

Towards a monetary policy normalisation

Fed more hawkish than consensus; ECB follows script

The week was dominated by the decisions of central bank monetary policy committees. In the United States, the Federal Reserve accelerated its tapering of asset purchases, from USD 15 billion per month to USD 30 billion per month, which will mean zero net purchases by March. It also upgraded its 2022 growth forecasts from 3.8% to 4%, its outlook for underlying inflation from 2.3% to 2.7% and now expects to hike short-term rates three times to plateau at 2% for the medium term.

In Europe, as widely expected, the ECB said it would be phasing out net purchases under its Pandemic Emergency Purchase Programme (PEPP) by March 2022. To accompany the wind-down of this programme, it announced that (i) it would continue reinvesting maturing PEPP assets until 2024 and, crucially, (ii) expand its old pre-COVID asset purchase programme (APP) by EUR 40 billion per month in Q2 2022 and a further EUR 30 billion in Q3 2022 to prevent a cliff-edge in April. Finally, the Bank of England surprised markets at its latest meeting by raising the policy rate from 0.10% to 0.25%.

ECB still has the luxury to be more patient

At the Fed's press conference, Jerome Powell justified accelerating monetary tightening by claiming its medium-term targets of full employment and inflation around 2% are likely to be met in 2022. Despite a labour participation rate still below pre-crisis levels, Powell claimed the economy is near maximum employment as many people have retired early while the recovery of the employment for the "prime age" population (25-54) has been robust so far. On inflation, Powell cited the risk that persistently high inflation would destabilise inflationary expectations.

Christine Lagarde, meanwhile, stressed the gradualist approach to monetary policy normalisation. Energy remains the biggest upside contributor to the ECB's inflation projections. Lagarde also noted they were not seeing any wage pressures so far. Finally, the APP has not only been expanded but also extended indefinitely.

Financial markets query transitory nature of inflation

Equity markets in Europe and the US welcomed these announcements. The Fed may have struck a more hawkish tone but its outlook still sees a target rate below neutral. Bond markets, in contrast, continue to expect modest inflation and limited monetary tightening, with 10-year yields staying around 1.5% and further flattening of the yield curve. In the euro zone, the reaction by debt markets was mixed, with Italian and Greek sovereign yields edging up. Remember that unlike the PEPP, the APP is restricted to investment grade assets, which rules out Greek sovereign debt.

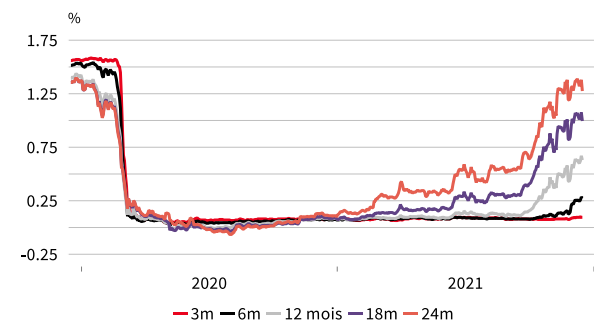
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (17/12/2021). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



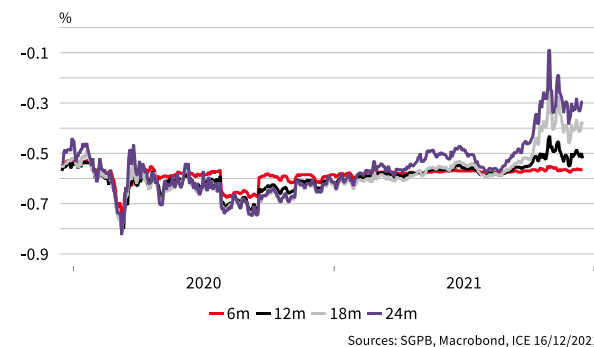
Markets are expecting at least 2 rate hikes from the Fed

US: Fed fund futures



ECB tightening expectations have been revised downwards

EONIA futures



OUR MACRO COMMENTS

Events of the week



U.S. senators approved a bill on Tuesday that would raise the U.S. debt ceiling and thus allow the country to make payments until the beginning of 2023.



The International Monetary Fund (IMF) announced on Wednesday that the world debt increased by 28% last year to reach 226,000 billion dollars (256% of world GDP), the largest increase in one year since the Second World War, due to the crisis caused by the pandemic.

