

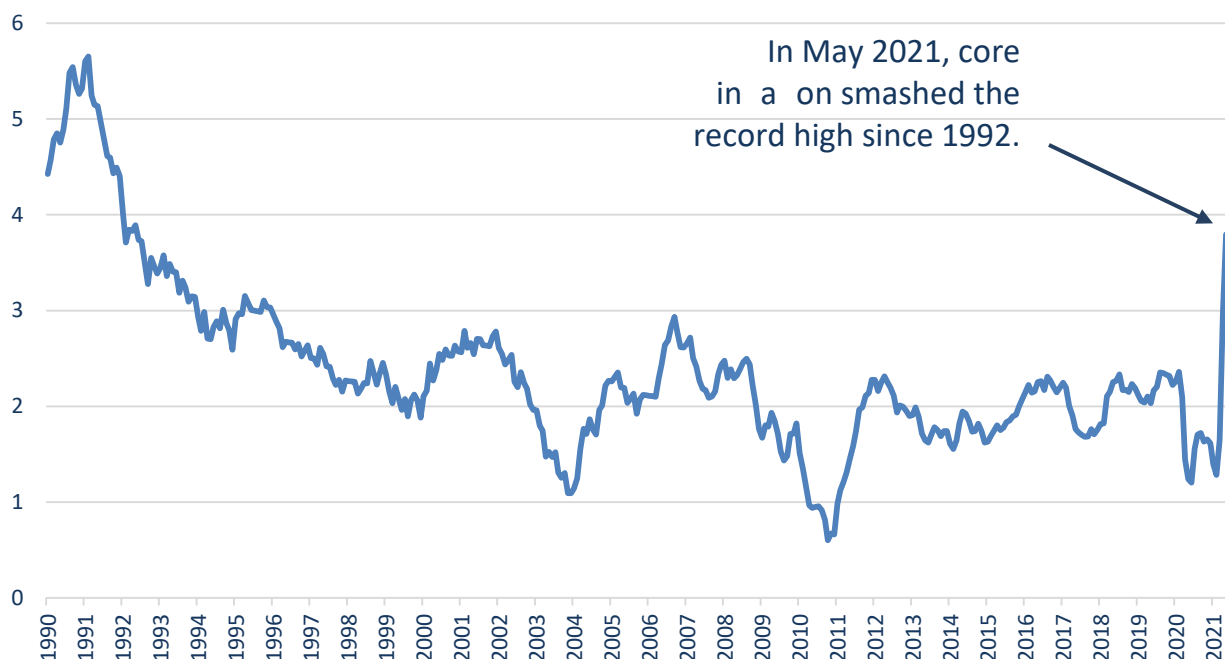
Macroeconomic review. Monetary policy and inflation: United States, Euro area, and Russia.

USA:

- **Inflation was 5% (YoY) in May** after 4.2% (YoY) in April.
- **Initial jobless claims number was 376 thousand last week** after 405 thousand a week earlier.

Inflation pressure keeps rising in the U.S. This can be seen particularly clearly from the behavior of core inflation which excludes food and fuel prices. Core inflation in the U.S. spiked to 3.8% (YoY) in May after 3% (YoY) in April. Core inflation demonstrates price changes not considering temporary fluctuations, and thus it is a more meaningful metric of price growth than common inflation. The fact that core inflation has beaten 29-year record increases probability that inflation will grow further in the United States.

Core inflation in the U.S. since 1990, % (YoY)



Source: US Department of labor

What to expect from the nearest FRS meeting? There are 2 scenarios:

1. Federal Reserve's rhetoric may harden a bit (30% probability). FRS head Jay Powell might possibly begin to pave the way and admit earlier stimulus wrapping. Markets will most probably enter correction if this happens.

