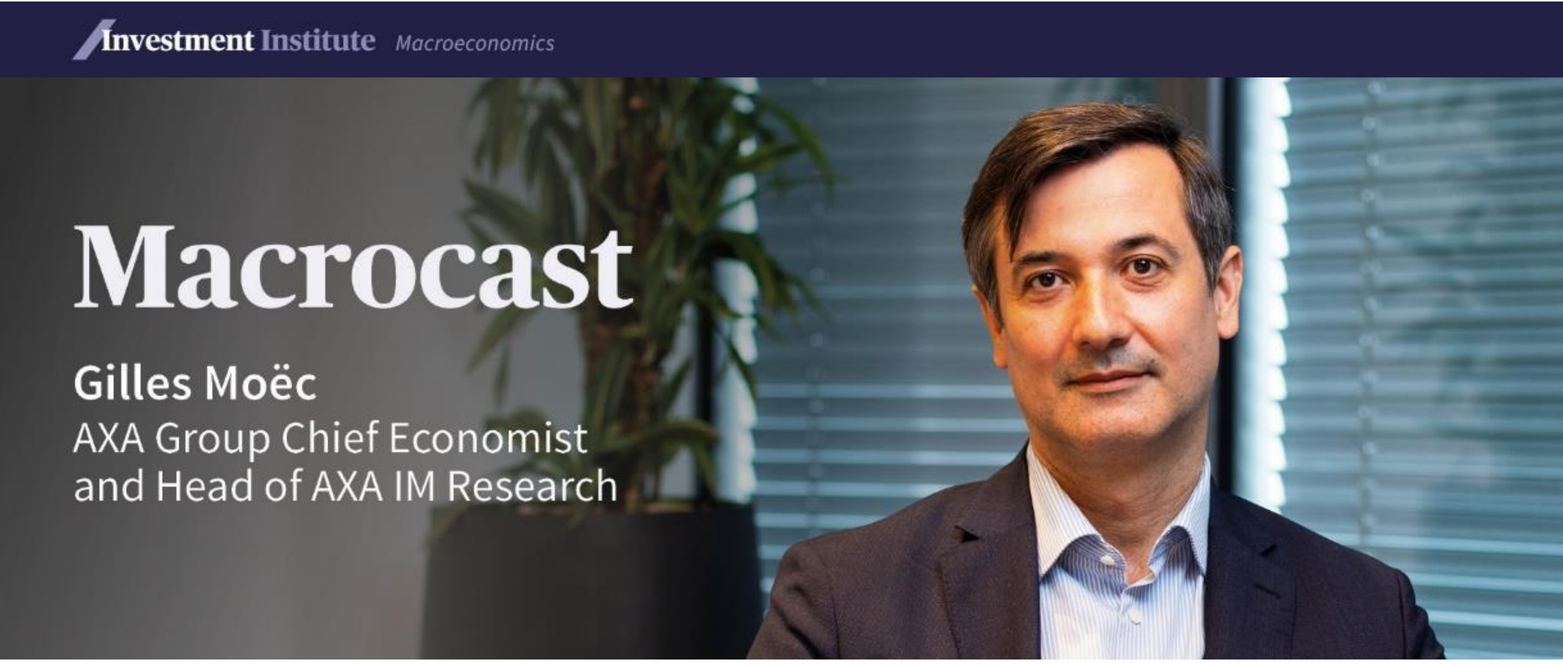
229 – 17 June 2024



Uncertain Winds

- We explore some macro-financial consequences of the French looming snap elections, with a focus on the fiscal trajectory. Fortunately, for now the decline in US yields helps European markets to deal with the shock. We also look at how the populist push makes the EU Commission's approach to trade with China even more delicate.

