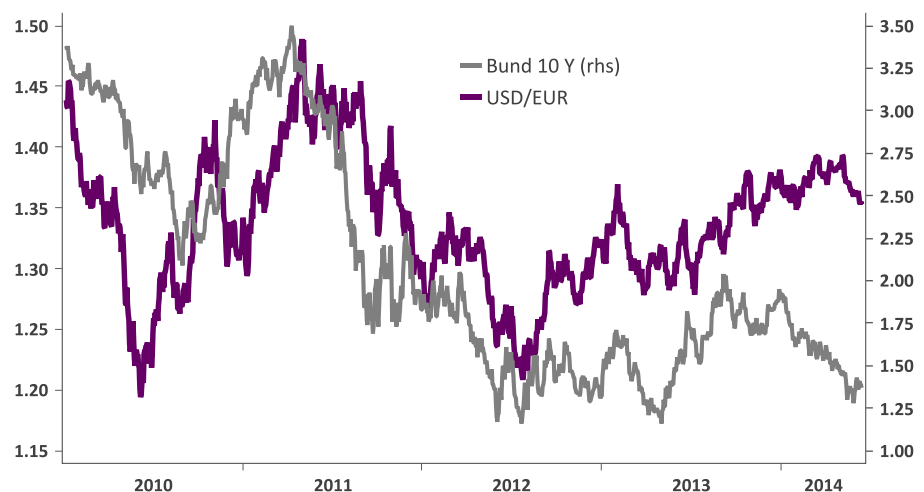


After the ECB's big flop, is there a life raft to cling to?

Too little too late or simply lacking credibility, the ECB's announcement was a flop. While for many observers, the measures were supposed to drive the euro down, give stock markets a shot in the arm (particularly banking and cyclical stocks) and increase the level of long rates by brightening the euro area outlook, by all accounts, they failed to win over the markets. The stock markets are stumbling, bank stocks sagging, bund yields have hardly budged and the euro is about where it was prior to the June 6th announcement. Of course, all is not lost but it seems that we'll have to look elsewhere: the US, China or even Iraq, which, at the time of publication, was the most pressing concern. Everywhere markets look, the rosier scenario is simply not materializing.

**Euro-Dollar Exchange Rate and Germany Government Bonds Yields
10 Year**



Sources: RichesFlores Research, Macrobond

Mediocre economic indicators leave the Fed on thin ice

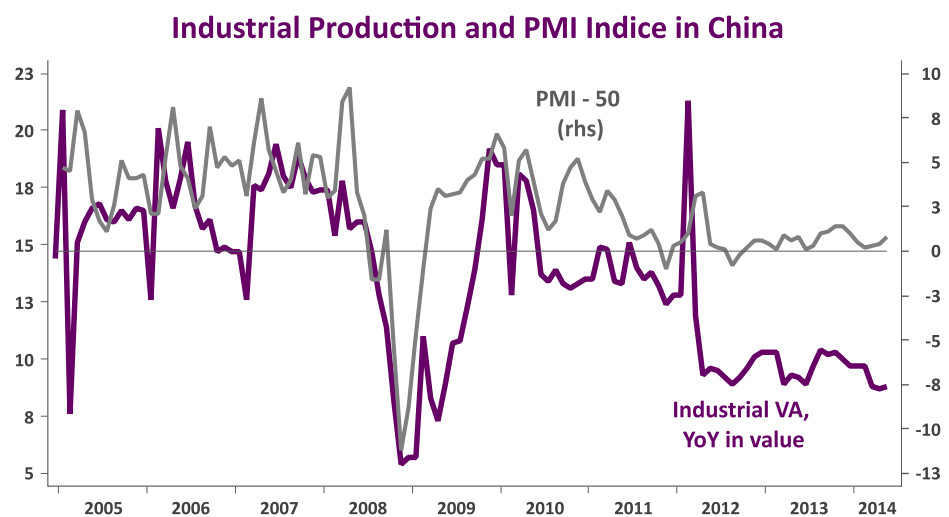
Better jobs data and better sentiment from SMEs will only have a passing effect on the US outlook given the raft of uneven indicators. Although the job market has offered encouraging signs, progress is far from being enough to fuel recent

trends over the long haul amid an economic backdrop still rife with uncertainty (see our two dashboard of indicators being analyzed by the Fed on pages 3 and 4). Sluggish retail sales in May disappointed hopes of a Q2 rebound in growth that would be robust enough to erase the 1% contraction in GDP in the first quarter. In addition, industrial production was disappointing, real estate is treading water, investment indicators are hapless and exports completely unstable.

