

## Europe's energy crisis: the double-edged blade of public support

European states have announced sweeping measures to curtail the impact of the energy crisis. Two main risks arise: making short-term inflation permanent and hitting funding problems for these measures in the medium term.

### The crisis has driven up oil prices, then gas and electricity prices.

Energy prices came under pressure first with the exit from Covid, as demand surged simultaneously in all main economies. They then got a further massive boost with the outbreak of war in Ukraine, which hit European gas prices hardest and ultimately fed through to destabilise electricity markets. Overall, in euro terms, oil prices rose by nearly 40% compared to their 2019 (i.e. pre-Covid) levels, gas prices by 1000% and electricity prices by 700% on the forward wholesale market.

### A very visible cost in household spending power.

Energy makes up around 8% of the average household budget in the euro zone. While costs have stabilised at the levels observed in August, this still represents a 3,3% cut in households' 2022 disposable income compared to 2019. Observed cost varies by country, reflecting the characteristics of their energy markets or price caps imposed by some governments. France, for instance capped energy price rises, keeping the rise in energy prices for households to a 'modest' 2,2% of their 2022 disposable income compared to 2019.

### Cost already seen in balance of trade.

Another way to count the cost of the energy crisis for a country or region is to measure how it has affected their import bill. For the euro zone as a whole, the trade balance plunged into the red for the first time in its history in 2022 (cf. chart 1). While the energy deficit has plateaued at its end-July level, the euro zone is still paying €450 billion, or nearly 4% of zone GDP, more than it was in 2019.

### States announce substantial aid packages.

The Bruegel Institute (cf. chart2) has put the total value of the measures announced by European governments over the last year at €450 billion (nearly 3% of GDP for Europe and UK). Assistance counted here includes spending on nationalisation, bail-outs and loans, but not the supra-national measures currently under consideration by the European Union. These measures look to be big enough to limit the impact of the energy crisis over coming months. Two risks arise: (i) If the shock is temporary, the measures will allow economies to resist but would encourage inflationary pressures by allowing second round effects on non-energy prices. Central banks would be encouraged to tighten policy further; (ii) if the shock proves longer-lasting, European governments will run into difficulties funding their packages, particularly if central banks start to wind down their support for government financing.

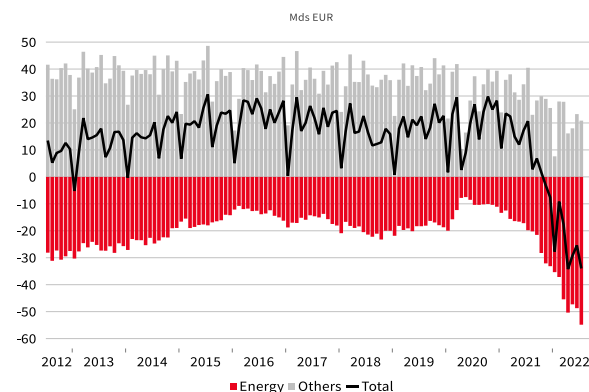
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (23/09/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



### Euro area trade balance keep worsening due to energy prices.

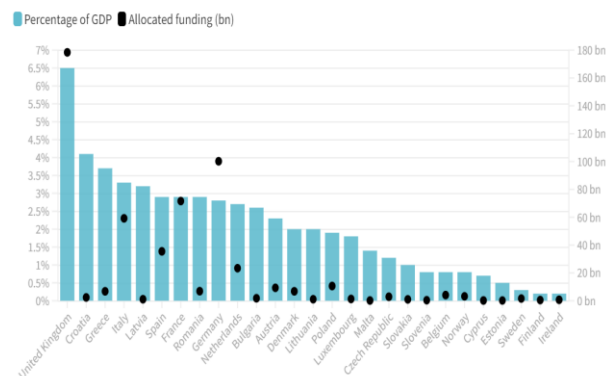
Euro area: trade balance decomposition



Sources : SGPB, Macrobond, ECB, 23/09/2022

### Massive reactions from states to energy crisis.

Euro area: allocated funding to energy crisis



Sources : Bruegel, 23/09/2022

# OUR MACRO COMMENTS

## Events of the week



The Federal Reserve continued its rate hike cycle as expected on Wednesday, with a 75bps increase in its key interest rate. What was a little more surprising were the statements of its director, Jérôme Powell, who brushed aside the prospect of an accommodating “pivot” of monetary policy. Markets are now expecting two more rate hikes by the end of the year (75 and 50bp).



Most Asian central banks have raised their key interest rates and have intervened on the foreign exchange markets in recent times, in order to fight against the depreciation of their currencies, in a context of sharp rises in commodity prices. This is particularly rare for those countries whose economies are largely export-based.