The surprise snap general elections called by the French President have affected markets beyond French borders. Sovereign spreads have widened in the Euro area periphery as well as in France. There are no immediate existential threats to the monetary union – far-right Rassemblement National, which firmly holds the top position in the polls after its victory in the European elections, no longer wants France to exit monetary union – but uncertainty over the macro-financial outcome on 7 July is high as fiscally spendthrift agendas from both the far-right and the left alliance compete with the more orthodox offer from the struggling incumbent centrist majority. We walk our readers through the quirks of the French electoral and institutional system. Based on the few relevant polls, the most likely scenario is a hung parliament. We explore how France could operate without a majority, especially from the point of view of its capacity to pass a budget, a key concern given the recent downgrade of French public debt by S&P. France has much more capacity than the US to avoid "government shutdown" situations. Yet, a proper majority would be needed to deliver the significant discretionary fiscal correction measures implied in the current French Stability Programme. We also explore the scenario with the second highest probability according to the polls, i.e., a RN-led government. The outcome would essentially depend on whether such administration would focus on "social/cultural issues" while taking little risk with economic policy – the "Meloni model" – or try to deliver on its spendthrift 2022 manifesto.

There has been some discussion about what the ECB could do if spreads continue to widen. This is where the collision with Brussels could materialise. Indeed, for the ECB to deploy its TPI tool, compliance with the EU fiscal surveillance framework would be needed, always a challenge for a populist government. For now, the decline in long-term interest rates in the US and globally, triggered by another month of good news on the US inflation front, offers some protection. Separately, the populist push in France and Europe as a whole cannot have an impact on Brussels policy. This makes the Commission's targeted approach to imports of EVs from China even more delicate.

Visible market reaction

The decision by the French President to call snap parliamentary elections on 30 June and 7 July has triggered a significant market reaction. As of Friday evening, the 10-year spread between France and Germany had widened by 30bps relative to Friday 7 June to reach 78bps, returning to a level seen in 2017 when the market was focusing on a very uncertain presidential election. At the time it was the prospect of a second round between the far-left and the far-right which was upsetting markets.

This is a very significant move – the standard deviation of weekly changes in the French spread has stood at only 4bps over the last 10 years – but absolute 10-year yields in France at 3.13% last Friday were still only marginally higher than before the European elections. Indeed, the rise in the French spread has coincided with see-saw movements in long-term interest rates globally, first on the way up at the beginning of the week – responding to the stronger-than-expected US employment report released at the end of the previous week – but then falling quite steeply on better news on US inflation (more on this in the last section of this note, for those of you who have already reached their saturation point on French issues).

Yet**, this does not mean we can be complacent about how general financial conditions are responding to sudden political uncertainty**. Indeed, beyond the overall pressure on the French equity market, banks are particularly badly hit. The headline CAC40 index has lost 6.2% since Friday 7 June, but the share price of the top French banks has declined by between 11% and 15%. This reflects the traditional high betas of banks, but also their exposure to the domestic sovereign debt and their sensitivity to potential changes in national regulations. Adverse market movements on banks can become a hindrance for the whole economy if they persist. A 2020 working paper by Banque de France suggests that for European banks in general a 10% decline in banks' equity prices would result in a contraction in lending to corporations and households equivalent to 0.3% of banks assets (see link here). This would be equivalent to more than EUR20bn if we apply the coefficient to the 4 biggest French banks.

Arguably, uncertainty could resolve so quickly that the impact on the real economy would be negligible. After all, the last time the French spread came close to the current level in the run-up to the presidential elections of 2017, they normalised immediately after the results. Yet, **even in the case far-right Rassemblement National (RN) does not win an outright majority on 7 July, it is not obvious that uncertainty will dissipate that quickly**.

Poring over the polls

Polls are always imperfect, of course, but they are better than merely transposing to the national parliamentary elections the results of the European elections.

Indeed, **the immediate stakes of national parliamentary elections are more obvious to most voters, with notable effects on mobilisation, and turnout patterns matter.** As the national elections are fought constituency by constituency, parties achieving a large part of their national tally in a few concentrated areas are worse-off than parties with a more even reach. To give a concrete example, the far left does very well in the suburbs north of Paris. Even if they do even better there – raising their percentage of the national votes – this won't translate in many additional gains in the National Assembly since they already hold most of these seats. In addition, higher turnout raises the number of three-way races in the second round of the elections, since the candidates winning in the first round more than 12.5% of the *registered* voters can compete. If, illustratively, turnout on 30 June is the same as in 2022, on average the bar for a candidate to qualify for the second round will stand at 26% of votes cast. Yet, the 2022 turnout was historically low. If it comes back to the 2017 level, the qualification threshold will fall to 19.4%. The recent polls indicate a greater willingness than in 2022 to vote. This is quite sensitive since the parties of the current Macronist majority are polling just below or just above this bar.