The Fed should take a hard look at the situation and add a dose of nuance to its statement following the FOMC meeting on June 16. Reassuring remarks liable to boost anticipation of a rate hike could be a double-edged sword and spook investors rattled by international events and tight equity valuations. On the other hand, an overly-cautious tone could add to the nascent wariness and would be poorly received, although they would be liable to douse anticipations of a rate hike. The markets' reaction to the likely announcement of further tapering is, therefore, quite uncertain.

The stabilization of the Chinese situation has eased fears but means its economy will no longer be seen as global growth savior

The Chinese economy seems to be stabilizing, judging by this week's data. After a slight pick-up in PMI surveys and exports, the stabilization of manufacturing growth and retail sales in May reassured, while the stimulus measures decided by the government seem to have started to provide the desired effects on both the business activity and financing the economy.

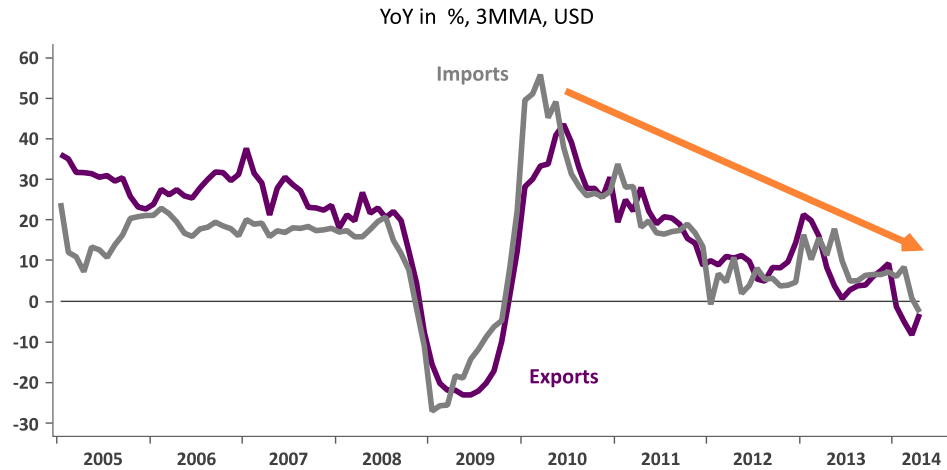


Sources: RichesFlores Research, Macrobond

This data may attenuate fears of a persistent deterioration in China but it does nothing to repair hopes of China becoming an international growth engine again. The growth of Chinese imports is still weak and continues to have an

unfavorable impact on global trade trends, whose indirect and direct effects on the European economy are considerable

Growth rate of Manufactured Good Foreign Trade



Sources: RichesFlores Research, Macrobond

International geopolitical tension add to the litany of concerns

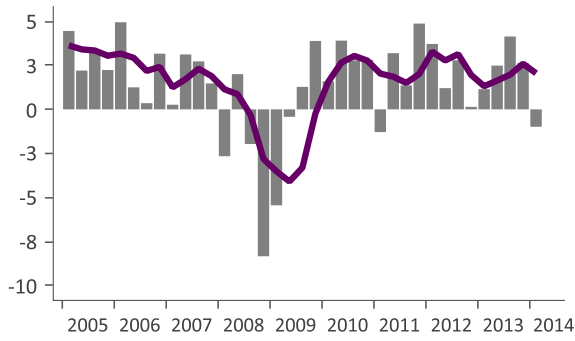
The rapid deterioration of the situation in Iraq is by far the most troubling issue right now. It is hard to imagine that a conflict can be avoided given the pace at which Islamic insurgents - who are now on the outskirts of Baghdad and on the Syrian border - are advancing. Under such a scenario, western powers will likely become involved, which is a mission that is as complex as it is dangerous. In what can only be construed as a major surprise, the reaction on oil markets flat calm - although this could very well change. The weakness of the global economy leaves little doubt to the potential impact of rocketing oil prices.

The overall picture, it should be said, is not very reassuring and lends credence to our viewpoint: risky assets are definitely risky.

Dashboard of indicators analyzed by the Fed on economic activity, inflation and the job market on pages 4 and 5.

