helped restore order to a market that had become unhinged early in the COVID-19 pandemic. As of April 30, the facility had $13.8 billion of debt outstanding, including about $8.6 billion of corporate bond ETF holdings and $5.2 billion of corporate bonds, according to Fed data. The New York Fed said it will start selling its corporate bond holdings later this summer and will provide more details before those sales begin. The central bank expects to complete the sale of its corporate bond portfolio by the end of 2021.

Source: Reuters

POLL – ECB to keep policy loose this year despite high inflation risks

The European Central Bank will not change the total size of its asset purchase programme at its June 10 meeting but will start tapering its pandemic purchases later this year, according to a Reuters poll which also showed inflation risks to the upside. With an economic recovery underway and price pressures rising, calls for winding down the emergency purchases have increased in recent weeks. But several ECB members have said a decision to reduce purchases

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at the June 10 policy meeting was unlikely. Nearly 90% of economists, or 34 of 39, in response to an additional question in the May 28-June 2 Reuters poll said the ECB would leave the 1.85 trillion euros worth of asset buys under its PEPP unchanged at its June meeting.

Source: Reuters

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CZECH REPUBLIC

Several economists slam government's decision to raise pensions as irresponsible ploy ahead of elections

The government has agreed to raise pensions next year, on average by CZK 750 a month. Since the decision became public on Thursday, several economists have reacted by saying that this is not the right time to increase the state's budgetary commitments. Some have even accused the government of raising pension to attract more voters ahead of the October elections.

Finance Minister Alena Schillerová told Czech Radio that pensioners are a priority for the government and that the extra money has become available thanks to cuts in several other segments of the annual budget. In total, the rise in pensions is set to cost between 7 billion to 11 billion crowns.

However, the decision has been met with astonishment by several of the country's leading economists. Michal Skořepa, an economist at Česká Spořitelna, told news site Aktuálně.cz that proposing an increase to pensions in the current economic situation is an expression of "fiscal cynicism".

"We have already known for several months that, both financially and psychologically, pensioners did not suffer more than the rest of the population. We also know that, although the Czech national debt is still relatively low when compared internationally, Czech public finances have been adjusted in an unsustainable way and that this has gotten worse over the past year."

Labour and Social Affairs Minister Jana Maláčová tweeted that the extra money to cover the rise in pensions will come from the planned digital tax on big tech. However, that tax has been estimated to bring in just CZK 2.5 billion crowns this year, according to government estimates.

Trinity Bank economist Lukáš Kovanda tweeted that such a tax would not be sufficent to cover even a third of the pensions rise. He also highlighted that the digital tax is still in the stage of a proposal, despite the government having added the estimated income into this year's budget.

The head of the Labour Ministry's Fair Pensions Commission, Danuše Nerudová, told Aktuálně.cz that she is also concerned about where the government will find the money to fund the pensions rise.

"Without a clear vision of where to raise the money, this is just another irresponsible way of increasing the national debt which breaks the principle of inter-generational solidarity."

Meanwhile, the chief economist of Raiffeisenbank, Helena Horská, told Aktualne.cz that increasing pensions is a luxury that could only be afforded if there were savings, for example in the state's operating expenses, to draw from.

She also echoed several of her colleagues in saying that the timing of the announcement supports speculation that this is a move aimed at securing more voters for the ruling coalition ahead of the upcoming elections into the Chamber of Deputies, planned to take place this October.

Source: Radio Prague International

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FINANCIAL MARKETS COMMENT – FINANCIAL MARKETS CONTINUED TO RISE MODESTLY

Over the past week, financial markets continued to rise modestly, both stocks and bonds and commodities. The broadest global stock index MSCI All Country World recorded a gain of 0.7%. MSCI Emerging Markets index recorded a gain of 1.5% and thus surpassed MSCI World index of developed markets which recorded a gain of only 0.6%. Performance of Central European equities was again above average, as CECEEUR index recorded a gain of 1.9%. Overall, however, global stock markets as a whole remain overvalued as our global valuation Z-Score reaches 2.4, which is still close to the all-time high. The average global equity valuation is thus approximately 2.4 standard deviations above the historical average, which is truly unprecedented.

