



LA LETTRE DU 211

Editorial - 'Wake me up before you go-go / Take me dancing tonight / I wanna hit that high (yeah, yeah)'

Brief Encounter, directed by David Lean in 1945, tells a fascinating love story. Laura is the classical British woman at the time (married, kids etc.) and goes every Thursday by the train to the downtown for shopping and to see a movie at the cinema. One Thursday, she meets Alec, a general practitioner, and they become in love, the time of a brief encounter: they meet each other every Thursday until Alec has to go, forever. Of this extra-marital relationship, nobody will know anything, except the two protagonists and the spectator: Alec and Laura go on with their lives, in their respective homes, and no one will know about it. If their lives were a series of data, this episode would appear as an outlier: the conscientious economist will choose to erase this data to preserve the boring linearity of their lives. Yet, doesn't this point say more about their lives than anything else? Or is it just a passing momentum, a passion that doesn't reflect the real trend in their lives? Why discuss this point, as the interpretation is so difficult? One day, to the question 'Why do you want to climb Mount Everest', the mountaineer Mallory answered 'Because it's there'. Simply, just like Brief Encounters.

Macro news

Under pressure (...)/Bah bah bah bah bah bah/That's o-kay

The Fed is under pressure again after consumer prices in the US rose at 4.2% year over year in April, compared to +2.6% in March, largely exceeding economist expectations. Even if this unexpected surge in inflation is thought to be relatively temporary, such levels raise concerns about the central bank tightening its monetary policy too soon. Nevertheless, Jerome Powell reiterated on April, 28th that the Fed will continue to support the economy until both inflation and employment targets are met. Despite recent improvements in the US labor market, only 266k jobs were created in April compared to 770k the previous months and to the 1000k forecasted. The unemployment rate has also increased to 6.1%, mostly due to higher participation. Therefore, a reduction of the Federal Reserve's assets purchases seems highly unlikely. Meanwhile, more businesses are reporting

difficulties recruiting, as demand rises due to large scale vaccination and stimulus packages, and resort to higher wages as McDonald. If labour shortage persists, it may lead to higher wages and therefore higher consumer prices.

The Final Countdown

While several political and economic leaders have recently criticized the slow implementation of the €750 bn Next Generation EU fund, the idea of a second recovery plan has emerged in the public debate. It is notably supported by France through the voice of its Secretary of State for European Affairs Clément Beaune, who warns against the risk of a technological delay for Europe and therefore pleads for an additional European investment plan. Italy's Prime Minister Mario Draghi has also expressed his concerns about the spread between US and European support measures put in forth to enhance the economic recovery. However, European Commission Vice-President Margrethe Vestager told the French newspaper Les Echos on Monday, 17th that it was 'too early' to consider a second European investment plan. She justified her statement by stressing that EU countries were still waiting for their first disbursements as their recovery plans need to be examined and approved by the European Commission. But today, concerns are strong about the delay and effectiveness of the EU's common response. The coming days and months will be crucial to judge this, as political and economic stakes remain high. As an aptly named rock band once sang, this may be a decisive time: 'We're leaving ground (leaving ground) / Will things ever be the same again? / It's the final countdown'

Shine bright like a diamond

The European economy could shine a little brighter this year as the European Commission upgraded its economic forecasts. According to the institution, the European economy is expected to grow by 4.3% in 2021 and 4.4% in 2022, compared to 3.8% for both years initially forecast, as the pace of vaccination picks up and the stimulus fund is expected to begin paying out in the second half of 2021. However, there are still structural problems to be addressed. Indeed, due to the scale of public support following the pandemic, the EU's debt-to-GDP ratio

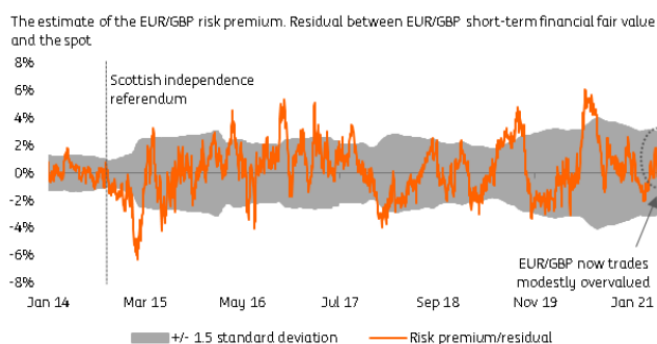
will peak at 94% this year, before falling slightly next year, well below the 60% recommended by the Maastricht criteria.

