WEEKLY UPDATE

European Central Bank toughens its tone

Tone of Bank's statement takes markets by surprise
The European Central Bank (ECB) made no changes to its monetary policy levers at the February meeting. However, in her post-release statement, Christine Lagarde stressed that risks to the Bank's inflation forecasts lay on the upside and, in a departure from previous communications, did not rule out raising policy rates before year-end.

Uncertainties on recent inflationary trends
The main reason behind the ECB's shift in tone was the latest upside surprise in the January inflation figures to 5.1%, up from 5.0% in December and well above the consensus forecast of 4.4%. Most of this can still be attributed to energy prices. But other components are also edging up, enough to eclipse the fading German VAT effect of last year. These trends raise fears that price pressures could be spreading to all goods and services without yet being visible in wages. While there are undoubtedly risks in the air, we think it is premature to significantly revise inflation projections for the coming year. Euro area price pressures remain largely imported (energy prices, pressure on production chains) and could have a bigger impact on economic growth than on the inflationary outlook.

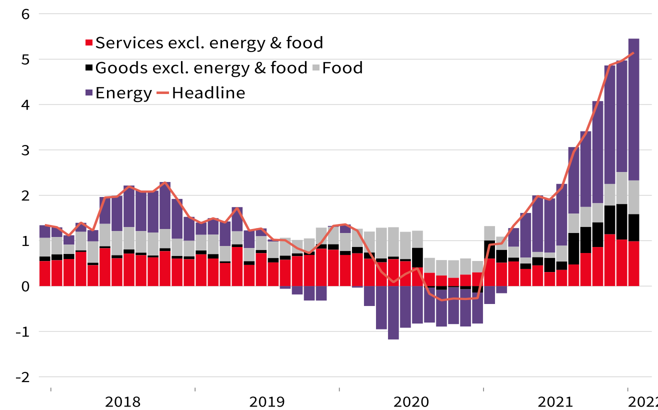
Markets have over-corrected their expectations
Investors are now expecting the ECB to significantly increase its inflation forecasts at its next meeting in March. If this proves correct, it would imply a two-stage adjustment to asset purchase programmes: an end to the pandemic emergency purchase programme (PEPP) by March followed by a faster wind-down of the pre-Covid APP with purchases ending completely in H2 2022. The ECB may then hike its deposit rate, currently at -0,50% by the end of the year. Money markets, however, are expecting a more dramatic tightening, with asset buying ending in June and 4 rate hikes in 2022.

Admittedly ECB policy could revert more rapidly to normal in 2022 assuming the economy remains healthy. However, we see current market expectations as excessive at the current stage of euro area's recovery cycle. While economies are heading solidly back to normal, they have yet to regain their pre-COVID growth rates. Any tightening of monetary and financial conditions, as we see from the market's reaction to Christine Lagarde's statements, would hamper the ongoing recovery.

Conclusion
The ECB has clearly toughened its tone in response to higher-than-expected inflationary figures. Markets have over-revised their expectations for monetary policy. We expect some downgrading of these expectations, which would risk imperiling the health of economic activity in the euro area.

The rise in Euro area inflation is mainly due to a jump in energy prices

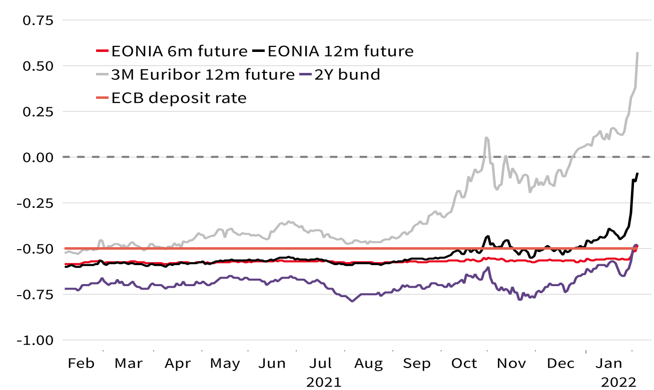
Euro area: inflation and component contributions



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

Euro area: markets anticipate significant hikes for short term rates in 2022

Euro area : short term rates futures



Sources: SGPB, Macrobond, ICE, Macrobond, ECB 03/02/2022

SOCIETE GENERALE
Private Banking

OUR MACRO COMMENTS

Events of the week

For the first time since its creation, Facebook is losing subscribers. The firm recorded a loss of 500,000 users in the last quarter of 2021. On Wednesday, at the publication of its figures, the share price of Facebook collapsed, as it lost a quarter of its value. Also at fault, the "Metaverse" project, which, for the moment, costs much more than it brings in.

