

ECB meeting under high inflation & geopolitical tensions

The ECB's monetary policy meeting of 10 March will take place against a backdrop of deep economic and financial uncertainty following the invasion of Ukraine and heavy sanctions on Russia. At its January meeting, the ECB left the door open to normalizing policy in 2022 (halting net asset purchases followed by a hike in the deposit facility rate) given the rising trend in inflation. Specifically, the ECB said it would rely on its medium-term economic projections to decide whether the conditions in its forward guidance (communication by a central bank as to the likely future course of monetary policy) to start renormalizing policy (inflation of 2% on a 2-3 year horizon and an underlying inflationary trend compatible with 2% inflation) had been met. Given February inflation figures, with headline inflation at 5.8% and core inflation at of 2.7%, ECB march forecast would most likely show that forward guidance condition have been met (chart 1). So, before the Ukraine invasion, the central scenario would have been an end to net asset purchases in Q3 2022 and the start of rate rises in Q4.

However, the Ukraine invasion and its potential fallout for the European economy has complicated the ECB normalization schedule, despite even stronger inflationary pressures. Although commodities themselves have so far escaped sanctions, the various financial sanctions and uncertainty as to how these might change will weigh heavily on Russia's exports of energy and other raw materials to Europe.

We are already seeing further rises in the price of crude, gas and other commodities as a result – meaning still higher inflation in coming months. This supply-side shock is bigger in Europe than in the United States due to the structure of Europe's energy production. It has also come at a time when the European economy is still not back to pre-COVID levels (chart 2). So, any monetary tightening by the ECB would worsen the supply shock and potentially derail the growth outlook, which had been looking healthy before the Russian crisis. Finally, the start of monetary policy tightening could trigger a jump in volatility on capital markets and widening spreads between financing costs across the EU.

Conclusion

All of which makes us think the ECB will delay its schedule for policy normalisation, making no commitments as to dates for tightening and leaving the door open to reinvesting its asset purchase programme for longer. Nor should we rule out the possibility that Europe or individual countries could take fiscal steps to reduce energy bills if geopolitical tensions intensify or commodity prices rise further.

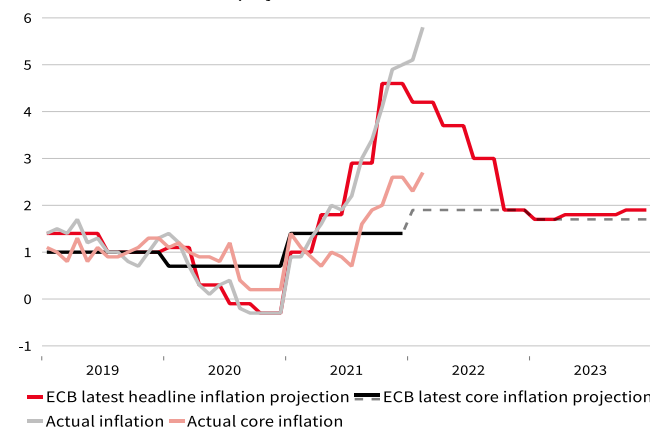
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (04/03/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



In the Euro area, realized inflation is well above the latest ECB projections

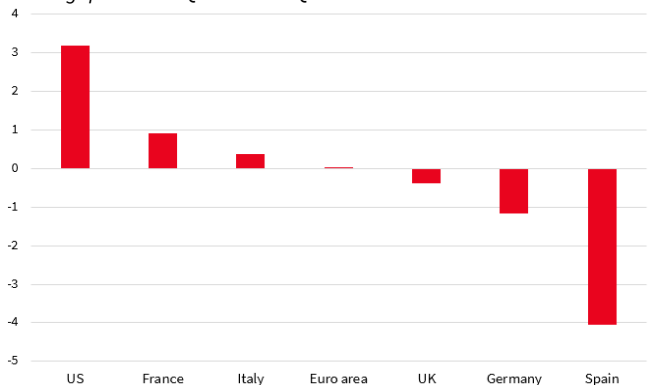
Euro area: ECB inflation projections vs realized



Sources: SGPB, Macrobond, ECB, Eurostat, 03/2022

Unlike the United States, Euro area economies have not yet returned to their pre-Covid GDP levels

GDP gap between Q4 2019 and Q4 2021



Sources: SGPB, Macrobond, 04/03/2022

OUR MACRO COMMENTS

Events of the week



Amidst the ongoing war in Ukraine, the price of a barrel of Brent crude oil has approached \$120 this week. Trading as high as \$119.84, it reached a price level not seen since May 2012. The American barrel WTI also continues to rise, currently trading at \$109, its highest level since 2014.



The major Russian companies traded on the London Stock Exchange are worth close to nothing. The oil groups Lukoil, Rosneft, the banking giant Sberbank and the company Gazprom have lost nearly 100% of their market value. Investors are liquidating their positions on these Russian groups, whose stocks are now worth only a few cents.

Figures of the week



- ISM Manufacturing PMI index (February)
- ISM Services PMI index (February)



- Composite PMI index (February)
- Inflation (in year on year variation, February)
- Retail sales (in year on year variation, January)
- Unemployment rate (January)



- Manufacturing PMI Index (February)



- Caixin Manufacturing PMI Index (February)

| | Current | | Consensus | Previous |
|--|---------|---|-----------|----------|
| | 58.6 | ↑ | 58 | 57.6 |
| | 56.5 | ↓ | 61 | 59.9 |
| | 55.5 | ↓ | 55.8 | 55.8 |
| | 5.8% | ↑ | 5.4% | 5.1% |
| | 7.8% | ↑ | 9.1% | 2.1% |
| | 6.8% | ↓ | 6.9% | 7% |
| | 58 | ↑ | 57,3 | 57,3 |
| | 50.4 | ↑ | 49,3 | 49.1 |

Sources : Bloomberg, on March 4th, 2022.