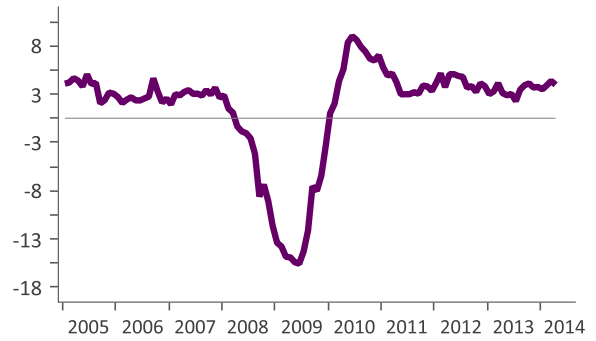
Dashboard of indicators scrutinized by the Fed on economic activity, inflation

Real GDP Growth, %



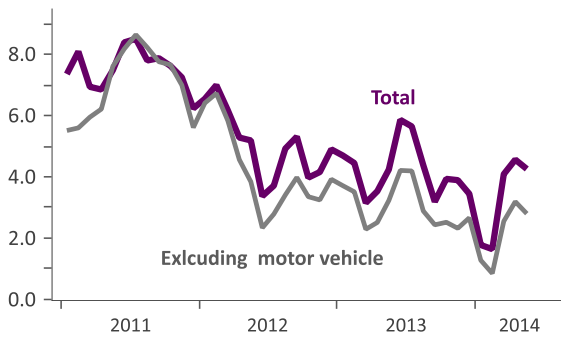
Sources: RichesFlores Research, Macrobond

Industrial Production, YoY in %



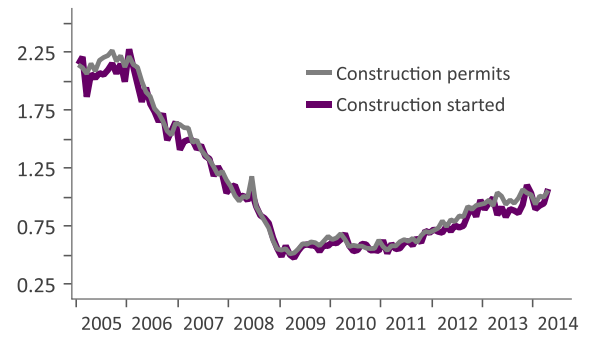
Sources: RichesFlores Research, Macrobond

Retail Sales, at Current Prices in %



Sources: RichesFlores Research, Macrobond

Housing Construction, M



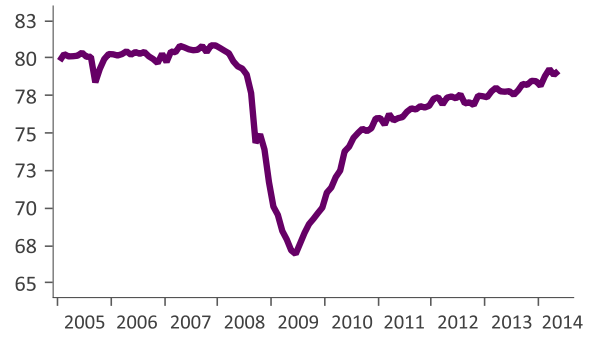
Sources: RichesFlores Research, Macrobond

Mortgage Applications, Purchase Index



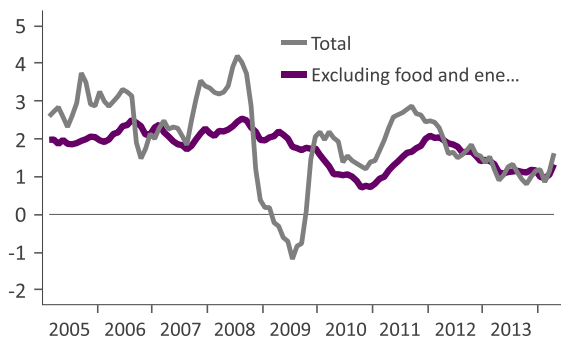
Sources: RichesFlores Research, Macrobond

Capacity Utilization Rate in Industry, %



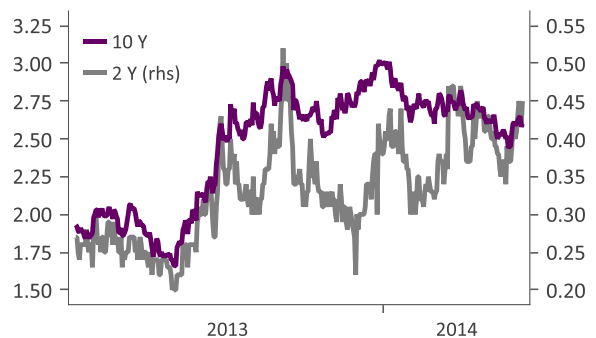
Sources: RichesFlores Research, Macrobond

Total and Core Inflation (PCE)