The polls published since the announcement of the electoral agreements suggest that voting intentions for the Rassemblement National are very similar to their result in the European elections (31.4%), or even often a little higher, the range going from 31% (Elabe) to 35% (Ifop). The Macronist parties are above their European elections result of 14.6%, standing between 18% (Elabe) and 20% (Opinionway). Conversely, the left and centre-left alliance of Front Populaire is systematically below the combined score of its components last Sunday (their lists had garnered a total of 32.6% of the vote), as it stands between 25% (Opinionway) and 28% (Elabe). There seems to a be a loss of voters for the left alliance, as some of those who went for the socialist party's list the European elections are probably gravitating to the Macronist parties for the legislative elections. Note as well that when adding the centre-right's score, polling at an average of 7%, i.e., their European elections score, to the Macronist parties, they would together be below RN, but equal to or only slightly lower than the Front Populaire. In some parts of the country, electoral deals between the centre-right and the Macronists have already been agreed. This would suggest that if turnout is high, the number of three-way contests on 7 July would be significant, which of course adds to uncertainty.

Translating voting intentions into seats is therefore extremely difficult. There are to our knowledge only two "traditional" polls conducted since the snap elections were called which translate voting intentions into seats in the National Assembly (Cluster17 uses a very specific method which makes it difficult to compare with the others). **They both suggest that the absence of a clear majority is currently the most plausible scenario - by a small margin** (see table 1).

Exhibit 1 – Noone passes the majority threshold in the current polls

French General election polls - Seats projections (note: absolute majority threshold at 289)				
	Front populaire (left)	Macron's current majority	Centre-right	Rassemblement National
Elabe	150-190	90-130	30-40	220-270
Louis Harris	115-145	125-155	40-55	235-265

Sources: Elabe, Louis Harris and AXA IM Research, as of 14 June 2024

In the Louis Harris interactive poll (survey on June 9-10) the formal or informal post-electoral alliance most often mentioned as potentially supporting a government – the Macronists together with the centre-right – would be quite far from the majority threshold even in the most favourable hypothesis (210 seats). They would also remain smaller than the Rassemblement National (RN) group. In the Elabe poll, such potential "government base" appears to be in an even more difficult situation, with a combined group both smaller than that of the RN and – considering the ranges – possibly smaller than the combined group of the Front Populaire.

We could draw three – very preliminary – conclusions from these two polls. First, RN is close to the threshold. Second, in both cases, an RN/centre-right agreement could fairly easily secure an absolute majority (but after some internal fighting the main centre-right party rejects for now this option) and finally, Front Populaire would be very far from the majority threshold. Still, an important point when looking at the potential score of the left would be the possible number of Socialist (centre-left) deputies within the Front Populaire alliance. Indeed, they would be crucial to enable a government to function if none of the three "blocks" reaches 289 seats and the centre-right refuses to prop up a RN administration.

There, **we need to stop for breath to explore a quirk of the French Constitution**. Governments can operate without an absolute majority by using article 49.3 of the Constitution under which a legislation is deemed adopted without a vote, unless the opposition tables a motion of no-confidence against the government which to pass needs to be actively supported by the absolute majority of the National Assembly. Even if they would probably not enter into a formal agreement with the Macronists and the centre-right, and would vote against their projects, socialist deputies could allow the government to survive by refusing to support a motion of no confidence tabled by RN, which requires an absolute majority, thus enabling legislation via the 49.3.

As part of the left alliance Front Populaire, the socialists still have less constituency candidates than the far-left La France Insoumise (LFI), but in 2022 their' "success rate" was twice as high as that of LFI candidates (44% vs. 23%), probably due to their greater ability to capture centrist voters in second rounds. **Given their tradition as a "government party", if they are numerous enough, they could allow a "minimal government" to operate** to avoid a complete institutional paralysis after the elections should no proper majority emerge.

