WEEKLY UPDATE

Central banks could go further and faster

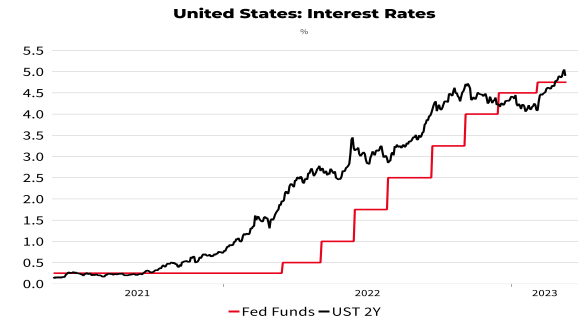
We had statements from the central banks this week suggesting the Federal Reserve (Fed) and European Central Bank (ECB) could hike policy rates further than expected in coming months. Markets responded fast, tweaking their outlooks. Central banks could add to the squeeze by accelerating the run-down of their balance sheets.

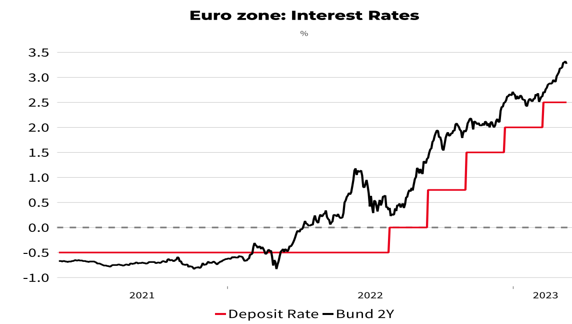
Fresh revisions to Fed and ECB terminal rates. The surge in inflation seen in 2022 led the world's leading central banks to rapidly raise interest rates: +450 bp for the Fed, +300 for the ECB and +400 for the Bank of England. At the start of 2023, with price pressures expected to ease - thanks to lower energy costs and a forecast economic slowdown - market watchers were expecting an end to the tightening cycle fairly soon. However, latest data on the economy and inflation surprised on the upside, leading central banks to strike a more hawkish tone. Money markets have revised their forecasts for Fed and ECB terminal rates by 100 bp and 150 bp, respectively. Expectations of further tightening seem more restrained in the United Kingdom, whose economy remains more delicately poised.

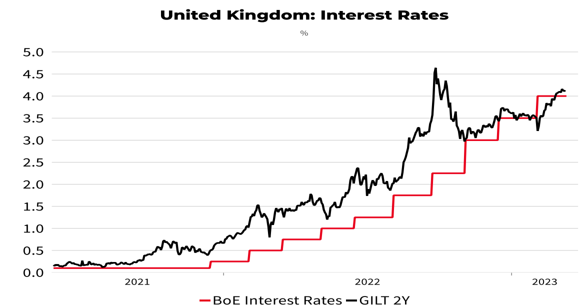
Less transmission? Policy rate tightening by central banks seeks to squash price pressures by damping economic activity. By making it more expensive to borrow, it pushes households and companies to consume and invest less. This has caused in the intended outcome: the rises already put through have prompted a clear slowdown in mortgage lending and loans to firms. However, the slowdown so far looks insufficient to slow the economies of the United States and euro zone. The degree to which tighter monetary policy transmits through to the economy seems to be lesser than in past cycles. For one thing, households now borrow at fixed rates, so hikes only affect new borrowings. Secondly, companies and households alike have stacked up big savings since Covid hit, which is allowing them to mitigate the shock of higher rates.

Central banks may also want to boost long yields, by speeding up their quantitative tightening through their balance sheet operations. The Fed and ECB can see that despite already substantial monetary tightening the economy is holding up and inflation persists. This gives them good reason to raise their terminal rate and could also tempt them to accelerate the running down of their balance sheets looking to boost the effectiveness of policy by acting on long-term yields as well. There is a risk that, at a certain level, these short- and long-term rate hikes will put a sudden brake on activity.

Key rates and two-year rates







Sources: SGPB, Macrobond, BoE, Macrobond 10/03/2023

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OUR MACRO COMMENTS

Events of the week

The annual session of the Chinese Parliament has begun. The growth target for 2023 has been set at around 5%. This figure appears to be below market expectations, but historically the actual growth achieved has outperformed the target. The Prime Minister has emphasised economic stability, which could translate into some form of support for the property sector.

