EU stock exchanges, expected cautious start. Waiting for the ECB is growing, a leap of gold

China excused the US for having postponed the war on duties by inviting the country to mutually benefit talks. The SME of the euro zone and the ISM USA are also on the agenda. The yellow metal rises above $1,300. Spread not very smooth. In Piazza Affari, follow Fca, Pirelli and Interpump.

By Paola Valentini | June 2019

Waiting for a cautious start and under par for the EU stock markets in the wake of the continuous blow-and-response between the US and China. On Sunday, the Asian giant released a report accusing the US of triggering the war of duties. The document states that US trade policy has a negative impact on global growth and defines the United States as a counterpart that cannot be trusted, claiming that the Chinese government instead wants to engage in peer and mutual benefit talks for both.

In the government report, China expressed the desire to return to negotiations, in order to escape any commercial war in effect. "We are willing to take a cooperative approach to finding a solution," said deputy trade secretary Wang Shouwen. But some US media have said that Beijing has pulled back from almost all negotiating points during one of the last rounds of talks held a few weeks ago with the US.

Meanwhile, Mexico has sent a delegation of officials to the US to discuss immigration issues, following the threat of tariffs launched last week by the White House. President Donald Trump said Mexico was sending a delegation to the United States to find a compromise on the border problem, while pressing for action rather than words.

From China, more favorable news arrived on the macro data front. The PMI Markit manufacturing index was in May at 50.2, slightly above the level of 50 expected by analysts interviewed by Reuters and unchanged compared with April. A value above 50 indicates an expansion of the economy rather than a contraction.

However, the Markit PMI was at odds with the official PMI released the previous week at 49.4, lower than the 49.9 expected by the Reuters consensus and also below the April reading of 50.1. The figure for the future perspective had fallen to its lowest level since April 2012, a reflection of the trade conflict between Washington and Beijing as well as weakening corporate sentiment.

Due to the escalation of tensions between the two countries, the prior week saw the worst weekly Dow Jones trend since 2011, while the Stoxx 600 reached three-month lows. Wall Street fell sharply on Friday, with the Dow Jones down 1.41%, the S&P; 500 1.32% and the Nasdaq Composite 1.51%. Asian stock exchanges were mixed, with moderate declines in Shanghai and Hong Kong while Seoul rose.

In Tokyo, the Nikkei closed down 0.9% in the wake of the Japanese manufacturing PMI, which in May fell to 49.8 points from 50.2 in April. IHS Markit and Nikkei economists also pointed out that the picture relating to domestic and foreign demand had deteriorated.

On the agenda were manufacturing PMIs for Italy, France, Germany, the euro zone and Great Britain, as well as US construction costs and the May manufacturing ISM.

President Donald Trump's visit to the United Kingdom was also expected, where he would meet outgoing Prime Minister Theresa May. Investors were waiting for the ECB meeting later that week, from which ECB president Mario Draghi was expected to provide detailed indications on the new TLTRO round announced in March and starting in September.

In currencies, the yen appreciated once again against the dollar as global political uncertainty and trade concerns pushed investors towards safe-haven currencies. The dollar/yen exchange rate registered its lowest level since the beginning of the year. Kit Juckes of Societe Generale said fears about global growth were a drag on asset valuations while safe-haven assets benefited.

US government bond yields registered lows for more than 20 months. The financing cost of the 10-year T-Note reached its lowest level since September 2017, settling at 2.139%, while the two-year yield closed at 1.937%, recording its most significant monthly decline since November 2008.

> *"As expected, the Italian vice premier Matteo Salvini has renewed his intention to ignore the European Union's policy and increase Italian public spending," says* ***Lionel Kruger of JCRA****. "Italy is the third most important economy in the EU, so its increasing level of deficit is a strong cause for concern for investors."*

As a result of the fall in the German 10-year yield, the BTP-Bund spread rose and closed at 288 basis points on Friday, while the morning opening was little changed with a differential of 286 basis points at the beginning of the session.

Oil prices were declining by around 0.9%, while gold jumped strongly and traded around $1,311 an ounce after having remained below $1,300 for weeks.

In Piazza Affari, investors were watching FCA ahead of May car-registration data, while awaiting news regarding the talks under way with Renault. Pirelli was also in focus following a promotion to hold by Berenberg.