True, the Front Populaire platform is very far away from the centrists and centre-right proposals. It focuses on lifting purchasing power very quickly – for instance via a rise in the minimum wage to EUR 1,600 per month, a 14.4% increase from the current level. The diffusion effects would probably be large. 17% of French employees are paid at the minimum wage (the share would probably move to slightly less than 25% after the rise). Beyond the knock-on effect on employment, inflation (in addition wages would be automatically indexed on inflation) and competitiveness, this would add to the pressure on public finances by raising the government's wage bill, which would separately have to shoulder a 10% overall hike. The Front Populaire platform pledges to offset this in public finances terms by making the tax system more progressive, reinstating the wealth tax on financial assets, and removing the flat tax on financial income. In a nutshell, a complete turnaround from the mostly supply-side policies implemented by the Macronists since 2017. Now, the platform was negotiated very quickly, and should the Front Populaire fail to reach a majority – which is what the polls currently predict – some distancing from the platform would probably occur just as quickly.

We however need to keep in mind that, in the light of the available polls, a centrist+centre-right administration allowed to operate by the socialists could count on only 240 seats in the National Assembly (Elabe) or 280 (Louis Harris), even at the upper end of the range. This would mean that even such an "enlarged" government base could be permanently subject to the risk of LFI and RN Members of Parliament (MPs) voting for the same motion of no confidence. This was already the case on 2 June this year (RN deputies voted in favour of the motion tabled by LFI).

We probably need to be even more prudent about polls than usual. The state of confusion in French politics is currently high. The situation will probably get clearer for voters from Monday onward, since Sunday is the deadline for submitting candidates in each constituency. There were doubts in the first few days around electoral alliances in the first few days after the announcement. They should dissipate now. Polls should become precise.

How would France operate without a majority?

Traditionally, the Prime Minister (PM) tenders his resignation after a legislative election, win or lose, but this is not a constitutional obligation. Nor is it a constitutional obligation for the PM to trigger a vote of confidence in the National Assembly upon his or her appointment. Technically, nothing would prevent the Prime Minister from confirming Gabriel Attal in charge of current affairs while a "political solution" is sought, even in the absence of a clear majority. Note that some parliamentary groups could table a motion of no confidence which, if approved by an absolute majority, would force the resignation of this caretaker government. However, the interest for these opposition groups would be limited, at least in the short term, **since there can be no new dissolution before July 2025** as per the Constitution. Provoking a total paralysis to block a "business as usual" government would have no immediate political outlet and could reduce their popular support.

France would find itself in an unusual situation by her own standards since 1958, but not that different from routine configurations in Northern European countries. **The key issue is however how a budget could be adopted in such circumstances.** The government has until the beginning of October to table a finance bill. In the absence of a majority, it can initiate a 49.3 procedure to pass it without a vote, but then again, it could potentially be subject to the goodwill of opposition parties. There could be a temptation for them, even without any immediate political perspective, to assert their difference with a "mainstream" economic policy.

Another option for the government: let the French National Assembly reject the budget (parliament has a total of 70 days in which it must decide) without using the 49.3. In this case, the government must propose a new budget, with an ultimate deadline of 31 December. If parliament has not been able to vote on it after another 70 days, the government can use “ordonnances”, basically execute the bill by decree, without a vote. If within the 70 days the budget is rejected again, and there is no time left to repeat the operation (the overall process must be terminated by 31 December), then the government must in an emergency ask parliament to allow it to prolong the existing budget into the following year.

All this protects quite efficiently against risks of US-style “government shutdown” which, from a macro-financial point of view, would be the most problematic outcome of course. Indeed, the probability that there would not be a majority in parliament to merely prolong the existing tax and spending dispositions – which entails no political judgement – would be very low in our opinion.

