Energy price inflation: what it's costing the Euro area

The surge in energy prices is being felt across all Euro area economies
Since the start of 2021, oil and gas prices in euros have jumped by 80% and 280%, respectively. The rises are being driven by simultaneous pressures on energy's global demand and supply. These pressures are exogenous to the Euro area economies but have started to negatively affect the activity. World demand for oil, which is heavily US-driven, took off in the post-Covid recovery. Demand for natural gas is supported in part by unfavourable weather conditions: in several countries the weather depressed renewable energy output forcing them to fall back on gas. Meanwhile, on the supply side, OPEC+ has modestly increased its oil production. In the United States, the weak recovery of oil shale production has also helped drive prices higher. And in Europe's gas market, supply was down from both Norway and Russia, for either technical or geopolitical reasons.

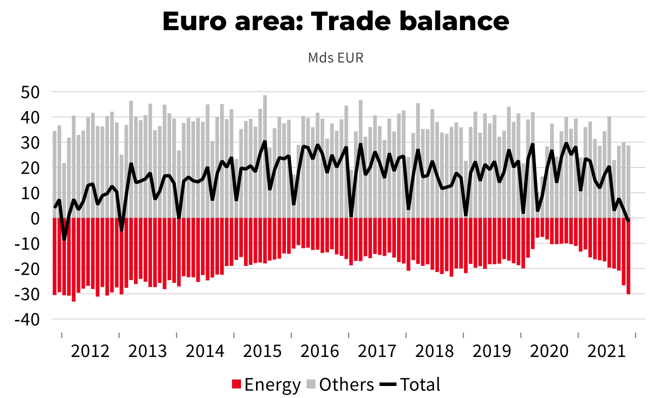
Energy prices undermine the balance of trade and are the main cause of inflation
As an exogenous phenomenon, oil and gas price rises have pushed up the costs of imports to the Euro area. So much so that the region's balance of trade has plunged into the red for the first time since 2014. Aside from this, energy prices are also the mainspring of the zone's rising inflation. The energy component of the consumer price index rose by 27% in 2021. In December, energy prices accounted for more than half of the Euro area's inflation, compared with a quarter in the United States. Being an exogenous shock, these price rises play out like a tax, eroding the buying power of households, particularly the poorest.

At this stage, monetary policy is clearly no solution
The significance of energy in the recent inflationary surge highlights very different situations in the Euro area and United States. Across the Atlantic, inflation is also being fuelled by endogenous factors, particularly in its goods component. In the Euro area, the economy has bounced back strongly but is still running below its pre-Covid trend and has been hit by disruptions linked to Omicron. As it stands, companies have less space to pass rising input costs on to selling prices. What is more, wage pressures are for now virtually non-existent. In these circumstances, it can be premature for the European Central Bank to tighten monetary conditions, as the current inflation rise is overwhelmingly exogenous.

Conclusion
The rise in energy prices explains most of the rise in Euro area inflation and is acting as a brake on economic recovery. A toughening of the ECB's monetary policy would only act as a further brake while doing nothing to reduce the exogenous pressures on energy markets today. It therefore seems premature to expect ECB rate hikes. Which means we may see a gap opening up with Fed policy.

Rising energy prices push Euro area trade balance into negative territory

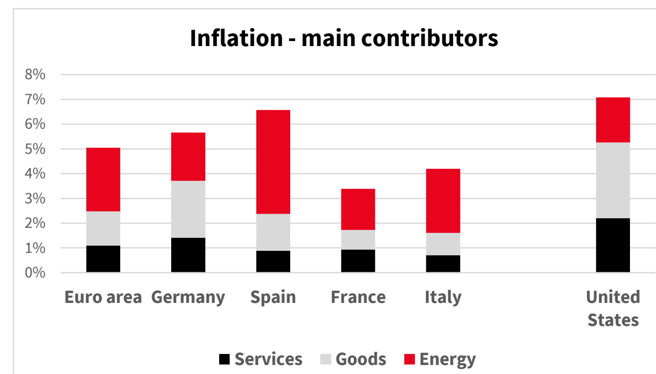
Euro area: evolution of the trade balance since 2011



Sources: SGPB, Macrobond, ECB 11/2021

US and Euro area inflations do not have the entire same origins

Breakdown of December inflation, by country



Sources : SGPB, Macrobond, 21/01/2022

OUR MACRO COMMENTS

Events of the week

A symbolic milestone was reached this week with the Bund moving back into positive territory. The bond yield on German 10-year debt reached 0.022% on Wednesday - a first since 2019. Above all, it is a sign that markets are anticipating monetary tightening by the ECB.

