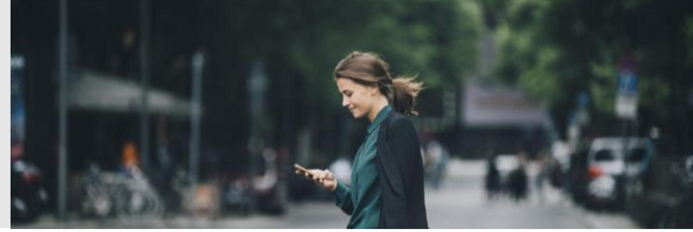
WEEKLY UPDATE

Talks over US debt ceiling could trigger market turbulence



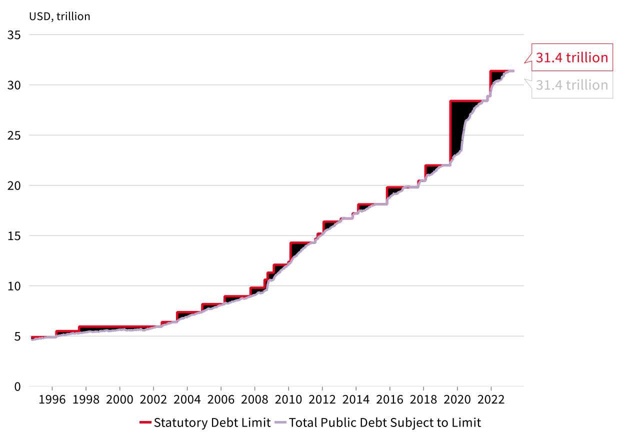
The US debt ceiling. The United States Federal government is butting up against a legal limit - the debt ceiling - set by Congress, which caps how much the Treasury can borrow. The ceiling, introduced in 1917 to allow exceptional public spending on the first world war, is a peculiarity of the United States system. In the past, the ceiling has been increased many times with no problems, 78 times since 1960. But, since the turn of the century, as public sector debt ballooned, the process has become a political hot potato, particularly when the sitting president lacks a comfortable majority in Congress. If they fail to lift the ceiling, the government will no longer be able to pay its bills, including redeeming bonds coming due. This would mean the US government defaulting on its debt.

A feeling of *déjà-vu*. On 2 August 2011, the debt ceiling was only raised at the very last minute before the country went into default, following a stand-off between the Obama administration and Republican lawmakers. The confrontation led S&P to downgrade its rating of United States public debt from AAA to AA+ on 5 August. As the political tensions were playing out, between July and mid-August, the S&P500 index plunged by nearly 17%. True, the fall can be partly attributed to banking troubles in the Euro area that summer, but it nonetheless illustrates the severe turbulence that a fight over the debt ceiling can provoke.

United States public sector debt has nearly doubled since 2021. The last time the ceiling was lifted was in December 2021 and the new ceiling was hit on 19 January. The government should be able to keep paying its bills until some time estimated between 1 June and 1 August, which means time is running out to strike a deal to lift the ceiling. Republicans have a slim majority in the Chamber and have tied any agreement to cuts in public spending, something the Democrats have so far refused to concede. The complex political wrangling is starting to feed through to markets. 1-year CDSs, the cost of buying protection against a possible default, have hit an all-time high and the rate of claims maturing after 1st June is rising.

Risks in the very short and medium terms. If the United States were to default on its bonds, which many market players use as a benchmark risk-free asset, it could plunge financial markets into instability. But while we cannot rule out such a scenario, we consider it unlikely. A likelier outcome in our view is that a last-minute deal is found that allows the ceiling to be lifted. But until such a deal is announced, the tensions already breaking out on the markets could get worse. Looking beyond the need to redeem short-term maturities, ongoing political talks suggest an agreement could include significant cuts to public spending in the future, which could mean a sharper slowdown in the US economy as from 2024.

US debt ceiling and current debt level



Sources: SG29, Macrobond, U.S. Department of Treasury 15/05/2023

Credit Default Swap(CDS)

Source: Bloomberg

OUR MACRO COMMENTS

Events of the week

Chinese economic activity has tended to disappoint since the lifting of health restrictions last November. Industrial production rose by 5.6% year-on-year, below expectations of over 10%. At the same time, retail sales, a key indicator for measuring consumption, are weaker than expected, with an increase of 18.4% over one year.

