

Climate change: major national initiatives but still insufficient

Several countries have now committed to carbon-neutrality objectives (2050 for the US, EU and the UK, 2060 for China), with interim milestones for Greenhouse gas (GHG) reductions by 2030. Nearly eight years after the Paris Climate Agreement (COP21), the drive for international cooperation on fighting climate change seems to have stalled. But, important initiatives at the national level have been launched, such as the United States Inflation Reduction Act (IRA) and the ramping up of the EU's Green Deal. However, despite this, most countries do not appear on track to reach their GHG emission reduction targets for 2030.

US Inflation Reduction Act – a significant breakthrough, but not without its shortcomings

In August 2022, the Biden Administration launched the IRA, worth at least USD369bn over ten years. The programme focuses mainly on subsidies for electric vehicles, manufacture of green products and the development of renewable energies. It is also the subject of major international criticisms, as some of its measures are seen as protectionists, likely breaching the World Trade Organisation rules and leading to unfair competition. While this may indeed be the case, the IRA is a real breakthrough in the fight against climate change. Not only does it represent a total policy U-turn compared with the Trump administration but also embodies the first serious fiscal commitment from the US on this matter. Most studies seem to agree that the IRA will help narrow (but not close) the gap between the current US emissions and the 2030 target of halving GHGs from a 2005 baseline. Finally, the IRA also sends a strong signal to the world that more can (and should) be done to reduce GHG emissions.

EU Green deal: ambitious but implementation remains challenging

The European Green Deal, worth €1trn over ten years, was announced in 2019. In July 2021, the 'Fit for 55' package was introduced, detailing its proposals on how to reach the new 55% GHG reduction target by 2030 and the 2050 carbon neutrality objective (via a mix of higher taxes, grants and regulation). This is funded by allocating 30% of the EU pluri-annual budget and the Next Generation EU stimulus package to green investment – representing around half a trillion euros over six to ten years. Unlike the US IRA, these schemes take the form of grants and loans mostly, not subsidies. Since the launch of US IRA, the Commission proposed the creation of the Green Deal Industrial Plan, aiming at allowing a smooth and fast transition towards net-zero, relying on state aid relaxation and reshuffling of existing EU fund. Similar to the US, despite the massive sums in play, these measures will still likely fall short of what is needed to hit the 2030 GHG reduction target.

Asia also doing its bits in cutting GHG emissions

seem in better shape to hit their 2030 GHG reduction targets – in part, some argue, because they are not ambitious enough. In China and Taiwan, this may also be explained by the rapid development of wind and solar energy as well as that of electric vehicles. However, the reliance on coal in China or India remains large. Still in Asia, Japan's GHG reduction efforts will mostly come from the reopening of several nuclear plants – though this won't be enough to reach the 2030 targets.

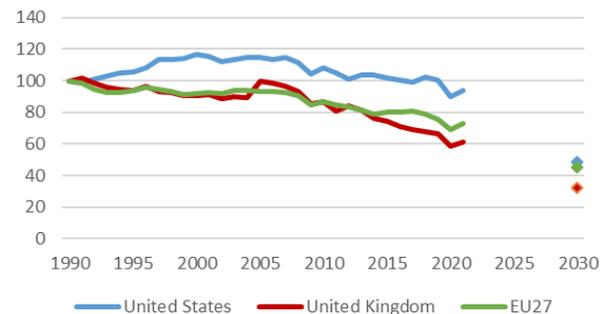
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 29/09/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.



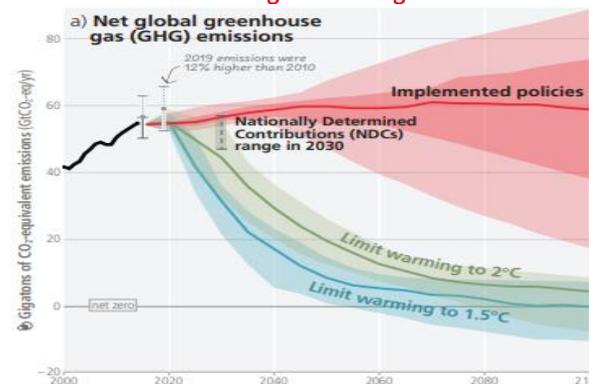
Reaching the GHG emission targets will require more measures.

GHG emissions are expressed in Mton CO₂eq. 100 in 1990. 2030 is target



Sources : SGPB, EDGAR (Emissions Database for Global Atmospheric Research)
Community GHG Database : https://edgar.jrc.ec.europa.eu/dataset_ghg70

Limiting warming to 1.5C and 2C involves rapid, deep and in most cases immediate greenhouse gas emission reductions



Sources : SGPB, IPCC

OUR MACRO COMMENTS

Events of the week

 Oil prices rose again this week, against a backdrop of production cuts and low oil inventories in the US. This new upswing accentuates fears of the impact on economic activity and inflation, contributing to renewed interest-rate pressures and a fall in risky assets.