Just two weeks before the start of the Winter Olympics in Beijing, the virus spread in China is at its highest level since March 2020. The Chinese authorities are implementing a strict zero-Covid strategy, which relies in part on significant localized lockdowns. Concerning the Olympic Games, the Olympic Committee announced on Monday that there would not be ticket sales.

Figures of the week

	Actuel		Prévision	Précédent
GDP (Q4)	1,6%	↑	1,1%	0,2%
Industrial production (december, in year on year variation)	4,3%	↑	3,8%	3,6%
PBoC interest rates	3,7%	↓	-	3,8%
Inflation (december, in year on year variation)	5,4%	↑	5,2%	5,2%
ZEW Confidence investigation (january)	51,7	↑	32,7	29,9
BoJ interest rates	0,1%	→	0,1%	0,1%
Inflation (december, in year on year variation)	0,5%	→	0,6%	0,5%
Inflation (december, in year on year variation)	5%	→	5%	5%

Sources : Bloomberg, on January 21th, 2022.

The week ahead

Monday

- Composite PMI index (january)
- Manufacturing PMI index (january)

Wednesday

- Monetary policy meeting

Thursday

- Durable goods order (december)
- GDP (Q4)

Friday

- GDP (Q4)
- Consumer confidence (january)
- GDP (Q4)

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	0,03	0,05	0,06
JPY TONAR O/N	-0,03	-0,02	-0,03	-0,02	-0,02
GBP SONIA O/N	0,20	0,20	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	0,31	0,24	0,24	0,20	-0,31
10Y Bund	-0,03	-0,05	-0,12	-0,21	-0,53
10Y BTP	1,30	1,22	1,00	1,17	0,61
10Y JGB	0,13	0,11	0,07	0,07	0,02
10Y Bonos	0,66	0,59	0,53	0,56	0,07
10Y Swiss	0,02	0,01	-0,06	-0,13	-0,47
10Y Gilt	1,26	1,16	1,21	1,02	0,30
10Y USTnote	1,83	1,70	1,68	1,52	1,10

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,46	0,39	0,28	0,33	-0,07
EUR Corporate Baa	0,80	0,73	0,60	0,66	0,40
GBP Corporate Baa	1,74	1,61	1,54	1,52	0,79
USD Corporate Aaa	2,46	2,32	2,17	2,13	1,76
USD Corporate Baa	2,96	2,81	2,56	2,60	2,14
USD EM aggreate	4,73	4,60	4,35	4,33	3,66

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	87,42	4,0%	3,2%	10,6%	57,0%
Or, USD/oz	1 839	0,9%	3,2%	0,6%	-1,7%
Copper, USD/metric ton	9 905	-0,6%	-0,3%	2,3%	23,5%
Platinium, USD/onz	1 045	7,5%	-0,6%	8,1%	-4,7%
Palladium, USD/onz	2 045	8,3%	-1,1%	3,4%	-13,7%
Silver, USD/onz	24,23	4,2%	0,0%	4,9%	-4,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,13	-1,1%	-2,6%	0,1%	-6,3%
EUR/CHF	1,04	-0,5%	-2,9%	0,2%	-3,7%
USD/GBP	0,73	0,6%	1,2%	-0,8%	-0,2%
USD/JPY	113,99	-0,1%	0,1%	-1,0%	10,1%
USD/BRL	5,41	-2,0%	-4,0%	-3,0%	2,1%
USD/CNY	6,34	-0,3%	-0,8%	-0,2%	-1,9%
USD/RUB	76,38	0,2%	7,4%	1,9%	4,0%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 163	-2,3%	1,8%	0,2%	12,8%
Eurostoxx 50	4 300	-0,4%	3,5%	0,0%	18,6%
Dax 40	15 912	-0,7%	2,8%	0,2%	14,3%
CAC 40	7 194	-0,1%	7,6%	0,6%	27,8%
FTSE 100	7 585	0,3%	5,5%	2,7%	12,5%
SMI	12 561	-0,5%	4,3%	-2,4%	14,8%
SP500	4 483	-3,8%	-1,5%	-5,9%	16,4%
TOPIX	1 939	-3,3%	-3,1%	-2,7%	4,8%
iBovespa	109 102	3,4%	1,3%	4,1%	-8,8%
Hang Seng	24 952	2,1%	-4,1%	6,6%	-16,7%
Sensex 30	59 465	-2,9%	-2,4%	2,1%	19,4%
MOEX	3 516	-4,3%	-16,7%	-7,2%	1,4%
CSI 300	4 824	1,2%	-2,1%	-2,4%	-11,9%

Source: Macrobond, on January 21st, 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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