A further reassessment of US monetary policy

A level of inflation not recorded since 1982

The most surprising economic indicator of 2021 was unquestionably US inflation. It ended the year at 7%, meaning consumer prices were rising at their fastest for 40 years. Energy costs go some way toward explaining the surge, rising 29% over the year despite a late tail-off in December. Service prices picked up slightly towards new year but remain pretty close to their pre-COVID trend. Goods prices, however, continue to rise atypically fast. The explanation lies partly in strong household demand, and secondly in disruptions to supplies - mainly bottlenecks stalling production chains.

Development in the labor market will be decisive for the staying power of inflation

US policies for supporting the country through the pandemic differed sharply form those of most European countries and this has potentially important implications for salary trends. In Europe, support was targeted at keeping people in work by sustaining companies' income. In the United States, support went directly into household income, leading to a wave of job destruction and steep climb in unemployment. Subsequently, the rapid return to normal by the US labor market has generated tensions. Households are only gradually coming back into a labor market that is marked by a shortage of new recruits. These tensions are visible on the evolution of wages. The background of high inflation could add to this pressure and generate a second-round price-wage effect.

Markets reassess yet again their monetary policy expectations

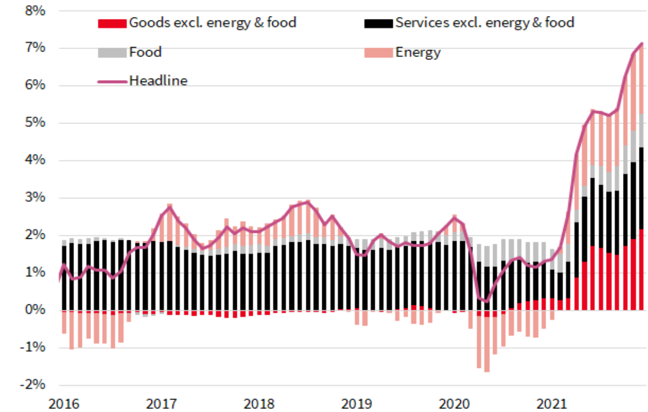
In its latest publications and statements, the Federal Reserve has sounded markedly more hawkish on these issues, repeatedly reiterating its commitment to act to rein in inflation, seen as a major risk, while simultaneously committing to support economic recovery and the labor market. As a result, money markets have recently been revising their expectations for rate rises. They now expect three to four quarter-point rate hikes in 2022.

Conclusion

Given the persistent concerns that high inflation could lock in, debt markets are likely to remain volatile. The risk is that monetary policy expectations could tighten further, if wage pressures intensified for instance. That said, upward pressure on salaries is actually a sign of the good health of the labor market and hence of the private sector's ability to sustain the economic recovery. Against a backdrop of confirmed economic growth, equity markets should be able to ride out higher inflation and more hawkish monetary policy, although careful stock-picking will undoubtedly be necessary.

The rise in US inflation is mainly due to a jump in goods and energy prices

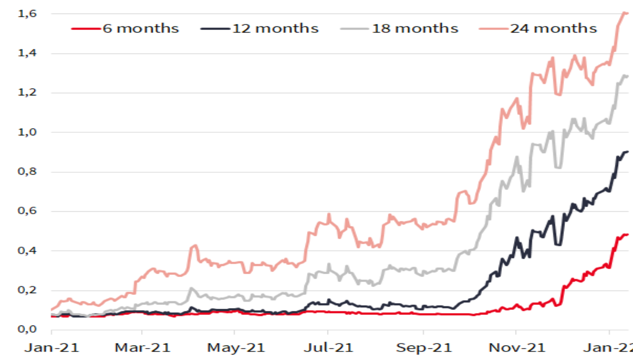
United States: Inflation and component contributions



Sources : SGPB, Macrobond, BLS, 14/01/2022

Markets anticipate a significant rate hike by the Federal Reserve in 2022

United States : Fed funds futures



Sources : SGPB, Macrobond, 14/01/2022

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OUR MACRO COMMENTS

Events of the week

Testifying to the Senate on Tuesday 11 January, Fed Chairman Jerome Powell sought to reassure markets, saying the US economy could withstand a tightening of monetary policy. Powell nonetheless remained flexible on timing and on the first steps in the tightening process. Markets, for their part, are discounting an initial policy rate rise in March.

