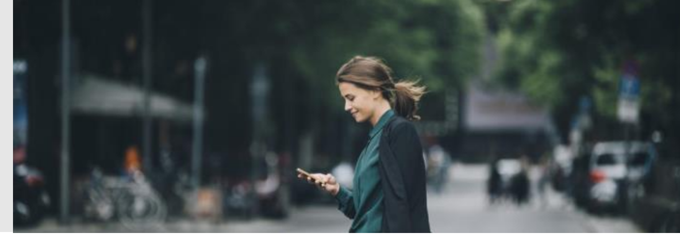
WEEKLY UPDATE

The pivot will have to wait a bit longer



After the ECB dovish hike this week, the Fed is likely to proceed to a hawkish pause next Wednesday. However, the message should be the same: the peak in rates has probably been reached but the door to more hikes remains open and rates should stay high for longer than markets foresee. The outcome of the Bank of England meeting may prove different: another 25pb hike is possible on Thursday but it may not be the last.

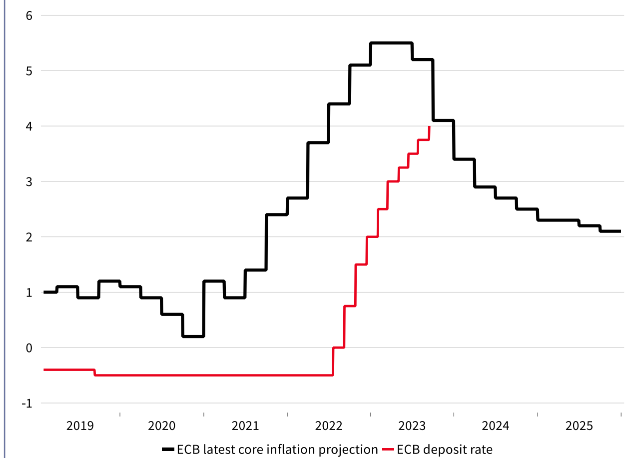
ECB meeting- A dovish hike. The European monetary authority decided to hike all its interest rates by 25bp, bringing the deposit rate to 4%, as the Council believed the still high inflation backdrop warranted another hike. The central bank's new projections show inflation remaining well above 2% in 2024 (3.2% for headline, 2.9% for core) and just-above 2% in 2025. Against this backdrop, the ECB made it clear that, under the current circumstances, rates may be high enough if maintained for a long time to return inflation to its target. However, the ECB maintained its data-dependency policy - leaving the door open to additional hikes, should inflation fail to ease as expected. ECB President Lagarde tried (but, so far, failed) to convince markets that rate cuts are unlikely anytime soon, even once (if) the peak has been reached. Overall, we believe this is most likely the last ECB hike, but we question the markets' views that cuts could start mid-2024 – at least if we take the ECB inflation projections for granted.

Fed – A hawkish pause. We believe that the Federal Reserve will keep its policy rate at 5.5% in its coming September 20th meeting as core inflation and the labour market continues to cool down. Core inflation moderated further in August to 4.3% yoy as durable goods prices decline carried on while services and shelter prices continued to ease. Employment figures are also on a cooling trend, with net monthly job creations slowing to 150 thousand and job openings also trending down. However, the FOMC is also likely to maintain a hawkish stance in it discourse as economic data, and specifically households' consumption, continues to beat expectations. In that sense, the set of economic forecasts is likely to be closely followed given that the June forecasts saw a terminal rate of 5.75%. All in all, we expect the Fed to maintain its policy rate at current levels and to state its willingness to keep maintaining tight financial conditions for longer.

BoE - a hawkish hike possible. The UK economic data for July have shown a clear loss of momentum, with the monthly GDP growth contracting by 0.5% mom and job losses accelerating. However, wage growth remains too high, with the weekly private sector earnings growth (excluding bonuses) at record high of 7.8% yoy in July and core inflation remaining sticky at 6.8%. As a result, a pause by the BoE may not yet be on the cards. Hike or not next week, we see another 50bp increase in total by the BoE rates by year-end.

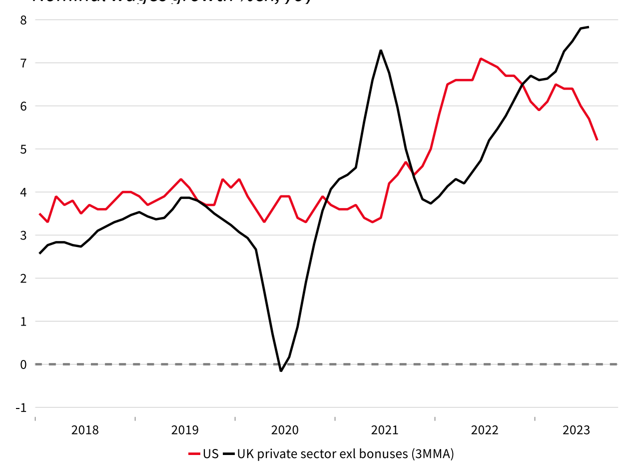
No pivot soon. As a result, we believe the major central banks will continue to signal that rates will remain high for longer - even despite increasing signs of economic slowdown in the UK or the euro area. But slowly adjusting core inflation and tight labour market should prevent the central banks from cutting rates anytime soon.

