

# WEEKLY UPDATE

## Could inflation be more than transitory? The risk is low in Europe and a bit higher in the United States

The economic recovery in Europe and the United States has prompted a rise in inflation: 3% in the eurozone, 3.2% in the United Kingdom and 5.3% in the United States in August. These levels are far above the targets set by central banks and have not been seen for several years, giving rise to fears of lasting pressure on consumer prices.

**The central banks call the rise in inflation transitory.** The recent rise in consumer prices is mainly due to a surge in energy prices and the recovery of consumer purchasing, whereas certain sectors remain disrupted by the effects of the pandemic. These factors will quickly recede in the next few months as the health situation and economic activity go back to normal, and will push inflation down to more moderate levels.

**What are the risks of this rise in inflation taking hold?**

- **In the short term, developments in labour markets will be key, especially in the United States.** Indeed, the increase in inflation could become a lasting trend if accompanied by wage pressures. Labour market disruptions are currently limited to certain sectors, and solid global employment levels do not point to a price-wage loop that will allow inflation to take hold. This is especially true in Europe. In the United States, the labour market is normalising and does not seem likely to exert lasting pressure on wages. However, the new fiscal package under discussion in Congress could continue to drive strong demand and consolidate price pressure.

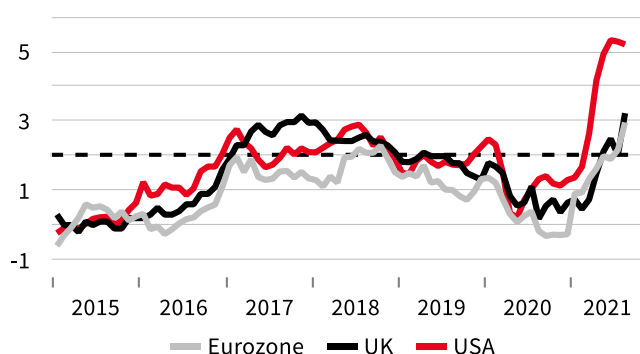
- **In the longer term, the basic components helping to contain inflation remain in place.** The declining power of trade unions, robotisation and globalisation will continue to limit price increases. Although the health crisis once again raises questions around globalisation, in particular regarding the relocation of production chains to countries with higher labour costs, very few evidences have emerged to date and their effect on prices will take time.

### Bottom line.

Inflation should return to more moderate levels with the normalisation of economic activity, as anticipated by central banks. Nevertheless, if new pressures are emerging on the US labour market, it could signal expectations of a faster tightening of monetary policy.

### Inflation exceeds the central banks' 2% target

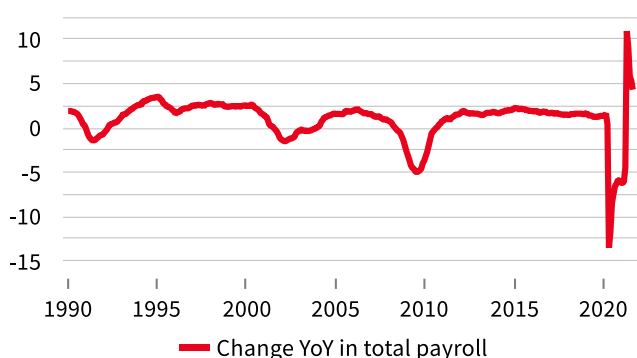
Evolution of inflation (in %)



Sources : SGPB, Macrobond, BLS, Eurostat, ONS, 08/2021

### Normalization of the US labour market

Change YoY in total payroll (in %)



Sources : SGPB, Macrobond, BLS, 08/2021

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

All data taken from Bloomberg, Macrobond, (17/09/2021). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

## OUR MACRO COMMENTS

### This week and next

#### EUROZONE

- Industrial production in the eurozone rose 1.5% MoM and 7.7% YoY in July, above the 0.6% and 6.3% gains expected, respectively.
- The eurozone trade surplus was €20.7 bn in July, down from +€26.8 bn one year earlier, as the 1% export growth outpaced the 0.3% import growth.



#### Next week's key events

		Per.	Prev.	Cons.
22 Sep	Euro zone consumer confidence P	Sep	-5.3	-5
23 Sep	Euro zone PMI composite P	Sep	59	59.7

#### UNITED KINGDOM

- The number of people on unemployment benefits declined by 58,600 compared to analyst consensus of 26,000. Accordingly, the unemployment rate fell slightly from 4.7% to 4.6% in the three months to July, as expected.
- Retail sales fell 0.9% MoM in August, after falling 2.5% the previous month, well below the 0.5% increase expected.
- The producer price index rose 11.0% MoM in August, above the 10.3% increase expected by the consensus.



#### Next week's key events

		Per.	Prev.	Cons.
23 Sep	BoE interest rate decision	Sep	0.1%	0.1%
23 Sep	Gfk consumer confidence	Sep	-8	-7

#### UNITED STATES

- Retail sales were up 0.7% MoM in August, whereas economists had forecast a decline of 0.8%.
- The Philadelphia Fed Manufacturing Index jumped to 30.7 in September from 19.4 in August, whereas the New York Empire State Manufacturing Index surged to 34.3 from 18.3.
- Industrial production rose 0.4 MoM in August, as expected, after a revised increase of 0.8% in July.
- In the week ending 10 September, initial jobless claims increased from 312,000 to 332,000, whereas the consensus had forecast 328,000.