So, the issue is not so much that without a majority France would find itself in an “operational limbo” than the cost of not being able to take corrective measures at a time when, irrespective of the political climate, there is much focus on France’s public finances trajectory, especially after the recent downgrade of the sovereign rating by S&P. Indeed, the government’s own pluriannual Stability Programme makes the return to a deficit below 3% in GDP in 2027 dependent on additional discretionary action after this year. The “structural balance” – which measures the fiscal balance corrected for the impact of the variations of growth and inflation – would need to improve by one full percentage point of GDP in 2025 (see Exhibit 2). Next year would be the first year of effective austerity, since the planned improvement for 2024 would largely be the product of the full removal of the income-protection measures implemented at the time of the energy price shock. **This is the key reason why we think that, in the event of an absence of clear majority on 7 July in position to deliver the necessary adjustment, the French spread would not return to the status quo ante.**

Exhibit 2 – Efforts needed in 2025 and beyond

France's stability programme					
% of GDP	2023	2024	2025	2026	2027
Structural balance	-4.8	-4.2	-3.2	-2.9	-2.5
Overall balance	-5.5	-5.1	-4.1	-3.6	-2.9
Public debt	110.6	112.3	113.1	112.9	112.0

Sources: French Finance Ministry and AXA IM Research, May 2024

Uncertainty in case of RN Majority

As we laid out in the first section of this note, RN is not very far from the majority threshold. If it breaks that threshold on 7 July, market focus will be on their economic platform and their willingness to implement it**. In a first variant, RN would be entirely focused on winning the presidential elections in 2027 and conclude that the safest way to achieve this would be to concentrate on issues such as immigration and security, rather than deliver on its spendthrift 2022 economic projec**t. Indeed, winning the presidential elections is key to deploying the RN’s full platform, since it would unlock the possibility to organize referendums (a presidential prerogative). Adopting a “safety first” approach to economic policy could be alluring. The incentive to do so would be even higher if RN needs to enter into a proper government agreement with the centre-right, or fractions of the centre-right, to get past the majority threshold. The inclusion in the RN-led broader alliance of Reconquete, which squarely focuses on social issues (adding traditional values to security and immigration in their political offering) while espousing a more mainstream approach to the economy would be another sign.

In a nutshell, **this would be a replication of Giorgia Meloni’s strategy in Italy,** who managed to retain more than decent market support. This may however be difficult for a RN-led administration to offer the market the same level of reassurance as Meloni. The RN electorate is heavily skewed towards blue-collar workers and the party leadership may conclude that disappointing this key demographic on economic issues could be rapidly costly electorally. Another issue also is that, in

a cohabitation situation with a liberal President, it would be much easier for RN to move the dial on the economy (in the broad sense, i.e. including social protection and employment/product regulation) than on immigration and security since the normal operation of institutions would make it difficult for them to deliver on their platform (e.g. "préférence nationale", i.e. a priority for French nationals for jobs and housing, which would probably be rejected by the Constitutional Court. The temptation to "shift to the economy" would be constant, and the market would be aware of this.

The 2022 economic platform of RN had been costed by Institut Montaigne at a very heavy EUR100bn per year which would be very difficult to reconcile with reining in public debt. **The first available indications from RN's official documents in this campaign would suggest they would endeavour to deliver some of their costly measures, albeit not all of them**. Two measures in particular are in focus: bringing the VAT rate on energy from 20% to 5.5%, and exempting pay rises of up to 10% (up to a cap at 3 times the minimum wage) of social contributions. The first one is explicitly mentioned in the official statement of candidacy from the leader of RN released on Thursday. Alone, the cost would reach roughly EUR10bn annually, shaving off half of the spending cuts implemented by the government for 2024. There are hesitations however, and it is unclear at this stage whether or how a RN government would deliver on its pledge to reverse the pension reform enacted by the Macron administration.

Given these strategic hesitations, uncertainty – and hence the level of pressure on the French risk premium – may not abate even after 7 July.

Some ramifications for Europe

What we find striking in the market reaction since the announcement of French snap elections is that spreads have also widened in the Euro area periphery. As of Friday, at close, the 10-year spread between Italy and Germany had risen by 22bps from before the European elections. **We need a sense of perspective here though**: at 132bps, this spread is still much lower than in 2019 before the pandemic struck (213bps on average that year). What likely happened last week was a "knee-jerk" transmission following the usual "hierarchy" of the European bond markets: if the risk premium rises on French sovereign bonds – the Euro area's largest "best substitute" to German bonds – then spreads re-adjust themselves down the implicit "pecking order".