Meanwhile, the World Bank has downgraded its forecasts for global GDP growth, cutting its 2022 forecast from 4.3% to 4.1%. The international financial institution also highlighted several threats to recovery in emerging markets: resurgent COVID, inflation, debt-cutting measures, rising inequality, etc.

Figures of the week

	Current		Forecast	Previous
Inflation (in year on year variation, december)	7%	↑	7%	6,8%
Industrial production (december)	-0.1%	↓	0.4%	0.7%
Consumer confidence (january)	68.8	↓	70	70,6
Industrial Production (november)	1.5%	↓	1.8%	2,3%
Industrial production (november)	0.1%	↓	0.5%	0.2%
Inflation (in year on year variation, december)	1,5%	↓	1,8%	2,3%

Sources : Bloomberg, on January 14th, 2022.

The week ahead

Monday
GDP (Q4)
Industrial Production
Tuesday
Monetary Rates
Unemployment rate
ZEW Economic Sentiment
Wednesday
Inflation
Thursday
Monetary rates
Inflation
Inflation

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MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,57	-0,59	-0,56
USD SOFR O/N	0,30	0,05	0,05	0,05	0,08
JPY TONAR O/N	-0,02	-0,01	-0,05	-0,02	-0,01
GBP SONIA O/N	0,20	0,19	0,05	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	0,24	0,26	0,15	0,20	-0,31
10Y Bund	-0,05	-0,05	-0,14	-0,21	-0,49
10Y BTP	1,22	1,28	0,88	1,17	0,58
10Y JGB	0,11	0,10	0,07	0,07	0,02
10Y Bonos	0,59	0,62	0,43	0,56	0,07
10Y Swiss	0,01	-0,03	-0,11	-0,13	-0,46
10Y Gilt	1,16	1,19	1,05	1,02	0,31
10Y USTnote	1,70	1,73	1,52	1,52	1,10

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,39	0,38	0,22	0,33	-0,07
EUR Corporate Baa	0,73	0,71	0,53	0,66	0,40
GBP Corporate Baa	1,61	1,65	1,39	1,52	0,80
USD Corporate Aaa	2,32	2,31	2,04	2,13	1,76
USD Corporate Baa	2,81	2,79	2,43	2,60	2,16
USD EM aggreate	4,60	4,50	4,33	4,33	3,70

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84,06	2,6%	0,0%	6,4%	50,5%
Or, USD/oz	1 822	1,8%	1,5%	-0,3%	-1,2%
Copper, USD/metric ton	9 960	4,2%	1,3%	2,9%	25,0%
Platinium, USD/onz	973	0,6%	-5,8%	0,6%	-9,5%
Palladium, USD/onz	1 913	3,4%	-12,2%	-3,3%	-20,0%
Silver, USD/onz	23,25	4,5%	-0,4%	0,7%	-8,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,15	1,3%	-1,2%	1,2%	-5,8%
EUR/CHF	1,04	0,4%	-2,5%	0,7%	-3,4%
USD/GBP	0,73	-1,5%	-0,4%	-1,4%	-0,7%
USD/JPY	114,12	-1,4%	0,4%	-0,9%	9,8%
USD/BRL	5,52	-3,2%	0,3%	-1,0%	4,4%
USD/CNY	6,36	-0,4%	-1,2%	0,1%	-1,7%
USD/RUB	76,26	-0,2%	6,7%	1,7%	3,7%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 191	1,7%	6,2%	2,6%	15,7%
Eurostoxx 50	4 316	-0,2%	4,0%	0,4%	19,3%
Dax 40	16 032	-0,1%	3,7%	0,9%	15,0%
CAC 40	7 201	-0,7%	7,7%	0,7%	27,2%
FTSE 100	7 564	1,5%	4,9%	2,4%	12,1%
SMI	12 620	-1,3%	6,1%	-2,0%	16,4%
SP500	4 659	-0,8%	5,0%	-2,2%	22,3%
TOPIX	2 006	0,4%	0,9%	0,7%	7,6%
iBovespa	105 530	3,9%	-6,8%	0,7%	-13,5%
Hang Seng	24 430	5,9%	-2,1%	4,4%	-13,5%
Sensex 30	61 235	2,7%	-0,1%	5,1%	23,7%
MOEX	3 675	-2,1%	-13,7%	-3,0%	5,9%
CSI 300	4 766	-1,1%	-3,0%	-3,5%	-14,6%

Source: Macrobond, on January 14th, 2022.

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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