Figures of the week



- Retail sales (MoM, November)
- Composite PMI (December)



- Composite PMI (December)



- Inflation (YoY, November)
- Services PMI (December)



- Manufacturing PMI (December)



- Retail sales (YoY, November)

	Actual		Forecasts	Previous
	0.3%	↓	0.8%	1.8%
	56.9	↑	56.8	57.2
	56.4	↓	54	55.4
	5.1%	↑	4.7%	4.2%
	53.4	↓	57	58.5
	57.9	↑	56.8	57.4
	3.9%	↓	4.6%	4.9%

The week ahead

Monday



PBoC meeting

Tuesday



BoJ minutes



Consumer confidence

Wednesday



GDP



GDP

Thursday



Durable goods



Michigan consumer sentiment index

Sources : Refinitiv Eikon, 17 December 2021

FINANCIAL MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,57	-0,57	-0,55
USD SOFR O/N	0,05	0,05	0,05	0,10	0,09
JPY TONAR O/N	-0,02	-0,02	-0,03	-0,02	-0,02
GBP SONIA O/N	0,05	0,05	0,05	0,05	0,05
CHF O/N	-0,79	-0,78	-0,79	-0,83	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	-0,02	0,04	0,02	-0,36	-0,37
10Y Bund	-0,37	-0,38	-0,31	-0,61	-0,62
10Y BTP	0,92	1,03	0,74	0,55	0,52
10Y JGB	0,05	0,05	0,04	0,02	0,00
10Y Bonos	0,34	0,41	0,34	0,03	-0,02
10Y Swiss	-0,28	-0,29	-0,23	-0,55	-0,55
10Y Gilt	0,73	0,76	0,81	0,19	0,26
10Y USTnote	1,47	1,52	1,34	0,93	0,92

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,24	0,27	0,11	-0,10	-0,17
EUR Corporate Baa	0,56	0,58	0,39	0,39	0,39
GBP Corporate Baa	1,31	1,24	1,16	0,69	0,78
USD Corporate Aaa	2,18	2,18	1,91	1,66	1,70
USD Corporate Baa	2,63	2,64	2,27	2,08	2,16
USD EM aggregate	4,55	4,52	3,94	3,55	3,63

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	74,37	-2,1%	-1,6%	46,9%	46,7%
Or, USD/oz	1 777	-0,3%	1,4%	-8,5%	-4,1%
Copper, USD/metric ton	9 280	-2,9%	-1,5%	17,0%	19,3%
Platinum, USD/onoz	911	-5,4%	-3,3%	-17,3%	-10,9%
Palladium, USD/onoz	1 608	-12,8%	-20,9%	-33,5%	-30,8%
Silver, USD/onoz	21,81	-2,8%	-7,1%	-20,0%	-10,0%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,13	-0,3%	-4,3%	-8,4%	-7,2%
EUR/CHF	1,04	-0,3%	-4,2%	-3,4%	-3,2%
USD/GBP	0,76	0,0%	4,2%	2,7%	1,4%
USD/JPY	113,83	0,0%	3,8%	10,4%	9,7%
USD/BRL	5,72	3,1%	8,9%	9,8%	12,2%
USD/CNY	6,37	0,4%	-1,4%	-1,5%	-2,6%
USD/RUB	74,09	0,6%	2,1%	0,1%	0,7%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 135	0,2%	1,6%	14,6%	15,5%
Eurostoxx 50	4 160	-1,7%	-0,2%	16,7%	18,1%
Dax 40	15 476	-1,3%	-1,1%	12,7%	15,8%
CAC 40	6 928	-1,2%	4,6%	24,0%	25,3%
FTSE 100	7 171	-2,3%	2,0%	9,1%	10,1%
SMI	12 531	-0,5%	4,2%	16,7%	21,2%
SP500	4 710	0,2%	5,3%	27,3%	27,5%
TOPIX	1 984	-0,9%	-5,1%	10,6%	11,3%
iBovespa	107 431	-0,6%	-5,6%	-9,6%	-7,5%
Hang Seng	23 421	-2,4%	-5,1%	-14,7%	-10,6%
Sensex 30	57 788	-1,5%	-2,3%	19,9%	24,9%
MOEX	3 622	-4,0%	-10,5%	8,1%	11,5%
CSI 300	5 006	0,2%	4,1%	-5,0%	1,2%

Source: Macrobond, Bloomberg, on 16 December 2021

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

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