The labour market shows signs of still being overheated. According to the JOLTS survey, job vacancies in January remained high, with a slight decrease to 10.8 million compared to 11.2 million in December. The only sign of a lull was that the number of resignations fell. However, NFP report will be the focus of attention and will determine the direction of the Fed's decisions.

Figures of the week

	Actual		Forecast	Previous
• Retail Sales (YoY, January)	-2.3%	↑	-1.8%	-2.8%
• Unemployment Rate (February)	3.6%	↑	3.4%	3.4%
• Retail Sales (YoY, January)	-6.9%	↓	-6.1%	-6.4%
• GDP (YoY, January)	0%	↑	-0.1%	-0.1%
• Inflation Rate (YoY, February)	1%	↓	1.9%	2.1%

Sources: Macrobond, 10 March 2023

The week ahead

Tuesday
Inflation Rate (February)
Unemployment Rate (January)
Wednesday
Industrial Production (January)
Retail Sales, PPI (February)
Retail Sales (February)
Thursday
ECB Interest Rate Decision
Building Permits (February)
Friday
Michigan Consumer Sentiment (March)

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MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	2,40	2,40	1,40	1,91	-0,58
USD SOFR O/N	4,55	4,55	3,80	4,30	0,05
JPY TONAR O/N	-0,01	-0,01	-0,08	-0,02	-0,01
GBP SONIA O/N	3,93	3,93	2,93	3,43	0,44
CHF O/N	0,80	0,80	0,80	0,80	-0,73

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,12	3,18	2,24	2,98	0,65
10Y Bund	2,63	2,71	1,78	2,44	0,21
10Y BTP	4,40	4,56	3,60	4,55	1,68
10Y JGB	0,50	0,50	0,25	0,41	0,16
10Y Bonos	3,64	3,74	2,76	3,51	1,14
10Y Swiss	1,51	1,46	0,98	1,57	0,25
10Y Gilt	3,74	3,84	3,05	3,66	1,56
10Y USTnote	3,98	4,01	3,42	3,88	1,94

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,58	3,56	2,58	3,12	1,00
EUR Corporate Baa	4,70	4,67	3,99	4,65	1,60
GBP Corporate Baa	4,68	4,71	4,17	4,59	2,43
USD Corporate Aaa	4,78	4,79	4,21	4,62	2,91
USD Corporate Baa	5,88	5,86	5,36	5,70	3,67
USD EM aggregate	7,63	7,59	7,37	7,52	5,64

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	82,35	-2,4%	6,5%	-4,2%	-26,5%
Or, USD/oz	1 814	-1,3%	1,6%	-0,7%	-8,9%
Copper, USD/metric ton	8 824	-2,8%	5,4%	5,1%	-12,3%
Platinium, USD/oz	942	-2,4%	-4,2%	-11,5%	-15,5%
Palladium, USD/oz	1 395	-2,0%	-24,5%	-22,0%	-53,8%
Silver, USD/oz	20,11	-4,2%	-10,2%	-16,0%	-23,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,05	-1,3%	0,2%	-1,3%	-4,1%
EUR/CHF	0,99	-1,0%	0,6%	0,6%	-3,0%
USD/GBP	0,84	1,4%	3,0%	1,8%	11,2%
USD/JPY	136,88	0,6%	0,1%	4,6%	18,2%
USD/BRL	5,12	-1,4%	-1,9%	-4,1%	2,5%
USD/CNY	6,95	1,2%	-0,3%	0,7%	10,0%
USD/RUB	76,35	1,7%	21,4%	4,6%	-36,3%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 066	-0,1%	0,2%	0,5%	-3,1%
Eurostoxx 50	4 288	1,7%	9,4%	11,2%	13,9%
Dax 40	15 632	2,1%	9,6%	11,1%	12,9%
CAC 40	7 325	1,3%	10,0%	11,1%	14,7%
FTSE 100	7 930	0,2%	5,9%	6,4%	10,3%
SMI	11 025	-0,3%	0,1%	2,8%	-4,1%
SP500	3 992	1,0%	1,5%	4,0%	-6,7%
TOPIX	2 051	2,7%	5,3%	8,4%	16,6%
iBovespa	106 540	2,1%	-2,3%	0,2%	-6,5%
Hang Seng	20 051	-2,8%	6,6%	1,4%	-2,8%
Sensex 30	60 348	1,6%	-3,3%	-1,3%	10,4%
CSI 300	4 034	-2,2%	1,9%	4,2%	-4,5%

Source: Bloomberg, on 9 March 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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