WEEKLY UPDATE

US to speed up monetary tightening

Fed drops idea of "transitory" inflation
At Tuesday's Congress testimony, Jerome Powell hinted the Federal Reserve was ready to take a more restrictive approach to monetary policy. Powell repeatedly said it would be appropriate for the 15 December meeting to discuss a "*a somewhat faster taper*" perhaps "*to consider wrapping up the taper of our asset purchases… perhaps a few months sooner*". The Fed had already announced a USD 15bn monthly wind-down of its purchase programme back at its November meeting. Powell justified the change saying that "*the economy is very strong and inflationary pressures are higher*" and that "*the threat of persistently higher inflation has grown*". Accordingly, the Fed has abandoned its core assumption of high "transitory" inflation driven by post-Covid normalisation of the economy, raising the chances of multiple rate hikes in 2022.

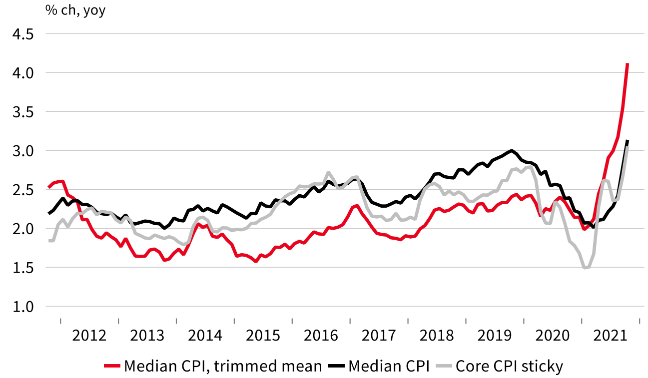
More widespread and more political inflation
Powell's change in tone comes against a backdrop of ongoing high US inflation, where non-transitory factors are starting to build. Inflation in the stickiest goods and services was running at 3% in October, and the trimmed-mean index, which strips out volatile components, at 4%. Furthermore, consumers and businesses continue to expect inflation to remain high (above 3%) in the coming quarters. Finally, high inflation is starting to affect households. Consumer confidence surveys are weakening despite a still dynamic labour market. Overall, in a context of more widespread and politically sensitive US inflation, it seems likely the Fed will again prioritise its price stability mandate over its mandate to maintain full employment.

Bond market betting on stable inflation
While short rates naturally bounced on the testimony, long yields actually fell, resulting in a flattening of the sovereign yield curve. Bond markets seem to be betting the peak of the tightening cycle will be lower than last time around. Interesting to note, the market's inflationary expectations remain stable (5Y5Y forwards at 2.25%) in contrast to surveys of household expectations.

Conclusion
As inflation continues to show signs of an uptrend that can no longer be called "transitory", central banks are striking a more hawkish tone. The Fed is set to announce an acceleration in tapering and launch a gradual cycle of rate hikes in H2 2022. In the euro zone, inflation continues to surprise on the upside, driven by energy prices. The ECB could announce the end its Covid asset purchase programme but its overall policy stance should remain accommodative, maintaining its classic asset purchases and bank facilities. Overall, the scenario is good for the dollar.

A high level of inflation that is becoming more widespread in the US

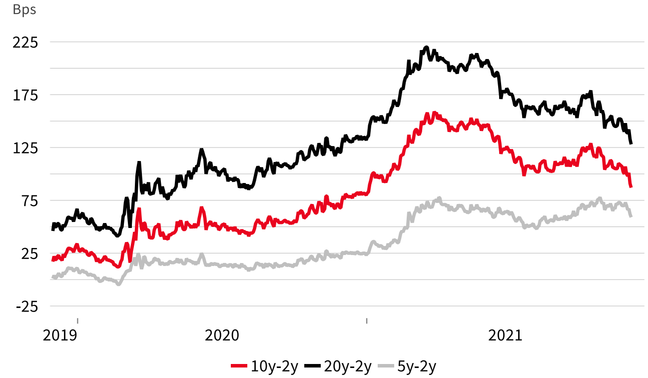
US: Inflationary pressures



Sources: SGPB, Macrobond, Fed, 10/2021

The yield curve is flattening following the Fed's change in tone

US: Slope of the yield curve



Sources: SGPB, Macrobond, Fed, 01/12/2021

OUR MACRO COMMENTS

Events of the week

OPEC+ members decided this week to stick to their policy of a monthly increase of 400,000 barrels per day for January, ignoring for now the threat posed by the Omicron variant on global crude demand.

The United Nations Food and Agriculture Organization (FAO) reported this week that world food prices rose for a fourth consecutive month in November to remain at 10-year highs.

