

Confirmed hawkish turn for DM Central banks

A new environment with less growth and more inflation. Before the Ukraine war shock, developed economies were looking at a scenario of robust growth and high inflation (near 8% in the United States, near 6% in the Euro area). Central banks were stating their willingness to move monetary policy back to normal, starting this year, to head off the risk of a wage-price spiral and prevent an un-anchoring of inflation expectations. The Ukrainian-Russian conflict has now cast many uncertainties into this picture, likely weighting on growth and giving inflation an extra boost. The OECD, for instance, estimates the shock will knock 1 point off GDP growth and push inflation up 2 points. Central banks in the United States and Europe have responded in similar ways, clearly communicating their willingness to continue normalising policy. However, the economy looks very different either side of the Atlantic.

In the United States, a “strong economy and extremely tight labour market” has led the Federal Reserve to hike its policy rate by a quarter point and signal a further 1.5-point rise by year end. Household consumption is still growing fast (chart 1), explaining much of the inflation, notably the price of goods. Salaries are tracking a parallel path (chart 2), in a highly dynamic jobs market. While the shock of the Ukraine war will dampen activity, the United States should be less affected than Europe because of their lesser financial and commercial links with Russia, particularly when it comes to energy.

In the Euro area, the less favourable economic environment has not stopped the European Central Bank (ECB) announcing it wants to start normalising policy in coming months. The economy remains slightly below pre-COVID levels and seems more sensitive to the negative spillovers of the Ukraine war. The OECD expects it to feel twice the impact of the United States (-1.5 points off growth in the Euro area against -0.75 points in the United States). Inflation was already largely accounted for by the negative shock from energy price rises and the Ukraine war should only reinforce this trend. Finally, labour markets as a whole show no signs of wage pressures, alleviating fears of second-round effects. While the ECB may persist with its determination to normalise, its policy tightening is nonetheless likely to be smaller in scale.

Conclusion

Despite the expected slowdown and deep economic uncertainty triggered by the Ukraine war, central banks in developed countries will continue returning their policies to normal, by halting the expansion of their balance sheets and raising policy rates in the course of the next few quarters. In light of which, we maintain our Neutral stance on equities and Underweight bonds.

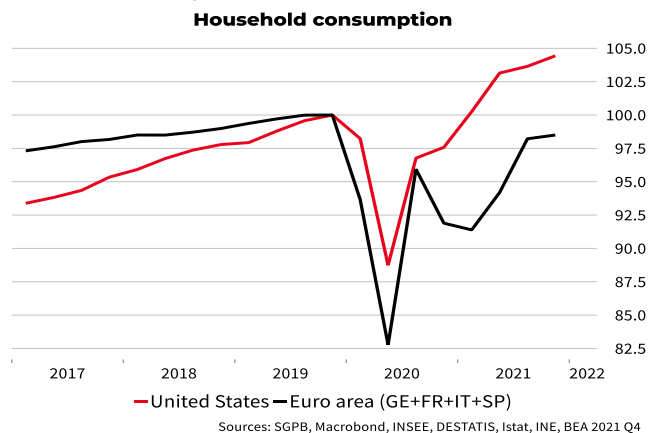
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (18/03/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



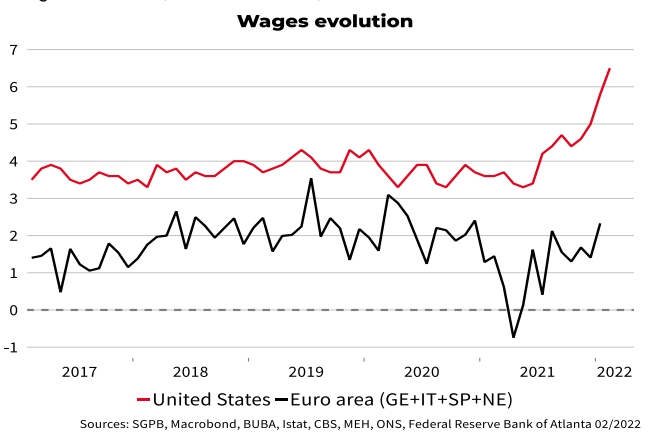
In the United States, households' consumption has surpassed its pre-crisis level, not the case for Euro area

Households' consumption, base 100: Dec 2019



Observable wages inflation in the United States, but not in the Euro area

Wages level index, annual variation, %



OUR MACRO COMMENTS

Events of the week



Last week, the London Metal Exchange (LME) suspended nickel trading, after its price doubled in two days. On Wednesday, nickel trading resumes, with, however, a price range to control its volatility. Nickel price fluctuations will be limited to 5% from the last closing.