It would be a different matter if there was an imminent existential threat to the functioning of the monetary union, but we are now in a very different situation from 2017 when RN was explicitly calling for France to exit from Monetary union. While RN maintains a generally sceptical approach to most of the policies implemented in Brussels, the party is no longer advocating a return to a national currency for France. In any case, in case of RN victory on 7 July, the President would remain, with some control over defence and foreign – hence European – affairs. **What matters most to the periphery at this stage is the continuation of the disbursements of the Next Generation EU (NGEU) funds** and given the proximity of RN with Georgia Meloni – who came out as the clear winner of the European elections in Italy – we fail to see how this aspect of European Union (EU) policies would be put in question.

A thornier issue is the role of the European Central Bank (ECB) should the pressure on the French and possibly the peripheral bond markets were to increase. As we discussed earlier, at this stage, given the absolute level of yields, there is no need for the ECB to intervene, but a further widening cannot be excluded, in case of complete fiscal paralysis in Paris or if a RN-led administration decides to pursue a very spendthrift stance. The ECB's tool to re-intervene in the bond market, the Transmission Protection Instrument (TPI), gives the Governing Council massive leeway to decide to act or not, but the documentation makes it still clear that the recipient country needs to comply with the fiscal surveillance framework of the EU. This is where the problem could lie. Indeed, as much as RN no longer questions the existence of monetary union, it is still a sovereignist party and its willingness to accept instructions from Brussels should a funding crisis emerge could be limited.

We are not there, but **irrespective of the national election's outcome in France, European institutions need to re-start after the European elections' lull.** We discussed last week how – beyond the personnel issues – the results of the European Commission's anti-subsidy investigation into imports of Chinese Electric Vehicles (EVs) would be the first item to check. The decision did not surprise us. Indeed, the Commission last week opted for a very targeted approach, tabling very granular countervailing measures, specific to the various Chinese companies in scope, and distinguishing between those which cooperated with the investigation and those who ignored the Commission's entreaties. The tariffs would range from 17.4% to 38%. European carmakers producing EVs in China (Dacia and BMW) – as well as Tesla – would face a 21% duty.

We are still within the realm of targeted measures – rather than a blanket approach – and this is only the beginning of a fairly long process which will give time to negotiate with China. Indeed, the final propositions will be made by the Commission only in November of this year, opening to a vote by the European Council for which a qualified majority of 15 countries representing 65% of the EU's population would be requested to overturn the Commission's offer. Unsurprisingly, the Chinese government's reaction was negative as per a Ministry of Commerce's communique stating that *"China is highly concerned and strongly dissatisfied"*. Yet, no tit for tat retaliation has come out so far. Last Thursday, a spokesman from the Chinese Ministry of Commerce mentioned the possibility for Beijing to bring the matter to the World Trade Organization (WTO), which given the long paralysis of this institution would have very little practical consequences.

We continue to think that, unlike the US-China's rivalry, there is still space for a decent trade relationship between the EU and China. **An issue though for the EU is that, given the pressure from populist parties, and not just in France, it needs to demonstrate that attachment to free trade can go hand in hand with a more "muscular" approach to bilateral relationships**, while China needs an outlet for its production while its domestic engines of growth have stalled. This is a very fine line to tread.

Meanwhile, good news from the US

Fortunately, the sudden rise in risk premia in Europe is happening against the backdrop of less market pressure from the US. On the face of it, the move last week on the Federal Open Market Committee (FOMC)'s "dot plot", with now only one cut in 2024, should have been big from a market point of view, but this was dampened by i) Powell playing down its significance in the press conference and ii) the fact that 8 members still expect 2 cuts, 7 only 1, and 4 no cut at all. It is still very open and not inconsistent with the market pricing ahead of the meeting. Our main takeaway from Powell's Q&A was that the Federal Reserve (Fed) is generally comfortable with the recent message from the dataflow, as they seem more confident the labour market is slowly landing, despite the higher-than-expected payroll data for May.

