

## ECB speeds up its “journey toward normalisation”

**Recent comments from European Central Bank staff all point in the same direction: the Euro area monetary authorities are preparing to start raising policy rates in July.** François Villeroy de Galhau, Governor of the Bank of France, has called the new policy a “journey toward normalisation”, stressing that the ECB is not seeking to tighten monetary conditions - yet - but rather to ease itself into a more normal posture given the current inflationary climate. The ECB would therefore, on this reading, simply move faster toward the same target peak rate.

**ECB increasingly worried by inflation.** Inflation again outstripped its forecasts in April, hitting 7.5%. While much of the jump can again be put down to pressures on energy and food prices, core inflation (which strips out both these volatile components) is also on the rise, running at 3.5%, near twice its pre-COVID rate. At the moment, unlike in the United States, wages remain under control allaying any fears of a wage-price spiral for now (Chart 1). That said, ECB staffers worry that the inflationary expectations of economic actors could slip anchor, making it harder to bring long-term inflation back to more comfortable levels. Also, the euro's ongoing slide in the midst of a commodities shock gives the ECB another reason to quicken the pace of policy tightening.

**Doubts as to the economy's health take second place.** It's still early too early to assess the broad negative externalities of the Ukrainian war, even without trying to predict the conflict's future course and consequences. So far, economic indicators suggest activity is likely to slow substantially, but not enough to fundamentally undermine the ECB's scenarios. Uncertainties are plentiful, but the messages coming out of the ECB clearly suggest it is focusing on its main target: controlling inflation.

**Faster but no further.** Bond markets have responded by revising their expectations for ECB policy rate rises, and now expect rates to turn positive by year-end (Chart 2). However, while the ECB seems willing to go faster in its “journey toward normalisation”, it will probably be unable to go beyond its previously planned maximum. Any such move would soon risk either slamming the brakes on an already delicate economy, or raising the ghost of fragmentation between Euro area economies. We are already seeing some signs of tensions in Italian and Greek yields...

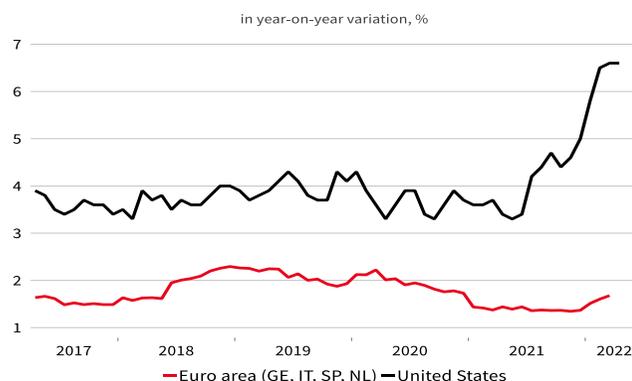
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (13/05/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



**Unlike the United States, the Euro area seems to be spared wage inflation**

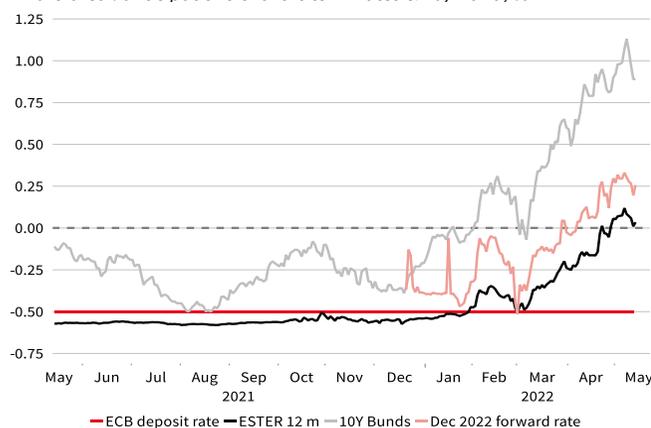
Wage growth, in year-on-year variation, %



Sources: SGPB, Macrobond, DESTATIS, Istat, CBS, MEH, ONS, Federal Reserve Bank of Atlanta, ECB 03/2022

**Markets anticipate a return to positive territory for ECB rates**

Euro area : anticipations of short-term rates & 10y Bund, %



Sources: SGPB, Macrobond, Macrobond, ECB 12/05/2022

# OUR MACRO COMMENTS

## Events of the week



The composite NASDAQ, main US technology companies index, which had doubled its capitalization between 2020 and the end of 2021, is currently falling: it has lost 30% of its valuation since the start of the year. The bubble is bursting on the US tech sector. In this regard, Apple has been dethroned by the oil group Saudi Aramco which became this week the highest market capitalization in the world.