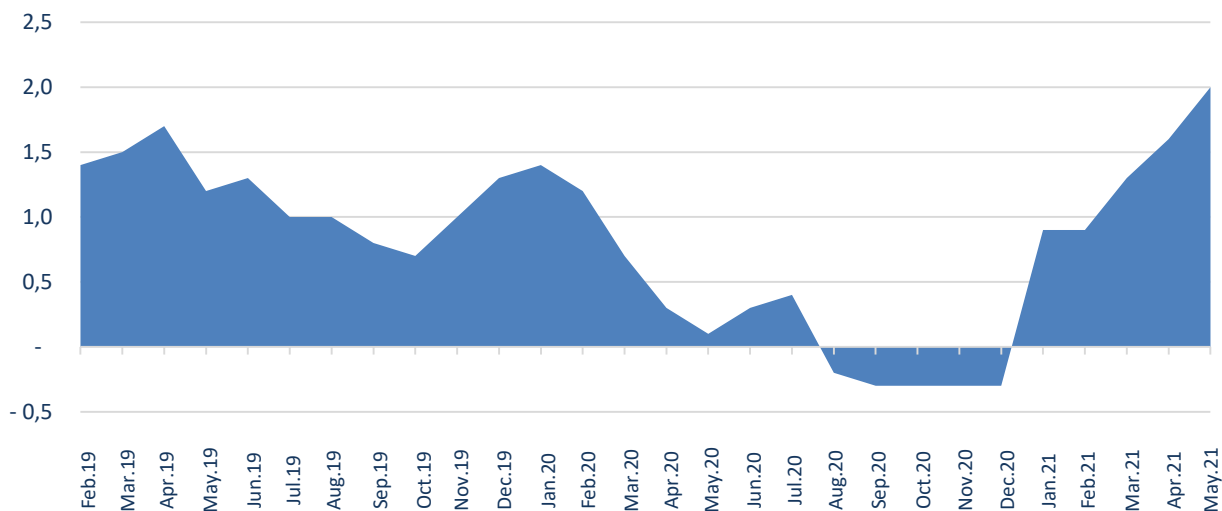
2. Jay Powell may continue to assure investors that the inflation surge is transitory, and that FRS is not going to do anything (70% probability). However, it would seem absolutely absurd to ignore 5% inflation with target being 2%, both from macroeconomic perspective and considering the main pillars of monetary policy. The main responsibility of FRS is to maintain stable prices rather than to inject money to the equity market, so there will be too many questions if they keep waiting.

Euro area:

- GDP fell by 0.3% in Q1 2021 (revised from 0.6%)
- European Central Bank kept the rates unchanged: basic rate at 0%, and deposit rate at 0.5%.
- Scope of Quantitative Easing (QE) will be retained, while equity purchase rates will be higher than in Q1 2021

There is no inflation pressure in Euro area yet. Yearly inflation on growth in May to 2% (YoY) after 1.6% (YoY) in April is due exclusively to the low base effect of the last year when prices dropped in the midst of the pandemic. Monthly price growth slowed down from 0.6% (MoM) in April to 0.3% (MoM) in May, same as monthly growth of core inflation, not considering volatile components.

Euro area inflation rate, % (YoY)



Source: Eurostat

European Central Bank keeps pursuing an extremely mild policy with high QE rates, and it will not even think about wrapping stimulus programs in the nearest months, for at least 3 reasons:

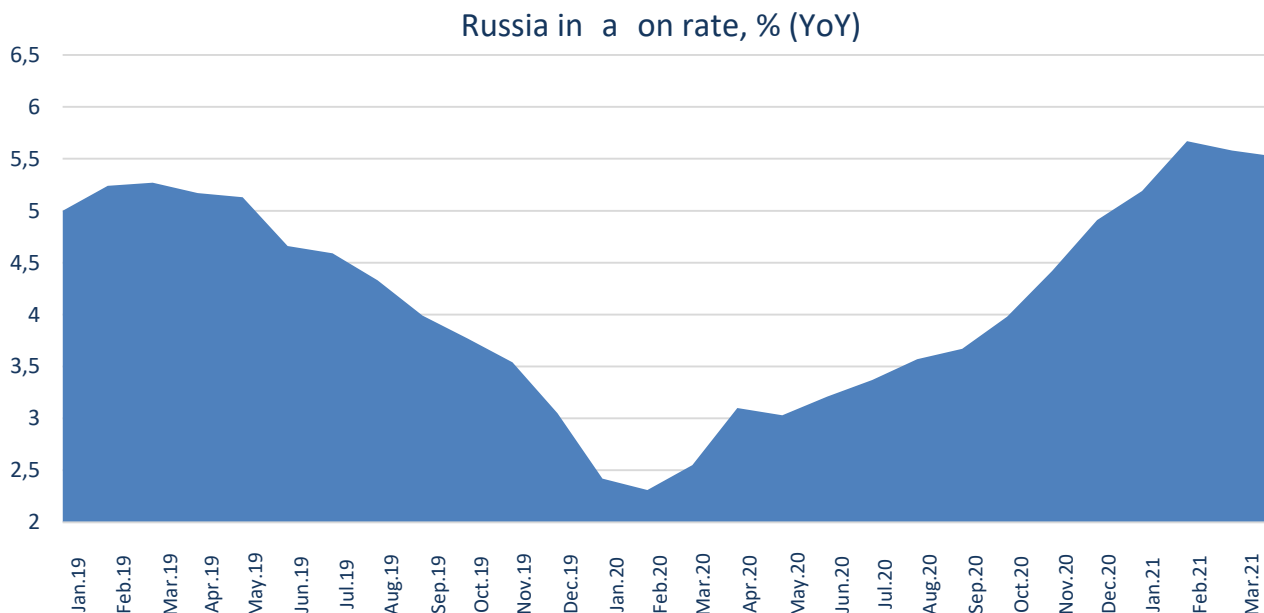
1. Inflation is not accelerating in Euro area yet, and, according to ECB's fresh forecast, it will be 1.9% by the year-end, that is, at or below the regulator's target.
2. Euro area's economy is only beginning to recover and needs aid.
3. ECB will look to FRS when it comes to making decision on QE wrapping. Given that the Fed's II does not wrap stimulus programs with inflation being 2.5 times higher than the target, ECB surely has no reason to do this.