ECB deposit rate closing the gap to core inflation, but the 2% target may not be reached by 2025



Divergent wage growth between the US and the UK means the BoE may not be over, but the Fed probably is

Nominal wages growth %ch, yoy



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OUR MACRO COMMENTS

Events of the week

Compared with last month, Chinese figures have been more encouraging this week. Industrial production (yoy) for August jumped to 4.5% against 3.9% expected, and retail sales rose to 4.6% against 3% expected,. Nevertheless, these figures do not point to a strong rebound in the Chinese economy, as structural weaknesses prevail.

US inflation was in line with the consensus forecasts for August, reaching 3.7% year-on-year, against 3.6% expected. There was a significant rise in July, to 0.6% mom, compared with 0.2% between June and July, but this was due to higher oil prices. Core inflation proved much more stable and getting closer to pre-covid pace. This supports our view that US inflation is normalising.

Figures of the week

	Actual	Forecast	Previous
Inflation (YoY, august)	3.7%	3.6%	- 3.2%
Inflation (MoM, august)	0.6%	0,6%	0.2%
Core Inflation (MoM, august)	0.3%	0.2%	0.2%
Retail sales (MoM, august)	0.6%	0.2%	0.5%
Industrial production (MoM, july)	-1.1%	-0.7%	0.4%
ZEW economic sentiment index (august)	-11.4	-15	-12.3
GDP (MoM, july)	-0.5%	-0.2%	0.5%
Industrial production (YoY, august)	4.5%	3.9%	3.7%
Retail sales (YoY, august)	4.6%	3%	2.5%

Sources : Macrobond, septembre 15 2023.

The week ahead

Wednesday

- Balance of trade (august)
- Inflation (august)
- Fed Interest rate decision

Thursday

- Business confidence (september)
- Bank of England Interest rate decision

Friday

- Inflation rate (august)
- Bank of Japan Interest rate decision
- Retail sales (august)
- Services and manufacturing PMI (september)

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MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,65	3,65	3,15	1,91	0,66
USD SOFR O/N	5,30	5,30	5,05	4,30	2,27
JPY TONAR O/N	-0,02	-0,08	-0,08	-0,02	-0,03
GBP SONIA O/N	5,19	5,19	4,43	3,43	1,69
CHF O/N	1,83	1,79	1,81	0,80	0,62

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,20	3,18	2,98	2,98	2,25
10Y Bund	2,65	2,65	2,44	2,44	1,70
10Y BTP	4,45	4,40	4,02	4,55	3,98
10Y JGB	0,70	0,65	0,42	0,41	0,25
10Y Bonos	3,72	3,70	3,41	3,51	2,84
10Y Swiss	1,09	0,98	0,98	1,57	1,05
10Y Gilt	4,35	4,53	4,40	3,66	3,12
10Y USTnote	4,25	4,30	3,83	3,88	3,41

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,55	3,51	3,44	3,12	2,67
EUR Corporate Baa	4,67	4,68	4,58	4,65	3,85
GBP Corporate Baa	5,28	5,48	5,50	4,59	4,19
USD Corporate Aaa	4,95	4,98	4,59	4,62	4,31
USD Corporate Baa	6,03	6,07	5,82	5,70	5,39
USD EM aggregate	7,75	7,75	7,48	7,52	7,26

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	92,14	1,7%	25,3%	7,2%	-2,6%
Or, USD/oz	1 908	-0,4%	-1,7%	4,5%	12,5%
Copper, USD/metric ton	8 371	-0,5%	-1,1%	-0,3%	7,5%
Platinium, USD/oz	906	-1,6%	-7,7%	-14,9%	1,0%
Palladium, USD/oz	1 233	2,4%	-9,5%	-31,0%	-41,5%
Silver, USD/oz	22,91	-2,4%	-3,9%	-4,3%	17,4%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	-0,1%	-0,7%	0,5%	7,4%
EUR/CHF	0,96	0,2%	-1,7%	-2,9%	-0,1%
USD/GBP	0,80	0,0%	1,6%	-3,6%	-7,3%
USD/JPY	147,50	-0,1%	5,8%	12,8%	3,4%
USD/BRL	4,91	-1,3%	1,5%	-8,0%	-5,1%
USD/CNY	7,28	-0,5%	1,8%	5,5%	4,5%
USD/RUB	96,15	-2,2%	14,5%	31,7%	60,1%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0,6%	0,6%	0,7%	2,7%
Euro area	-0,3%	-0,3%	-3,5%	9,5%
Germany	-0,6%	-0,6%	-4,0%	11,3%
France	0,4%	0,4%	-1,4%	9,5%
United Kingdom	1,3%	1,3%	-1,0%	1,0%
Switzerland	0,5%	0,5%	-2,7%	2,3%
United States	0,0%	0,0%	2,2%	16,4%
Japan	-0,6%	-0,6%	3,7%	25,7%
Brazil	1,9%	1,9%	-0,7%	11,1%
Hong Kong	-2,4%	-2,4%	-7,2%	-9,0%
India	2,4%	2,4%	6,7%	10,3%
China	-2,0%	-2,0%	-3,3%	-3,5%

Source: Bloomberg, on 14 September 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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