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Macro Strategy
Eurozone PMI data offers asset allocation strategy ahead of ECB QE withdrawal

European Purchasing Managers' Index (PMI) data released Wednesday (May 2) should serve as a useful reminder as to where embedded European macroeconomic risks lie. Ahead of the anticipated tapering of the European Central Bank's asset purchase scheme later this year, the data should also help investors to hedge portfolio exposure against the possible ramifications of quantitative easing unwind. The latest PMI numbers highlight to us those geographies in the sovereign spectrum that may have enjoyed the greatest benefit of monetary repression, and as such may be at greatest risk of price corrections over the coming months.

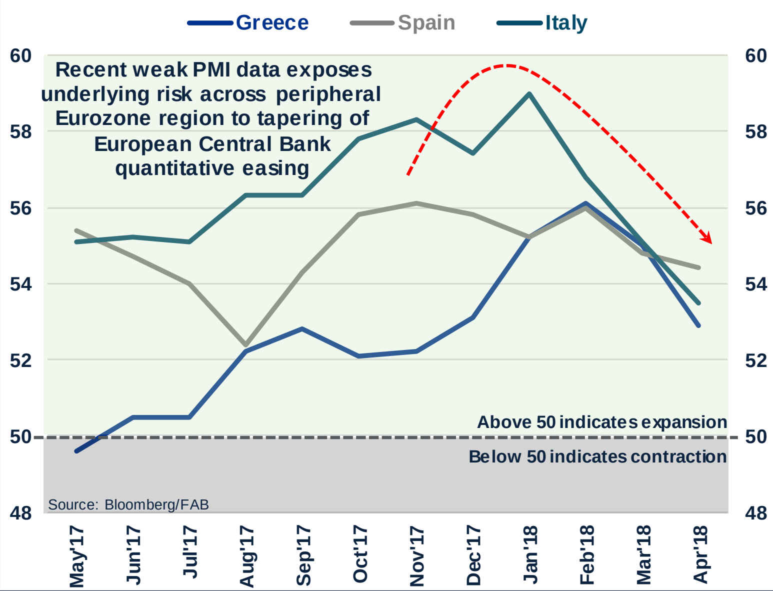
April PMI data for several Eurozone member states highlight the underlying flaws in macro fundamentals across those member states. And the spotlight of weakness shines most intently on the European periphery. Furthermore, the data would seem to highlight the relative inherent strength of GCC credit, when considered alongside UAE and Saudi Arabia PMI data that was also released this morning. While Saudi Arabia April PMI was seen slipping to 51.4 from 52.8 in March, the it remains firmly above 50, the divide between implied contraction and economic expansion. Meanwhile UAE April PMI data posted a very encouraging 55.1 print, up from 54.8 in March.

Italy led the way down with an April manufacturing PMI print of 53.5, sharply down from 55.1 in March and well short of the 54.5 level that it was expected to decline to. Meanwhile, Spain April manufacturing PMI post a fall to 54.4 from 54.8 in March, albeit that this slightly stronger than the 54.1 figure that Bloomberg consensus was predicting ahead of the release. Wrapping the weak image for the periphery was Greece; the Hellenic Republic published an April manufacturing PMI index of 52.9, sharply down from the 55.0 figure posted for March.

Meanwhile 'core' Europe showed relative strength. France April manufacturing PMI picked up to 53.8 from 53.4 in March (while the market has been expecting an unchanged reading). Germany held steady at 58.1, as expected.

The key takeaway from the data would seem to be that investors should now favor higher quality, core Eurozone and MENA/GCC risk – from a macro fundamental perspective at least – as opposed to chasing yield in the Eurozone periphery. This falls at a time when the market is already beginning to consider what the impacts might be of waning ECB policy support over the coming months and how to price that in.

Eurozone Manufacturing PMIs – Beware Peripheral Fundamentals



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