Figures of the week

	Actual		Forecast	Previous
• ISM manufacturing PMI (November)	61.1	↑	61	60.8
• ADP employement change (November)	534K	↑	525K	570K
• Inflation (YoY, November)	4.9%	↑	3.7%	4.1%
• Retail sales (YoY, October)	1.4%	↑	1.2%	2.5%
• Inflation (YoY, November)	6%	↑	5.4%	4.6%
• Retail sales (YoY, October)	-2.9%	↓	-2%	-0.6%
• Non-manufacturing PMI (November)	50.1	↑	49.6	49.2
• NBS manufacturing PMI (November)	52.3	↓	53	52.4
• Retail trade (YoY, september)	0.9%	↓	1.1%	-0.5%

The week ahead

Tuesday
Trade balance
GDP
GDP
ZEW survey – Economic sentiment
Thursday
Inflation
Friday
GDP
Inflation
Michigan consumer sentiment index

Sources : Refinitiv Eikon, 3 December 2021

SOCIETE GENERALE
Private Banking

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,57	-0,57	-0,57	-0,57	-0,56
USD SOFR O/N	0,05	0,05	0,05	0,10	0,08
JPY TONAR O/N	-0,05	-0,04	-0,03	-0,02	-0,03
GBP SONIA O/N	0,05	0,05	0,05	0,05	0,05
CHF O/N	-0,77	-0,78	-0,78	-0,83	-0,81

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	68,89	-16,2%	-5,4%	36,1%	45,8%
Or, USD/oz	1 782	-0,4%	-1,5%	-8,2%	-1,8%
Copper, USD/metric ton	9 508	-2,8%	1,6%	19,9%	24,3%
Platinium, USD/onz	953	-3,2%	-4,7%	-13,4%	-3,0%
Palladium, USD/onz	1 745	-7,0%	-28,6%	-27,9%	-27,3%
Silver, USD/onz	22,86	-2,7%	-5,4%	-16,2%	-2,9%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	0,03	0,15	-0,04	-0,36	-0,28
10Y Bund	-0,34	-0,25	-0,39	-0,61	-0,56
10Y BTP	1,01	1,08	0,72	0,55	0,67
10Y JGB	0,06	0,08	0,03	0,02	0,02
10Y Bonos	0,43	0,53	0,32	0,03	0,12
10Y Swiss	-0,20	-0,12	-0,32	-0,55	-0,50
10Y Gilt	0,85	1,01	0,68	0,19	0,36
10Y USTnote	1,43	1,64	1,29	0,93	0,92

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,13	1,0%	-4,5%	-8,0%	-5,5%
EUR/CHF	1,04	-0,5%	-3,9%	-3,4%	-3,9%
USD/GBP	0,75	0,1%	3,9%	2,0%	0,4%
USD/JPY	112,99	-2,1%	2,7%	9,6%	8,1%
USD/BRL	5,62	0,4%	9,2%	7,8%	7,0%
USD/CNY	6,37	-0,4%	-1,4%	-1,4%	-3,1%
USD/RUB	73,84	-1,5%	1,5%	-0,2%	-2,3%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,29	0,27	0,07	-0,10	-0,10
EUR Corporate Baa	0,64	0,62	0,36	0,39	0,47
GBP Corporate Baa	1,34	1,38	1,10	0,69	0,88
USD Corporate Aaa	2,11	2,24	1,90	1,66	1,67
USD Corporate Baa	2,57	2,66	2,26	2,08	2,18
USD EM aggreate	4,57	4,53	3,87	3,55	3,74

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 096	-3,7%	-3,5%	10,7%	13,2%
Eurostoxx 50	4 179	-2,3%	-1,3%	17,2%	18,5%
Dax 40	15 473	-2,6%	-2,3%	12,7%	15,6%
CAC 40	6 882	-2,3%	1,8%	23,1%	23,3%
FTSE 100	7 169	-1,6%	0,1%	9,1%	12,3%
SMI	12 266	-1,0%	-1,3%	14,2%	17,4%
SP500	4 513	-4,0%	-0,5%	22,0%	23,2%
TOPIX	1 937	-4,1%	-2,4%	7,9%	9,5%
iBovespa	100 775	-3,6%	-13,6%	-15,2%	-9,5%
Hang Seng	23 659	-4,2%	-9,3%	-13,9%	-10,9%
Sensex 30	57 685	-1,1%	-0,3%	19,7%	29,2%
MOEX	3 959	0,2%	-0,8%	18,2%	25,8%
CSI 300	4 844	-1,5%	-0,5%	-8,0%	-4,4%

Source: Macrobond, Bloomberg, on 2 December 2021

1W = 1-week change, 3M = 3-month change, 12M = 12-month change, YTD = year-to-date change

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