## Figures of the week



- Monetary Policy Decision
- ISM manufacturing PMI (September)



- Consumer Confidence (September)
- ISM manufacturing PMI (September)



- Monetary Policy Decision
- NBS manufacturing PMI (September)
- Consumer Confidence (September)



- Inflation (YoY, September)
- Monetary Policy Decision

	Actual		Forecast	Previous
	3.25%	↑	3.25%	2.5%
	51.8	↑	52	51.5
	-28.8	↓	-29	-25
	48.5	↓	48.3	49.6
	2.25%	↑	2.25%	1.75%
	48.5	↑	46,5	47,3
	-49	↓	-35	-44
	3%	↑	2.6%	2.6%
	-0.1%		-0.1%	-0.1%

## The week ahead

### Monday



Business Climate (September)

### Tuesday



Durable Goods Orders (September)



Consumer Confidence (September)

### Wednesday



Consumer Confidence (September)

### Thursday



Inflation (September)



Economic Sentiment (September)

### Friday



Personal Income (September)



Inflation (September)



Caixin Manufacturing PMI Index (September)

Sources : Macrobond, on 23 September 2022.

# MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	0,66	0,66	-0,58	-0,59	-0,57
USD SOFR O/N	2,25	2,27	1,45	0,05	0,05
JPY TONAR O/N	-0,05	-0,03	-0,05	-0,02	-0,02
GBP SONIA O/N	1,69	1,69	1,19	0,19	0,05
CHF O/N	0,74	0,62	-0,19	-0,71	-0,72

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,45	2,25	2,16	0,20	0,01
10Y Bund	1,86	1,72	1,67	-0,21	-0,32
10Y BTP	4,13	3,98	3,50	1,17	0,71
10Y JGB	0,25	0,25	0,23	0,07	0,03
10Y Bonos	3,03	2,84	2,68	0,56	0,31
10Y Swiss	1,20	1,05	1,36	-0,13	-0,23
10Y Gilt	3,32	3,12	2,46	1,02	0,79
10Y USNote	3,51	3,41	3,16	1,52	1,32

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,97	2,67	2,62	0,33	0,10
EUR Corporate Baa	4,19	3,85	3,65	0,66	0,39
GBP Corporate Baa	4,43	4,19	3,48	1,52	1,16
USD Corporate Aaa	4,42	4,31	3,96	2,13	1,88
USD Corporate Baa	5,52	5,39	5,11	2,60	2,25
USD EM aggregate	7,47	7,26	7,06	4,33	4,03

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	89,96	-4,9%	-18,2%	13,8%	18,6%
Or, USD/oz	1 674	-1,4%	-8,9%	-8,5%	-5,3%
Copper, USD/metric ton	7 710	-1,0%	-11,7%	-20,4%	-16,6%
Platinum, USD/onoz	931	3,8%	0,0%	-3,7%	-4,0%
Palladium, USD/onoz	2 184	3,7%	16,5%	10,4%	12,2%
Silver, USD/onoz	19,51	0,0%	-8,9%	-15,5%	-14,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	0,99	-0,8%	-5,8%	-12,5%	-15,5%
EUR/CHF	0,95	-0,7%	-6,2%	-8,0%	-11,9%
USD/GBP	0,88	2,2%	8,6%	19,5%	20,4%
USD/JPY	144,08	1,0%	6,1%	25,1%	31,4%
USD/BRL	5,18	0,2%	0,8%	-7,0%	-1,9%
USD/CNY	7,05	1,3%	5,2%	11,0%	9,1%
USD/RUB	61,36	2,2%	13,7%	-18,2%	-15,6%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	982	-3,1%	-2,8%	-15,4%	-10,7%
Eurostoxx 50	3 492	-2,1%	0,8%	-18,8%	-15,9%
Dax 40	12 767	-2,0%	-2,9%	-19,6%	-17,7%
CAC 40	6 031	-3,1%	1,9%	-15,7%	-9,1%
FTSE 100	7 238	-0,5%	2,1%	-2,0%	2,2%
SMI	10 429	-3,0%	-0,9%	-19,0%	-11,9%
SP500	3 790	-4,0%	0,8%	-20,5%	-13,8%
TOPIX	1 921	-1,4%	3,7%	-3,6%	-6,0%
iBovespa	111 936	1,3%	12,5%	6,8%	-0,3%
Hang Seng	18 445	-2,1%	-12,2%	-21,2%	-23,9%
Sensex 30	59 457	-1,5%	14,7%	2,1%	0,9%
MOEX	-	-	-	-	-
CSI 300	3 904	-4,0%	-8,6%	-21,0%	-19,0%

Source: Bloomberg, on 23 September 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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