But this figure masks a heterogeneous reality between countries: Greece's public debt should reach 209% this year, Italy's 160% and France's 117%.

Markets news

Will the Loch Ness Monster stay in the UK?

The Scottish parliamentary elections took place on May, 6th. The pro-independence Scottish National Party (SNP) fell one seat short of a majority, winning 64 seats compared to the 65 required for an overall majority, and the Green Party won 8 seats. As both parties are pro-independence, they could form a coalition, but nothing is decided yet. Scottish nationalists are expected to push for a second independence referendum, but UK Prime Minister Boris Johnson has said he would block such a vote. The UK government is likely to use the SNP's failure to gain a majority as grounds for refusing a rerun of the 2014 referendum, when the no vote won by 55%. Given the complexity of the process, a referendum is unlikely to take place before autumn 2023... and even if it were held today, the 'no' vote would win by 47% according to recent polls (with 43% 'yes' and 10% 'I don't know'). GBP climbed after the results were announced, as the SNP did not win a majority, making the referendum less likely. Despite the SNP's pro-independence push, this could only add limited downside risk on GBP. Firstly because the risk of a referendum is unlikely at the moment and secondly because the first Scottish referendum in 2014 did not translate into a material build-up of GBP risk premium, as shown on the graph. Moreover, as the risk of Scottish Independence does not appear to be driving investors' worries, a big move in gilt yield and equity markets is unlikely at the moment. Scottish Independence will be important to market only if a referendum is called and polls signal trouble, which is not the case at the moment.



Source: ING

Emerging countries news



Deadly protest in Colombia

Anti-government protests have been occurring in Colombia since end-April. It started with the contestation of the government's fiscal reform to support the "national effort" against the pandemic. Now protesters have a long list of demands from the end of police violence to an increase of economic support during the pandemic. For instance, urban areas' unemployment rate reached 17% in April. Since then, demonstrations have been violently and deadly repressed by the national police force. Colombia's situation remains specific, as the 2016 peace agreement has reduced but not ended the country's fight with decades of bloody civil struggles. However, this rising social violence can imply a contagion across the region. Indeed, other Latin American countries like Brazil or Ecuador are facing (i) relative social instability, (ii) a very small fiscal space with high public debt ratios, (iii) rising demand for more social spending or fiscal constraints and meanwhile are still fighting against the Covid-19 pandemic effects. Latin American's countries cannot borrow at low rates and don't have access to DSSI. These governments indeed are forced to cut spending or raise taxes, while the population still needs strong national support as the pandemic hit the region particularly hard. Thereby, urgent health issues might give way to a more general social emergency.

Press review

(clickable link)

On Eurovision

As every year, the fabulous Eurovision contest has been held. This year, it took place in the Netherlands. We wished Marie Myriam and her L'Oiseau et l'Enfant would have had a successor. 44 years later, that would have been nice. But congrats Italy!

Anyway, here were our top 10 songs:

[France](#), Voilà, Barbara Pravi

[Malta](#), Je me Casse, Destiny

[Cyprus](#), El Diablo, Elena Tsagrinou

[Bulgaria](#), Growing Up is Getting Old, VICTORIA

[Switzerland](#), Tout l'Univers, Gjon's Tears

[Grèce](#), Last Dance, Stefania

[San Marino](#), Adrenalina, Senhit

[Austria](#), Amen, Vincent Bueno

[Ukraine](#), SHUM, Go_A

[Italy](#), Zitti E Buoni, Maneskin

Our viewings & readings:

Billy Wilder et moi (J.Coe): Coe is one of the best contemporary writer. It's funny, it's smart, there is the sun, it's about Billy Wilder, in short: it's extraordinary.

The return of life: We had forgotten it, but Wednesday in France, we can watch the return of life. Our favorite part is, perhaps, the ristretto in Parisian terrace, but the passage to the Bouillon or the pleasure of sipping a cocktail like a milord can also claim this title.