The broadest global bond index, Bloomberg Barclays Global Aggregate Bond, recorded a very modest gain of 0.1%, while the average global bond yield to maturity remained at 1.12%. However, in real inflation-adjusted terms, the average global bond yield to maturity remains deeply negative, currently at -2.5%. Performance of corporate bond indices was also very slightly positive.

Commodities also performed well. S&P GSCI global commodity index recorded a gain of 2.8%. The price of a barrel of the North Sea Brent rose 3.2% to $ 72. Gold weakened by 0.7% to $ 1,890 per troy ounce.

Dollar was again very stable over the last week. DXY dollar index, which measures the dollar's performance against a basket of other major currencies, strengthened slightly by 0.1% during the last week. Against the euro, dollar strengthened slightly by 0.2% to 1.217 USD/EUR. Dollar also strengthened against koruna by 0.2% to 21.00 CZK/USD. Koruna did not change its value against euro and remained at the level of 25.45 CZK/EUR.

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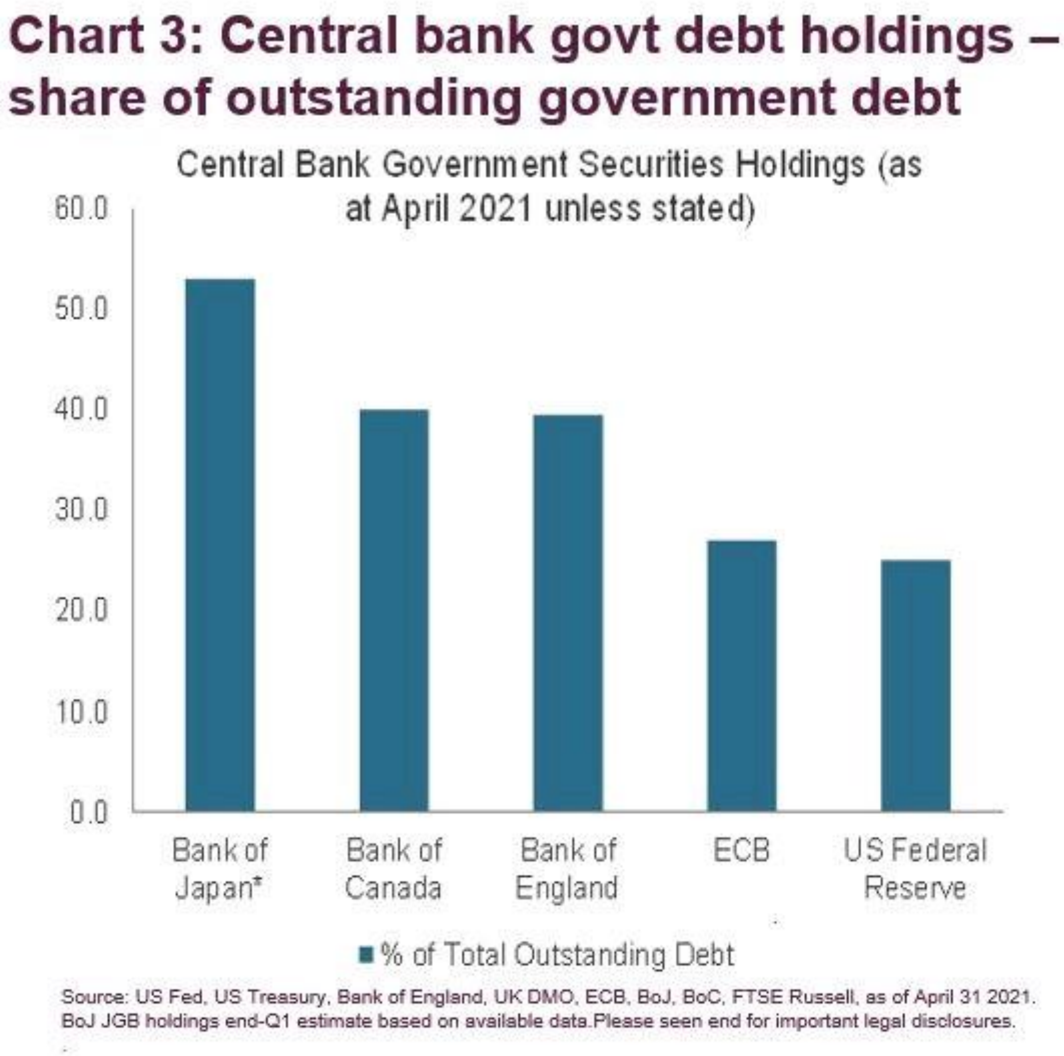
Global markets overview			
	Weekly change	YTD change	Last value
Dollar index DXY	0.1%	0.2%	90.14
Emerging markets FX index to USD	0.0%	1.9%	1752
EUR/USD	-0.2%	-0.4%	1.217
EUR/CZK	0.0%	-3.0%	25.45
USD/CZK	0.2%	-1.8%	21.00
Global equities (MSCI All Country World)	0.7%	10.8%	
Developed equities (MSCI World)	0.6%	11.4%	
Emerging markets (MSCI Emerging Markets)	1.5%	7.0%	
Global equities - Value (MSCI All Country World Value)	1.0%	15.6%	
Global equities - Growth (MSCI All Country World Growth)	0.5%	6.1%	
US (S&P 500)	0.6%	12.6%	4230