The Euro area again recorded a trade surplus of €25.6 billion in March, mainly due to growth in exports of goods (up by 7.5% year-on-year) while imports were down by 10% year-on-year. The war in Ukraine had led to an increase in the energy bill and implied a considerable deterioration in foreign trade (up to a 20 billion euro deficit in March 2022).

Figures of the week

	Actual	Forecast	Previous
• Retail Sales (YoY, April)	0.4% ↑	0,8%	-0,7%
• ZEW Economic Sentiment (May)	-10.7% ↓	-5,3%	4,1%
• Industrial Production (YoY, April)	5.6% ↑	10,9%	3,9%
• Retail Sales (YoY, April)	18.4% ↑	21%	10,6%
• Inflation Rate (April)	3,5% ↑	2,5%	3,2%

Sources: Macrobond, 19 May 2023

The week ahead

Monday

Tuesday

Wednesday

Inflation Rate (April)

Ifo Business Climate (May)

Thursday

GfK Consumer Confidence (June)

Friday

PCE Price and Durable Goods Orders (April)

SOCIETE GENERALE
Private Banking

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,15	3,15	2,41	1,91	-0,59
USD SOFR O/N	5,05	5,06	4,55	4,30	0,79
JPY TONAR O/N	-0,03	-0,06	-0,03	-0,02	-0,02
GBP SONIA O/N	4,43	4,18	3,93	3,43	0,94
CHF O/N	0,80	0,80	0,80	0,80	-0,67

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	76,71	0,2%	-10,1%	-10,8%	-29,7%
Or, USD/oz	1 982	-2,4%	7,9%	8,5%	9,1%
Copper, USD/metric ton	8 207	-3,5%	-7,4%	-2,3%	-11,4%
Platinium, USD/oz	1 068	-3,2%	15,2%	0,3%	11,3%
Palladium, USD/oz	1 490	-5,3%	1,0%	-16,7%	-28,9%
Silver, USD/oz	23,69	-7,2%	10,3%	-1,1%	9,3%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,90	2,87	2,93	2,98	1,50
10Y Bund	2,33	2,29	2,47	2,44	1,01
10Y BTP	4,18	4,19	4,21	4,55	2,93
10Y JGB	0,39	0,42	0,50	0,41	0,24
10Y Bonos	3,39	3,37	3,43	3,51	2,07
10Y Swiss	0,96	1,10	1,38	1,57	0,75
10Y Gilt	3,82	3,79	3,58	3,66	1,84
10Y USTnote	3,57	3,43	3,81	3,88	2,89

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	-1,1%	1,2%	1,4%	2,9%
EUR/CHF	0,97	-0,2%	-1,5%	-1,4%	-6,4%
USD/GBP	0,80	1,2%	-3,7%	-3,4%	-0,4%
USD/JPY	137,41	2,2%	2,3%	5,1%	7,0%
USD/BRL	4,96	0,1%	-5,2%	-7,1%	0,1%
USD/CNY	7,00	0,9%	2,1%	1,4%	3,6%
USD/RUB	79,88	5,0%	7,1%	9,4%	23,8%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,35	3,25	3,23	3,12	1,74
EUR Corporate Baa	4,55	4,41	4,31	4,65	2,56
GBP Corporate Baa	4,87	4,82	4,36	4,59	2,76
USD Corporate Aaa	4,42	4,26	4,57	4,62	3,75
USD Corporate Baa	5,64	5,46	5,57	5,70	4,75
USD EM aggregate	7,49	7,32	7,37	7,52	6,56

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-0,8%	-0,8%	-3,6%	-0,3%
Euro area	0,4%	0,4%	1,0%	12,1%
Germany	0,3%	0,3%	2,9%	13,4%
France	0,5%	0,5%	1,4%	12,2%
United Kingdom	-0,2%	-0,2%	-3,4%	3,6%
Switzerland	-0,1%	-0,1%	1,5%	6,6%
United States	0,5%	0,5%	0,3%	8,3%
Japan	2,3%	2,3%	7,3%	12,8%
Brazil	1,9%	1,9%	-0,1%	2,9%
Hong Kong	-1,0%	-1,0%	-6,0%	-1,1%
India	-0,6%	-0,6%	0,5%	0,6%
China	-0,9%	-0,9%	-4,0%	2,3%

Source: Bloomberg, on 18 May 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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