CAC 40 companies distributed 69.4 billion euros to their shareholders in 2021. This historic record was largely driven by share buybacks - a practice that has grown strongly in recent years. For their part, dividends have not quite reached their 2019 level. However, they are expected to rise in 2022.

Figures of the week

	Current		Forecast	Previous
Interest rates	0%	➡	0%	0%
Inflation (in year on year variation, january)	5.1%	⬆	4.4%	5%
GDP (in year on year variation, Q4)	0.3%	⬇	0.3%	2.3%
PMI composite Index (january)	52.3	⬇	52.4	52.4
ISM Manufacturing PMI Index (january)	57.6%	⬇	57.5%	58.8%
ISM Services PMI Index (january)	51.2%	⬆	50.9%	50.9%
Interest rates	0.5%	⬆	0.5%	0.25%
Inflation (in year on year variation, january)	3.3%	⬇	3%	3.4%

Sources : Bloomberg, on February 4th, 2022.

The week ahead

Monday

Caixin PMI Index (Services)

Wednesday

Trade Balance

Thursday

Inflation (janvier)

Friday

GDP (Q4)

Industrial production (december)

Michigan Consumer Sentiment Index

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	0,04	0,05	0,05	0,07
JPY TONAR O/N	-0,02	-0,02	-0,03	-0,02	-0,01
GBP SONIA O/N	0,20	0,20	0,05	0,19	0,05
CHF O/N	-0,78	-0,78	-0,79	-0,78	-0,79

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	89,30	-0,4%	9,9%	13,0%	54,5%
Or, USD/oz	1 807	-0,7%	2,1%	-1,2%	-1,7%
Copper, USD/metric ton	9 840	-0,9%	2,7%	1,6%	27,0%
Platinium, USD/onz	1 039	-0,9%	-0,6%	7,4%	-5,7%
Palladium, USD/onz	2 376	5,9%	18,2%	20,1%	4,8%
Silver, USD/onz	22,78	-4,5%	-3,4%	-1,3%	-16,6%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	0,45	0,29	0,17	0,20	-0,25
10Y Bund	0,03	-0,08	-0,19	-0,21	-0,50
10Y BTP	1,42	1,34	1,04	1,17	0,65
10Y JGB	0,17	0,12	0,08	0,07	0,05
10Y Bonos	0,86	0,68	0,52	0,56	0,17
10Y Swiss	0,10	0,00	-0,12	-0,13	-0,44
10Y Gilt	1,30	1,25	1,07	1,02	0,35
10Y USTnote	1,78	1,85	1,60	1,52	1,12

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,13	0,4%	-2,2%	0,0%	-6,0%
EUR/CHF	1,04	0,0%	-1,7%	0,2%	-3,9%
USD/GBP	0,74	-0,4%	0,7%	-0,1%	0,5%
USD/JPY	114,38	0,1%	0,3%	-0,7%	8,8%
USD/BRL	5,30	-2,5%	-5,6%	-4,9%	-1,1%
USD/CNY	6,36	0,6%	-0,7%	0,1%	-1,5%
USD/RUB	76,28	-4,5%	5,7%	1,7%	0,9%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	0,59	0,44	0,24	0,33	-0,02
EUR Corporate Baa	0,95	0,79	0,58	0,66	0,43
GBP Corporate Baa	1,83	1,75	1,43	1,52	0,83
USD Corporate Aaa	2,51	2,55	2,12	2,13	1,84
USD Corporate Baa	3,03	3,04	2,51	2,60	2,19
USD EM aggreate	4,69	4,77	4,37	4,33	3,62

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 170	2,8%	1,9%	0,8%	16,6%
Eurostoxx 50	4 222	1,4%	-2,0%	-1,8%	17,6%
Dax 40	15 614	1,0%	-2,2%	-1,7%	12,9%
CAC 40	7 115	1,9%	2,4%	-0,5%	27,9%
FTSE 100	7 583	1,5%	4,6%	2,7%	16,4%
SMI	12 360	2,2%	-0,2%	-4,0%	14,4%
SP500	4 589	5,5%	-1,5%	-3,7%	19,9%
TOPIX	1 937	2,4%	-4,7%	-2,8%	4,8%
iBovespa	111 894	0,5%	5,9%	6,7%	-5,4%
Hang Seng	23 802	-2,0%	-4,9%	1,7%	-18,6%
Sensex 30	59 558	2,9%	-0,4%	2,2%	19,6%
MOEX	3 544	5,5%	-15,3%	-6,4%	5,5%
CSI 300	4 712	0,0%	-2,3%	-4,6%	-14,3%

Source: Macrobond, on February 4th, 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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