Crypto-assets are losing momentum and are even recording heavy losses. Global market capitalization has been halved since November 2021. On the stock market side, *Coinbase*, one of the main crypto-asset trading platforms, has lost 70% since January 2022. It seems that the bursting of the tech bubble in the United States brings with it the crypto market.

## Figures of the week



- Inflation (in year on year variation, April)
- Core inflation (in year on year variation, April)

	Current		Consensus	Previous
	8,3%	↓	8,1%	8,5%
	6,2%	↓	6%	6,5%



- Inflation (in year on year variation, April)
- Producer price index (in year on year variation, April)

	2,1%	↑	1,8%	1,5%
	8%	↓	7,7%	8,3%



- GDP (in quarter on quarter variation, Q1)
- Industrial production (in month on, month variation, March)

	0,8%	↓	1%	1,3%
	-0,2%	↑	0,1%	-0,3%



- Inflation (in year on year variation, April)

	7,8%	→	7,8%	7,8%
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## The week ahead

### Monday



Retail sales (April)

### Tuesday



Unemployment rate (March)



GDP (Q1)



Retail sales (April)

### Wednesday



GDP (Q1)



Inflation (April)



Inflation (April)

### Friday



PBoC policy rate

Sources: Bloomberg, on May 13<sup>th</sup>, 2022.

# MARKETS PERFORMANCE

## Interbank rate

	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,59	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,30	0,04	0,05	0,01
JPY TONAR O/N	-0,01	-0,02	-0,02	-0,02	-0,02
GBP SONIA O/N	0,94	0,69	0,45	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,79

## Long term sov. rates

	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,53	1,51	0,67	0,20	0,18
10Y Bund	0,97	0,98	0,21	-0,21	-0,17
10Y BTP	2,92	2,96	1,77	1,17	1,02
10Y JGB	0,24	0,22	0,20	0,07	0,08
10Y Bonos	2,06	2,08	1,15	0,56	0,56
10Y Swiss	0,90	0,86	0,30	-0,13	-0,15
10Y Gilt	1,86	1,98	1,47	1,02	0,99
10Y USTnote	2,91	2,93	1,94	1,52	1,69

## Credit & EM

	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,73	1,67	0,86	0,33	0,26
EUR Corporate Baa	2,56	2,44	1,26	0,66	0,53
GBP Corporate Baa	2,75	2,85	2,11	1,52	1,24
USD Corporate Aaa	3,70	3,64	2,66	2,13	2,21
USD Corporate Baa	4,64	4,59	3,22	2,60	2,52
USD EM aggregate	6,55	6,35	4,84	4,33	3,92

## Commodities

	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	106,96	-2,8%	16,6%	35,3%	55,0%
Or, USD/oz	1 852	-1,5%	1,1%	1,3%	2,0%
Copper, USD/metric ton	9 355	-1,3%	-4,9%	-3,4%	-11,3%
Platinum, USD/onoz	986	0,9%	-4,8%	2,0%	-20,2%
Palladium, USD/onoz	2 052	-10,2%	-8,7%	3,7%	-30,2%
Silver, USD/onoz	21,79	-3,6%	-6,3%	-5,6%	-20,5%

## FX rates

	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,06	0,2%	-7,7%	-6,8%	-12,9%
EUR/CHF	1,05	0,8%	-1,0%	0,9%	-4,8%
USD/GBP	0,81	1,3%	9,8%	9,7%	14,2%
USD/JPY	130,26	0,2%	12,8%	13,1%	19,1%
USD/BRL	5,12	2,2%	-2,7%	-8,0%	-2,2%
USD/CNY	6,72	1,7%	5,6%	5,8%	4,1%
USD/RUB	66,87	1,6%	-10,4%	-10,8%	-10,2%

## Equity indices

	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 057	-4,7%	-10,5%	-8,9%	-4,6%
Eurostoxx 50	3 648	-2,1%	-13,2%	-15,1%	-7,6%
Dax 40	13 829	-1,0%	-10,7%	-12,9%	-8,7%
CAC 40	6 270	-2,0%	-12,1%	-12,3%	-0,2%
FTSE 100	7 348	-1,9%	-3,9%	-0,5%	4,9%
SMI	11 554	-2,7%	-6,6%	-10,3%	4,7%
SP500	3 935	-8,5%	-14,2%	-17,4%	-3,1%
TOPIX	1 851	-2,5%	-5,2%	-7,1%	-1,4%
iBovespa	104 397	-3,6%	-7,2%	-0,4%	-12,8%
Hang Seng	19 825	-5,0%	-20,2%	-15,3%	-29,8%
Sensex 30	54 088	-2,8%	-7,5%	-7,2%	11,1%
MOEX	-	-	-	-	-
CSI 300	3 976	-1,0%	-14,5%	-19,5%	-21,2%

Source: Macrobond, on May 13<sup>th</sup>, 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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