#### Next week's key events

		Per.	Prev.	Cons.
22 Sep	Fed interest rate decision	Sep	0.25%	0.25%
23 Sep	PMI composite P	Sep	55.4	58.3

#### ASIA & EMERGING COUNTRIES

- In China, retail sales and industrial production rose 2.5% YoY and 5.3% YoY in August, respectively, below the 7.0% and 5.8% forecast by analysts, respectively.
- In Japan, machinery orders rose 11.1% YoY and 0.9% MoM, below the 15.7% and 3.1% increases expected by analysts, respectively.



#### Next week's key events

		Per.	Prev.	Cons.
22 Sep	PBoC interest rate decision	Sep	3.85%	3.85%
23 Sep	BoJ interest rate decision	Sep	-0.1%	-0.1%

Sources: DataStream, Bloomberg, 17 September 2021. Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, PMI = Purchasing Managers' Index, CPI = Consumer Price Inflation.

# MARKET PERFORMANCE

Interest rates	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-0.48 %	0 bp →	-1 bp	2 bp	-1 bp
3mth Euribor (EUR)	-0.55 %	0 bp →	0 bp	0 bp	-6 bp
3mth Libor (USD)	0.12 %	1 bp →	0 bp	-12 bp	-11 bp
3mth Libor (GBP)	0.07 %	1 bp →	-1 bp	5 bp	2 bp
10-year US Treasury bond	1.33 %	3 bp ↑	-24 bp	42 bp	64 bp
10-year German bond	-0.31 %	6 bp ↑	-6 bp	27 bp	17 bp
10-year French bond	0.03 %	7 bp ↑	-11 bp	37 bp	25 bp
10-year UK bond	0.82 %	8 bp ↑	8 bp	62 bp	61 bp

Government bonds*	1wk	3mth	YTD	12mth
United States (3-7yr)	-0.2 % ↓	0.7 %	-0.9 %	-1.0 %
United Kingdom (3-7yr)	-0.3 % ↓	-0.2 %	-1.6 %	-1.6 %
Germany (3-7yr)	-0.2 % ↓	0.0 %	-0.8 %	-0.7 %
Japan (3-7yr)	0.0 % →	0.0 %	0.0 %	-0.1 %

Credit	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	-0.1 % ↓	0.5 %	0.1 %	2.0 %
BAML EURO Corp HY	0.3 % ↑	1.1 %	4.2 %	8.5 %
BAML GBP Corp IG	-0.4 % ↓	1.3 %	-1.8 %	1.8 %
BAML US IG	0.1 % →	2.4 %	0.2 %	2.7 %
BAML US HY	0.2 % ↑	2.0 %	5.2 %	10.9 %
BAML Global EM Sov. External Plus	-0.1 % ↓	0.8 %	-0.4 %	4.2 %

Exchange rates	Last	1wk	3mth	YTD	12mth
EUR/USD	1.18	-0.5 % ↓	-1.9 %	-3.7 %	-0.4 %
EUR/CHF	1.09	0.7 % ↑	0.1 %	0.9 %	1.6 %
GBP/USD	1.38	-0.3 % ↓	-1.4 %	0.8 %	6.3 %
USD/JPY	109.7	0.0 % →	-0.9 %	6.3 %	4.5 %
USD/BRL	5.25	1.1 % ↑	3.9 %	1.2 %	0.3 %
USD/CNY	6.46	0.0 % →	0.9 %	-1.1 %	-4.4 %
USD/RUB	72.5	-0.7 % ↓	-0.2 %	-2.1 %	-3.2 %

Equities*	Last	1wk	3mth	YTD	12mth
MSCI AC World	735	-0.6 % ↓	2.9 %	15.4 %	30.3 %
Eurostoxx 50	4 170	-0.2 % ↓	0.7 %	19.8 %	27.8 %
DAX	15 652	0.2 % ↑	-0.4 %	14.1 %	18.1 %
CAC 40	6 623	-0.9 % ↓	-0.3 %	21.7 %	33.5 %
S&P 500	4 474	-0.4 % ↓	6.3 %	20.4 %	34.1 %
FTSE 100	7 027	0.0 % →	-1.0 %	12.0 %	19.9 %
SMI	12 028	-0.7 % ↓	0.4 %	15.5 %	17.3 %
Topix	2 090	1.2 % ↑	6.0 %	17.2 %	29.9 %
IBOV Brazil	113 794	-1.4 % ↓	-12.0 %	-4.4 %	14.2 %
MICEX Russia *	4 045	1.3 % ↑	5.6 %	23.0 %	36.0 %
MSCI EM	1 277	-1.7 % ↓	-5.9 %	0.7 %	17.0 %
SENSEX 30 India	59 141	1.4 % ↑	13.0 %	24.9 %	52.1 %
Hang Seng (H-K)	24 668	-4.0 % ↓	-12.2 %	-7.2 %	2.4 %
Shanghai Composite	3 607	-2.3 % ↓	2.5 %	3.9 %	9.8 %

Commodities	Last	1wk	3mth	YTD	12mth
Brent	\$75.8	5.8 % ↑	1.9 %	46.1 %	79.2 %
Gold	\$1 757	-1.9 % ↓	-5.3 %	-7.4 %	-10.7 %
Copper	\$9 349	-0.2 % ↓	-3.0 %	20.6 %	37.6 %

Source: DataStream, on 16 September 2021.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. \* Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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