Sources: RichesFlores Research, Macrobond

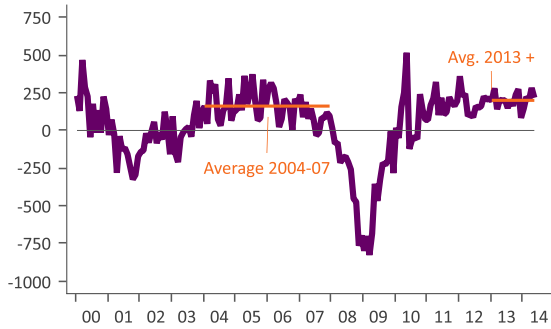
Government Bonds Yields



Sources: RichesFlores Research, Macrobond

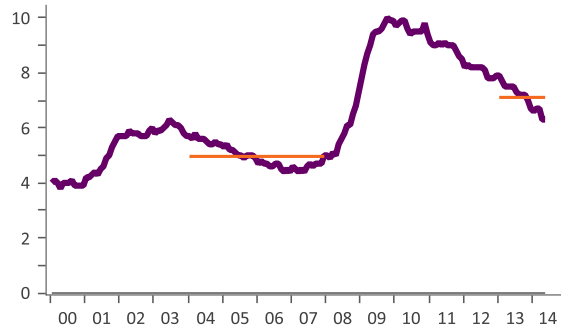
Fed Dashboard of Labor Market Conditions, as of March 2014

Monthly change in nonfarm payrolls, '000s



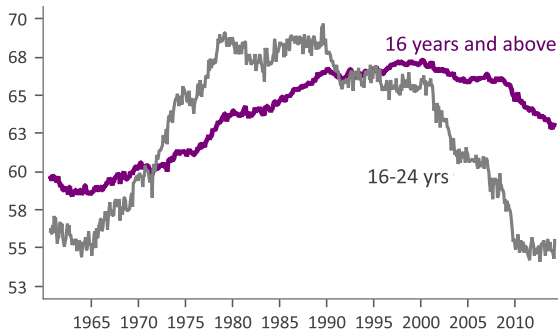
Sources: RichesFlores Research, Macrobond

Unemployment rate, %



Sources: RichesFlores Research, Macrobond

Labor force participation ratio, %



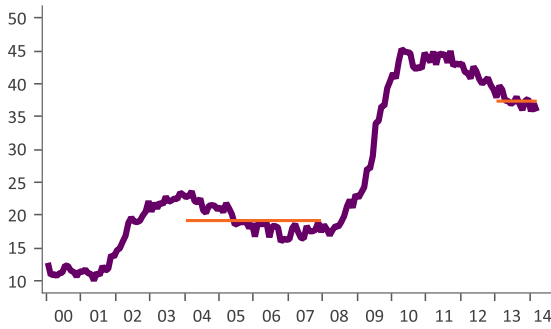
Sources: RichesFlores Research, Macrobond

U-6 underemployment rate, %



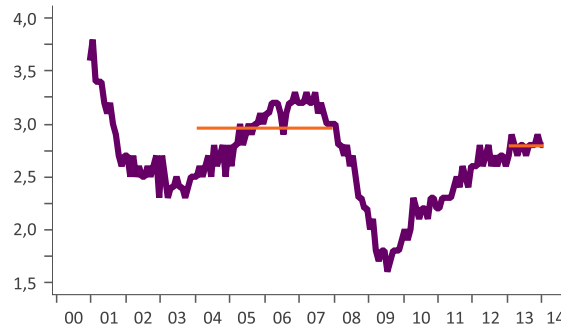
Sources: RichesFlores Research, Macrobond

Long-term unemployed share (>27 w), %



Sources: RichesFlores Research, Macrobond

Job openings rate, % of paid employment



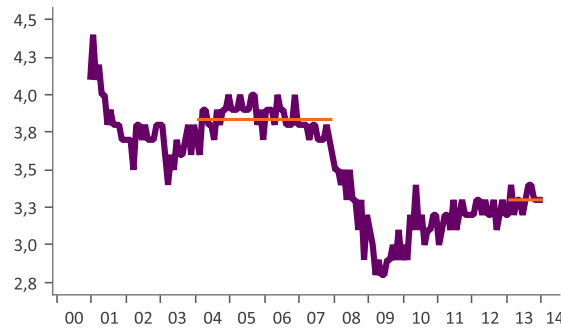
Sources: RichesFlores Research, Macrobond

Quits rate, % of paid employees



Sources: RichesFlores Research, Macrobond

Hires rate, % of paid employment



Sources: RichesFlores Research, Macrobond

Véronique Riches-Flores
contact@richesflores.com

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Véronique Riches-Flores, contact@richesflores.com