US (NASDAQ)	0.5%	7.2%	
US - Big Tech (NYSE FANG+)	1.0%	6.0%	
Europe (STOXX Europe 600)	0.8%	13.4%	
Japan (Nikkei)	-0.7%	5.5%	
Emerging Asia (MSCI Asia ex-Japan)	0.7%	5.7%	
China (CSI 300)	-0.7%	1.4%	
Central Europe (CECEEUR)	1.9%	17.7%	
Czech Republic (PX)	1.3%	14.7%	1179
Global bonds (Bloomberg Barclays Global Aggregate Bond)	0.1%	-2.5%	
Global government bonds	0.2%	-4.1%	
Global investment grade corporate bonds	0.2%	-1.8%	
Global speculative grade corporate bonds (high-yield)	0.2%	2.0%	
EUR investment grade corporate bonds	0.2%	-0.6%	
EUR speculative grade corporate bonds (high-yield)	0.4%	2.8%	
Czech government bonds	0.1%	-3.0%	
Average global bond yield (Bloomberg Barclays Global-Aggregate Yield to Worst)	0.00%	0.29%	1.12%
US 10 year government bond yield	-0.04%	0.64%	1.55%
US 2 year government bond yield	0.00%	0.02%	0.14%
Germany 10 year government bond yield	-0.03%	0.36%	-0.21%
Germany 2 year government bond yield	-0.01%	0.03%	-0.67%
Czech Republic 10 year government bond yield	0.01%	0.43%	1.73%
Czech Republic 2 year government bond yield	-0.01%	1.00%	1.14%
Credit spread - EUR investment grade (Markit iTraxx Europe / CDS)	-0.01%	0.01%	0.49%
Credit spread - EUR high-yield (Markit iTraxx Europe Crossover / CDS)	-0.03%	0.01%	2.44%
Commodity index S&P GSCI	2.8%	29.5%	
Crude oil Brent	3.2%	38.8%	72
Gold	-0.7%	-0.3%	1890

Source: Bloomberg, Conseq

CHART OF THE WEEK – CENTRAL BANK GOVERNMENT DEBT HOLDINGS => NOT A FREE MARKET WITH A TRUE PRICE DISCOVERY ANYMORE



QUOTE OF THE WEEK

"Minimizing downside risk while maximizing the upside is a powerful concept."

- MOHNISH PABRAI -

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