 The failure of the US Senate and House of Representatives to reach a compromise on the budget makes a "shutdown" of the US government from October 1 highly likely. This event is not unprecedented, and in the past has had little impact on the markets. But the context of rising interest rates makes markets more sensitive to this type of news, a sensitivity accentuated by the rating agency Moody's hint at a downgrade of its triple-A rating of US sovereign debt on this occasion. However, there is still a chance that Congress will reach a compromise over the weekend.

Figures of the week

	Actual	Forecast	Last
 Business climate (September, Ifo)	85.7	85.2	85.8
 Harmonised inflation rate (September)	4.3%	4.5%	6.4%
 Retail sales (August, YoY)	-1.9%	-0.7%	-2.1%
 Unemployment rate (September)	5.7%	5.7%	5.7%
 Consumer confidence (September)	83	84	85
 Harmonised inflation rate (September)	5.6%	5.9%	5.7%
 Economic sentiment (September)	93.3	92.5	93.6
 Inflation rate (September, YoY)	4.3%	4.5%	5.2%
 Unemployment rate (August)	2.7%	2.6%	2.7%
 Retail sales (August, YoY)	7%	6.6%	6.8%

Sources : Macrobond, September 29 2023.

The week ahead

Monday

 Unemployment rate (August)

 Manufacturing ISM/PMI (September)

Wednesday

 Services ISM/PMI (September)

Thursday

 Trade balance (August)

 Trade balance (August)

Friday

 Trade balance (August)

 Employment report (September)

MARKET PERFORMANCES

Interbank rates

	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,90	3,40	1,91	0,66
USD SOFR O/N	5,32	5,30	5,06	4,30	2,98
JPY TONAR O/N	-0,06	-0,06	-0,08	-0,02	-0,07
GBP SONIA O/N	5,19	5,18	4,93	3,43	2,19
CHF O/N	1,70	1,88	1,71	0,80	0,56

Long term sov. rates

	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,39	3,24	2,84	2,98	2,75
10Y Bund	2,83	2,70	2,30	2,44	2,15
10Y BTP	4,77	4,46	3,90	4,55	4,59
10Y JGB	0,75	0,71	0,40	0,41	0,24
10Y Bonos	3,92	3,75	3,29	3,51	3,33
10Y Swiss	1,05	1,10	0,88	1,57	1,48
10Y Gilt	4,35	4,24	4,31	3,66	4,01
10Y USNote	4,61	4,35	3,71	3,88	3,72

Credit & EM

	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,73	3,59	3,39	3,12	3,26
EUR Corporate Baa	4,77	4,66	4,62	4,65	4,60
GBP Corporate Baa	5,21	5,14	5,57	4,59	5,38
USD Corporate Aaa	5,26	5,03	4,51	4,62	4,71
USD Corporate Baa	6,31	6,11	5,72	5,70	5,90
USD EM aggregate	7,99	7,79	7,46	7,52	8,07

Commodities

	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	94,31	1,3%	27,9%	9,7%	5,7%
Or, USD/oz	1 875	-2,8%	-1,7%	2,7%	13,0%
Copper, USD/metric ton	8 074	-3,1%	-2,5%	-3,9%	10,7%
Platinum, USD/oz	906	-4,1%	-0,9%	-14,9%	7,9%
Palladium, USD/oz	1 236	-3,2%	-2,1%	-30,9%	-40,1%
Silver, USD/oz	22,79	-2,1%	0,8%	-4,8%	24,8%

FX rates

	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,05	-1,6%	-3,7%	-1,4%	10,2%
EUR/CHF	0,97	0,8%	-1,2%	-2,1%	2,3%
USD/GBP	0,82	2,1%	3,9%	-0,8%	-11,5%
USD/JPY	149,41	1,2%	3,4%	14,2%	3,3%
USD/BRL	5,03	3,6%	3,5%	-5,9%	-6,3%
USD/CNY	7,31	0,3%	0,8%	6,0%	1,5%
USD/RUB	96,75	0,3%	11,6%	32,5%	66,0%

Equity indices

	-1W	-3M	YTD	-12M
Developped markets	-2,9%	-1,1%	0,1%	12,4%
Euro area	-3,4%	-4,9%	7,1%	23,9%
Germany	-3,6%	-4,6%	8,2%	24,9%
France	-3,5%	-2,9%	7,2%	22,7%
United Kingdom	-1,8%	1,2%	1,9%	8,4%
Switzerland	-2,4%	-2,7%	1,4%	6,5%
United States	-2,9%	-2,3%	11,3%	14,9%
Japan	-1,1%	3,5%	25,8%	28,3%
Brazil	-3,7%	-2,0%	7,5%	5,4%
Hong Kong	-1,5%	-8,1%	-11,0%	2,1%
India	-1,0%	3,4%	8,1%	16,8%
China	-0,1%	-3,7%	-4,4%	-3,3%

Source: Bloomberg, on Septembre 28 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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