Russia:

Inflation was 6% (YoY) in May after 5.5% (YoY) in April.

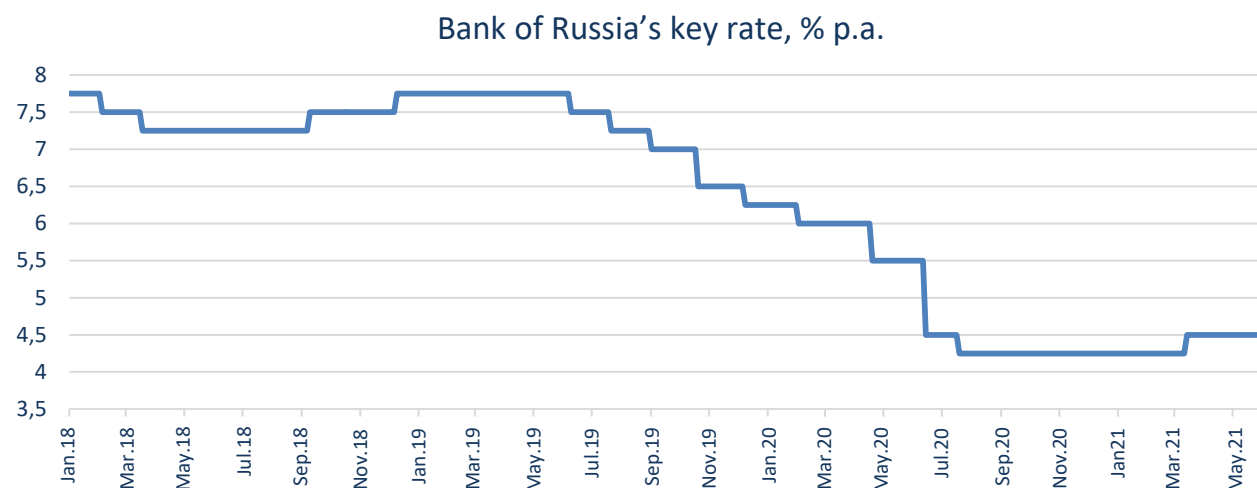
The Bank of Russia decided to increase the key interest rate by 50 bps.

Inflation keeps accelerating in Russia.



Source: Rosstat

Though it was widely expected not to exceed March's maximum of **5.8% (YoY)**, inflation has already grown to **6% (YoY)**, thus **exceeding the Bank of Russia's target by 2 bps**. Monthly price growth accelerated as well, from **0.6% (MoM)** in April to **0.7% (MoM)** in May.



Source: The Bank of Russia

The Bank of Russia raised the interest rate by 50 bps at today's meeting. According to the press release, the regulator is going to consider further rate increase. Apparently, this is not the last increase. It is a big question, however, if the Bank of Russia will be able to keep inflation in check. For one, rate increase affects prices with a lag of several months or more. For two, the current growth is firstly due to raw commodities going up, and not growing demand.

Global Markets Research Department

Moscow Partners
123056 Moscow
23 Maly Tishinsky lane, building 1
Tel.: +7 495 787-52-56
Fax: +7 495 787-52-57
www.moscowpartners.com

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