They are still very prudent of course – they noted only "modest" progress on disinflation in their statement (even if that's an improvement relative to the previous one which saw nothing at all) and Powell was careful to say that the better than expected print for Consumer Price Index (CPI) inflation for May, released earlier the same day, needed to be confirmed, but **our baseline remains that, should the recent dataflow stay on its current slope this summer, the Fed will be able to cut in September and then again in December**. Indeed, even if in year-and-year terms the inflexion may be difficult to see (see Exhibit 3), as we illustrate in Exhibit 4 the momentum (3-month annualised change) in services inflation – the Fed's main concern – has become more favourable for the second month in a row. The market seemed to be broadly of this view as after quite a bit of volatility, as of last Friday it was pricing 46bps or cuts this year, against 36bps just before the CPI release.

Exhibit 3 – Not much to see on the yoy change…

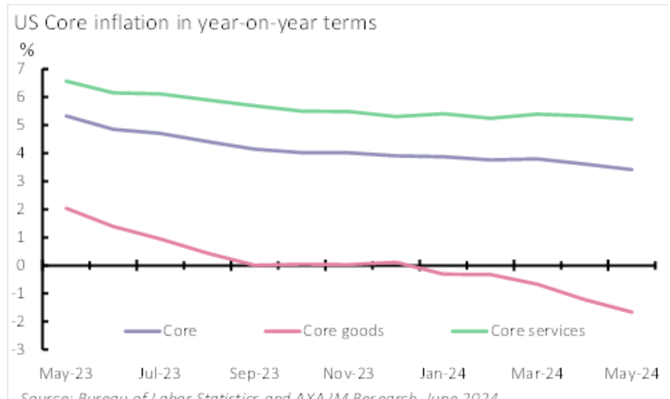
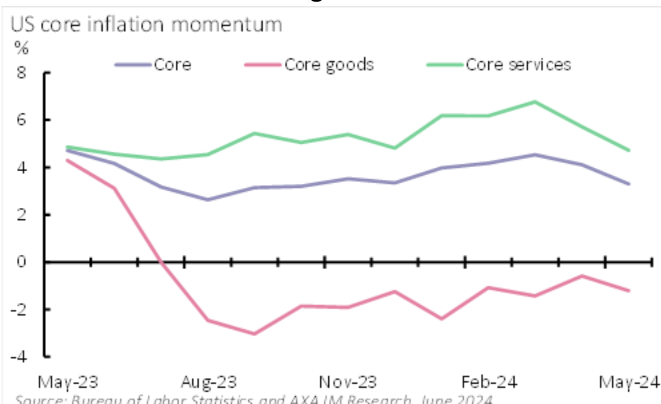


Exhibit 4 – …but reassuring momentum



We note however that the Fed has revised up – again – its forecast for the long-run level of the Fed Funds rate (from 2.6% in March to 2.8%, after having stayed for years at 2.5%). This additional signal that the Fed believes the neutral rate has increased should matter for the bond market, supporting our long-held view that 10-year yields won't fall that much even if the Fed cuts (we have 4% as a “resistance” level). Still, the yield ended the week down 23bps to 4.22%.