The week ahead

Tuesday



GDP (Q4)



GDP (Q4)

Wednesday



Inflation (February)

Thursday



ECB meeting



Inflation (February)

Friday



Industrial production (January)



Inflation (February)



University of Michigan Index of Consumer Sentiment (March)

MARKETS PERFORMANCE

| Interbank rate | Last. | -1W | -3M | YTD | -12M |
|----------------|-------|-------|-------|-------|-------|
| €STER O/N | -0,58 | -0,58 | -0,57 | -0,59 | -0,57 |
| USD SOFR O/N | 0,30 | 0,05 | 0,05 | 0,05 | 0,04 |
| JPY TONAR O/N | -0,01 | -0,02 | -0,05 | -0,02 | -0,02 |
| GBP SONIA O/N | 0,45 | 0,45 | 0,05 | 0,19 | 0,05 |
| CHF O/N | -0,78 | -0,78 | -0,77 | -0,78 | -0,80 |

| Long term sov. rates | Last. | -1W | -3M | YTD | -12M |
|----------------------|-------|------|-------|-------|-------|
| 10Y OAT | 0,47 | 0,73 | 0,03 | 0,20 | -0,05 |
| 10Y Bund | -0,04 | 0,24 | -0,32 | -0,21 | -0,32 |
| 10Y BTP | 1,55 | 1,93 | 1,01 | 1,17 | 0,75 |
| 10Y JGB | 0,13 | 0,19 | 0,06 | 0,07 | 0,11 |
| 10Y Bonos | 0,99 | 1,25 | 0,43 | 0,56 | 0,38 |
| 10Y Swiss | 0,08 | 0,27 | -0,20 | -0,13 | -0,30 |
| 10Y Gilt | 1,27 | 1,52 | 0,85 | 1,02 | 0,77 |
| 10Y USTnote | 1,86 | 1,99 | 1,43 | 1,52 | 1,47 |

| Credit & EM | Last. | -1W | -3M | YTD | -12M |
|-------------------|-------|------|------|------|------|
| EUR Corporate Aaa | 0,81 | 0,96 | 0,29 | 0,33 | 0,12 |
| EUR Corporate Baa | 1,35 | 1,43 | 0,64 | 0,66 | 0,50 |
| GBP Corporate Baa | 2,07 | 2,21 | 1,34 | 1,52 | 1,13 |
| USD Corporate Aaa | 2,80 | 2,84 | 2,11 | 2,13 | 2,12 |
| USD Corporate Baa | 3,46 | 3,48 | 2,57 | 2,60 | 2,41 |
| USD EM aggregate | 5,81 | 5,21 | 4,57 | 4,33 | 3,83 |

| Commodities | Last. | -1W | -3M | YTD | -12M |
|------------------------|--------|-------|-------|-------|--------|
| Brent, USD/BL | 114,62 | 17,5% | 66,4% | 45,0% | 79,1% |
| Or, USD/oz | 1 928 | 1,0% | 8,2% | 5,4% | 12,7% |
| Copper, USD/metric ton | 10 220 | 2,6% | 7,5% | 5,6% | 10,8% |
| Platinum, USD/onoz | 1 064 | -1,4% | 11,6% | 10,0% | -11,8% |
| Palladium, USD/onoz | 2 651 | 12,9% | 51,9% | 34,0% | 12,8% |
| Silver, USD/onoz | 25,08 | 4,0% | 9,7% | 8,6% | -5,7% |

| FX rates | Last. | -1W | -3M | YTD | -12M |
|----------|--------|-------|-------|-------|--------|
| EUR/USD | 1,11 | -2,1% | -1,8% | -1,9% | -7,8% |
| EUR/CHF | 1,02 | -1,6% | -2,0% | -1,4% | -7,7% |
| USD/GBP | 0,75 | 1,8% | 0,0% | 1,7% | 4,9% |
| USD/JPY | 115,56 | 0,5% | 2,3% | 0,4% | 8,0% |
| USD/BRL | 5,16 | 2,6% | -8,2% | -7,4% | -10,3% |
| USD/CNY | 6,32 | 0,1% | -0,7% | -0,5% | -2,3% |
| USD/RUB | 104,41 | 29,2% | 41,4% | 39,3% | 41,2% |

| Equity indices | Last. | -1W | -3M | YTD | -12M |
|---------------------|---------|-------|-------|--------|--------|
| MSCI AC World (USD) | 1 126 | 0,1% | 2,7% | -3,0% | 7,9% |
| Eurostoxx 50 | 3 821 | -3,8% | -8,6% | -11,1% | 2,9% |
| Dax 40 | 14 000 | -4,3% | -9,5% | -11,9% | -0,6% |
| CAC 40 | 6 498 | -4,2% | -5,6% | -9,2% | 11,5% |
| FTSE 100 | 7 430 | -0,9% | 3,6% | 0,6% | 11,3% |
| SMI | 11 872 | -0,6% | -3,2% | -7,8% | 10,2% |
| SP500 | 4 387 | 3,8% | -2,8% | -8,0% | 14,8% |
| TOPIX | 1 860 | -1,1% | -4,0% | -6,6% | -2,3% |
| iBovespa | 115 174 | 2,8% | 14,3% | 9,9% | 3,6% |
| Hang Seng | 22 344 | -5,6% | -5,6% | -4,5% | -25,2% |
| Sensex 30 | 55 469 | -3,1% | -3,8% | -4,8% | 7,8% |
| MOEX | - | - | - | - | - |
| CSI 300 | 4 579 | -1,0% | -5,5% | -7,3% | -16,0% |

Source: Macrobond, on March 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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