This week, the prices of the WTI and Brent oil barrels have dropped to return under the symbolic 100 dollars a barrel. Markets are optimistic about peace talks in Ukraine and anticipate a slowdown in demand due to the lockdown of the Shenzhen region in China, where industrial production is now almost at a standstill.

Figures of the week



- Inflation (in year on year variation, February)
- Industrial production (in year on year variation, January)
- ZEW survey on economic sentiment (March)



- Fed interest rates
- Retail sales (in month on month variation, February)



- BoE interest rates
- Unemployment rate (January)



- BoJ interest rates
- Inflation (in year on year variation, February)



- Retail sales (in year on year variation, February)

	Current	Consensus	Previous
	5.9% ↑	5.8%	5.8%
	-1.3% ↓	-0.5%	2%
	-38.7 ↓	49.3	48.6
	0.5% ↑	0.5%	0.25%
	0.3% ↓	0.4%	4.9%
	0.75% ↑	0.75%	0.5%
	3.9% ↓	4%	4.1%
	-0.1% →	-0.1%	-0.1%
	0.9% ↑	0.3%	0.5%
	6.7% ↑	3%	1.7%

The week ahead

Monday



PBoC interest rates

Wednesday



Inflation (February)



Consumer sentiment (March)

Thursday



Composite PMI Index (March)



Durable goods order (February)



Composite PMI Index (March)

Friday



Retail sales (February)



University of Michigan Index of Consumer Sentiment (March)

Sources : Bloomberg, on March 18th, 2022.

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,05	0,05	0,05	0,01
JPY TONAR O/N	-0,01	-0,01	-0,02	-0,02	-0,02
GBP SONIA O/N	0,45	0,44	0,05	0,19	0,05
CHF O/N	-0,78	-0,78	-0,79	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	0,84	0,65	-0,02	0,20	-0,03
10Y Bund	0,37	0,17	-0,37	-0,21	-0,32
10Y BTP	1,89	1,68	0,92	1,17	0,70
10Y JGB	0,20	0,16	0,05	0,07	0,09
10Y Bonos	1,33	1,14	0,34	0,56	0,38
10Y Swiss	0,43	0,25	-0,28	-0,13	-0,29
10Y Gilt	1,66	1,56	0,73	1,02	0,83
10Y USTnote	2,19	1,94	1,47	1,52	1,63

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,12	1,00	0,24	0,33	0,14
EUR Corporate Baa	1,72	1,60	0,56	0,66	0,51
GBP Corporate Baa	2,52	2,43	1,31	1,52	1,20
USD Corporate Aaa	3,04	2,91	2,18	2,13	2,25
USD Corporate Baa	3,89	3,67	2,63	2,60	2,58
USD EM aggregate	5,77	5,64	4,55	4,33	3,94

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	97,96	-12,5%	31,7%	23,9%	44,6%
Or, USD/oz	1 925	-3,3%	8,3%	5,3%	10,3%
Copper, USD/metric ton	10 119	0,5%	9,0%	4,5%	12,1%
Platinum, USD/onoz	1 012	-9,2%	11,1%	4,7%	-16,4%
Palladium, USD/onoz	2 495	-17,3%	55,2%	26,1%	0,2%
Silver, USD/onoz	24,95	-4,7%	14,4%	8,1%	-3,5%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,10	0,0%	-2,4%	-2,9%	-7,7%
EUR/CHF	1,04	1,1%	-0,7%	-0,1%	-6,3%
USD/GBP	0,76	0,5%	0,9%	3,4%	6,1%
USD/JPY	118,50	2,3%	4,1%	2,9%	8,5%
USD/BRL	5,11	2,3%	-10,7%	-8,3%	-9,6%
USD/CNY	6,35	0,5%	-0,2%	0,0%	-2,3%
USD/RUB	101,30	-15,5%	36,7%	35,1%	36,6%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 117	1,5%	-1,6%	-3,8%	3,9%
Eurostoxx 50	3 890	3,3%	-6,5%	-9,5%	1,0%
Dax 40	14 441	4,3%	-6,7%	-9,1%	-1,1%
CAC 40	6 589	3,1%	-4,9%	-7,9%	8,8%
FTSE 100	7 292	1,4%	1,7%	-1,3%	7,8%
SMI	11 901	3,5%	-5,0%	-7,6%	9,0%
SP500	4 358	1,9%	-7,5%	-8,6%	9,7%
TOPIX	1 853	5,4%	-6,6%	-7,0%	-6,6%
iBovespa	111 112	-2,4%	3,4%	6,0%	-4,7%
Hang Seng	20 088	-2,6%	-14,2%	-14,1%	-30,8%
Sensex 30	56 817	4,0%	-1,7%	-2,5%	14,1%
MOEX	-	-	-	-	-
CSI 300	4 156	-1,7%	-17,0%	-15,9%	-18,5%

Source: Macrobond, on March 18th, 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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