Country/Region	What we focused on last week	What we will focus on in next weeks
US	• FOMC (Jun) no chg in policy, unanimous, but Fed's median dot sees only 1 cut in 2024. We still see 2 • CPI inflation (May) headline & core both lower than expt'd (3.3% & 3.4%), services softest in nr 3 years • PPI inflation (May) was flat mom for both headline & core (2.2% and 2.3%yoy), suggesting soft PCE • Jobless claims up 242k – 9m high – worsening trend	• Retail sales (May) headline expt'd soft (on gas); watch control rebound to gauge any softening in spending • Empire and Philly Fed surveys (Jun), both softened in May, but off lows • Industrial production (May) soft in April, look for rebound to guide to Q2 GDP • Housing data (May) sales & starts
Euro Area	• European Parliament elections matched polls and a large centrist coalition should be renewed (EPP+S&D+Renew) • Macron surprisingly dissolved the Assembly and called a snap election on 30 Jun -7Jul. In few days, alliances had to be found, and some parties blowed up. We now have a large left/far left/greens coalition, an alliance on the centre and one on the far right. Right now, a far-right majority or hung parliament are the most likely scenario but it can still evolve in the coming days	• In France, alliances must declare their candidates by Sunday cob while they also refine their economic program. Polls should start to reflect voter' intentions by Monday onwards • Final HICP (May) • Several surveys on economic activity such ZEW and flash PMIs surveys in Ger (Jun) – some improvements can be expected • Business climate (Fr, Jun), Flash PMIs are likely to traduce the political turmoil
UK	• Unemp. rose at 4.4% over a 2.5 year high. AWE ex. bonuses was unch at 6.0% (below consensus 6.1%) • GDP was unch mom in Apr, after rising 0.4% in Mar. • RICS house price balance fell to -17%, from -7%, as mortgage rates ticked up	• CPI inflation looks set to drop to 2.1%. Services inflation should drop back to around 5.4% • BoE likely will keep Bank Rate unch at 5.25%. Voting split likely to remain unch at 0-7-2 • Retail sales likely up by around 1%mom
Japan	• Final GDP for Q1 was revised up to a drop of 1.8% ann., from 2% • The BoJ maintained the policy rate at 0% to 0.1% but said it would lay out a detailed plan to start tapering JGB purchases at its July meeting	• Machinery orders likely down by around 3%mom in Apr. • Trade deficit likely widened slightly in May to around 1.4bn yen • CPI likely up at 2.9% in May, from 2.5% in Apr.
China	• CPI remained stable in May at 0.3%yoy, PPI narrowed the deflation to 1.4%yoy from a drop of 2.5% in April • M2 supply edged down to 7.0% in May from 7.2% • Total social financing (May) ticked up to 8.3% from 8.3% in April	• 17 June: May monthly output including retail sales, fixed asset investment, industrial production, and house price • 20 June: LPR 1Y and 5Y for June, no changed expected
Emerging Markets	• CB: Peru (5.75%), Taiwan (2.0%) & Thailand (2.5%) stood on hold • May CPI (%yoy): Brazil (3.9%), Colombia (7.2%), Czechia (2.6%), Hungary (4.0%) & India (4.75%)	• CB: Brazil (10.5%) expected to cut -25bps to 10.25%, Chile (6.0%) -50bps to 5.5%, Hungary -25bps to 7.0%. Indonesia (6.25%) should stay on hold • May CPI in South Africa • April retail sales in Colombia & Mexico • May industrial production in Poland

Upcoming events		
	US:	Mon: Empire State mfg survey (Jun); Tue: Retail sales (May), Industrial production (May), Business inventories (Apr); Wed: NAHB housing market index (Jun); Thu: Building permits (May), Philly fed mfg index (Jun), Housing starts (May), Weekly jobless claims (15 Jun); Fri: Mfg & services PMI (Jun, p), Existing home sales (May), Leading index (May)
	Euro Area:	Mon: It HICP (May); Tue: Ez CPI (May), Ge ZEW survey: current situation & economic expectations (Jun); Wed: European Commission publishes Spring Package & announces Excessive Deficit Procedures; Thu: Ez Consumer confidence (Jun, p), Ge PPI (May); Fri: Ez Composite PMI (Jun, p), Ez,Ge,Fr Mfg & services PMI (Jun, p), European Commission publishes fiscal trajectory for countries in Excessive Deficit Procedure
	UK:	Wed: CPI (May), CPIH (May), RPI (May), PPI input & output (May); Thu: MPC announcement, BBC special debate with leading members of the UK's four biggest parties; Fri: Gfk consumer confidence (Jun), PSNB (May), Retail sales (May), Mfg, composite & services PMI (Jun, p)
	Japan:	Fri: CPI (May), Mfg PMI (Jun, p)
	China:	Mon: Fixed asset investment (May), Industrial production (May), Retail sales (May), PBoC 1y MLF announcement; Thu: PBoC 1y & 5y LPR announcement

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