

## Disinflation confirmed, at the cost of weaker activity in the euro area

Next week will be marked by the last meetings of the ECB and the Federal Reserve before the summer break. The parallel decline in inflation is converging expectations towards a very close end to the tightening cycles of the two central banks before a prolonged status quo. The weaker economic momentum in the Euro area could begin to pepper the ECB's rhetoric.

### A similar dynamic of inflation.

Inflation confirms its decline on both sides of the Atlantic. It has fallen by nearly 3 percentage points since the beginning of the year, reaching 5.5% in June in the euro area and 3% in the United States. The shocks that cause price pressures have recently normalized and inflation is declining rapidly. Reassuringly, core inflation – i.e. excluding the energy and food effect – also seems to be declining over the recent period. While spillover effects could persist, most of the tensions seem to be behind us. This shift will encourage central banks to end their rate hike cycle. We expect a final 25bps hike from the Federal Reserve and the ECB next week before an extended standstill. Central banks will then hold rates until core inflation returns to a level closer to their target, which could take several more months.

### A desynchronization of business cycles.

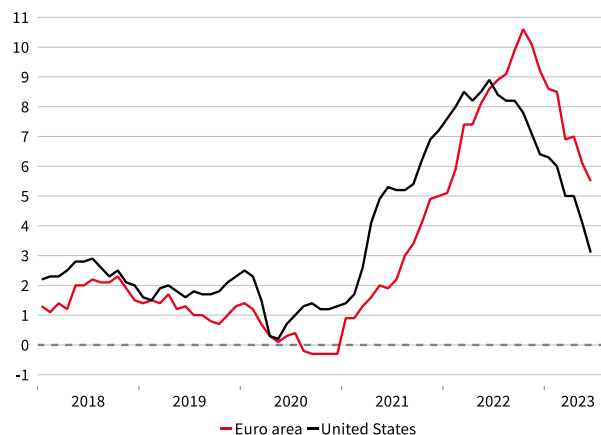
While inflation trends are identical between the United States and the euro area, the gap is widening in terms of activity dynamics. Domestic demand, and in particular household consumption, largely explains this difference. Indeed, in the United States, households have maintained dynamic consumption, both thanks to an increase in wages – including adjusted for inflation – and by the use of their post-covid savings. In the Euro area, although labour markets have also been very strong, wages have not risen as much as inflation, implying a sharp decline in purchasing power. At the same time, European households have not started to use their savings surplus, accentuating the difference with American households.

**In conclusion**, while we expect the ECB and Fed tightening cycle to end simultaneously, thanks to a parallel decline in inflation, the underlying economic situation appears weaker in the Euro area. Today, markets are anticipating that the Fed could start easing policy in early 2024 while the ECB would start in mid-2024. The fragility of the Euro area could ultimately reverse these trends.



### A similar disinflation trend

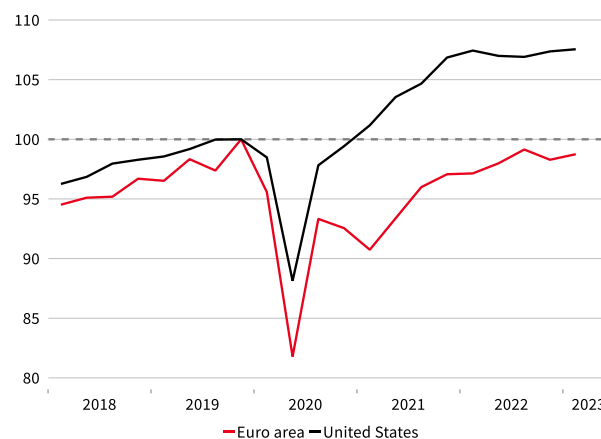
Headline inflation rate



Sources: SGPB, Macrobond, Eurostat, BLS, ONS 06/2023

### The activity gap between the two regions is widening

Domestic demand, 100=4Q19



Sources: SGPB, Macrobond, Eurostat, BEA 2023 Q1

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

All data taken from Bloomberg and Macrobond on the 21/07/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document

# OUR MACRO COMMENTS

## Events of the week



The major US banks publish heterogeneous results for 2Q23. The high interest rate environment continues to support retail banking revenues, while investment and market banking continue to deteriorate. The shifting movements of bank deposits to other more remunerative media have slowed down.



British inflation finally showed signs of slowing down for the month of June, to 7.9% after 8.7%, including on its component excluding energy and food prices. This has led to a marked easing of interest rates at different maturities. However, inflation remains high and markets continue to anticipate further tightening of policy rates by the Bank of England

## Figures of the week



- Retail sales (monthly change, June)
- Industrial production (monthly change, June)



- Consumer confidence (July)



- HCPI inflation (June)
- Consumer confidence (July)



- GDP (Quarterly change, 2Q23)
- Retail sales (monthly change, June)



- CPI inflation (June)

	Effective		Forecasted	Prior
	0,2%	↑	0,5%	0,5%
	-0,5%	↓	-0,2%	-0,5%
	-15,1	↑	-16,1	-15,8
	7,9%	↓	8,2%	8,7%
	-30	↓	-25	-24
	0,8%	↓	0,8%	2,2%
	3,1%	↓	3,3%	12,7%
	-1.9%	↑	-3.9%	-3%

Sources : Macrobond, 21July 2023.

## The week ahead

### Monday



PMI surveys



PMI surveys



PMI surveys

### Tuesday



Consumer confidence

### Wednesday



Federal reserve monetary policy meeting

### Thursday



GDP 2Q23



ECB monetary policy meeting

### Friday



July inflation first estimate

# MARKET PERFORMANCES

<b>Interbank rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
€STER O/N	3,40	3,40	2,90	1,91	-0,58
USD SOFR O/N	5,05	5,05	4,80	4,30	1,53
JPY TONAR O/N	-0,05	-0,02	-0,01	-0,02	-0,01
GBP SONIA O/N	4,93	4,93	4,18	3,43	1,19
CHF O/N	1,75	1,74	0,80	0,80	-0,03

<b>Long term sov. rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
10Y OAT	2,86	3,10	3,00	2,98	1,75
10Y Bund	2,29	2,53	2,50	2,44	1,20
10Y BTP	3,90	4,21	4,35	4,55	3,35
10Y JGB	0,48	0,45	0,47	0,41	0,20
10Y Bonos	3,28	3,53	3,53	3,51	2,47
10Y Swiss	0,84	1,05	1,09	1,57	0,83
10Y Gilt	4,16	4,50	3,84	3,66	2,13
10Y USTnote	3,75	3,86	3,60	3,88	3,04

<b>Credit &amp; EM</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
EUR Corporate Aaa	3,29	3,45	3,43	3,12	2,04
EUR Corporate Baa	4,49	4,65	4,54	4,65	3,27
GBP Corporate Baa	5,24	5,63	4,89	4,59	3,34
USD Corporate Aaa	4,52	4,59	4,36	4,62	3,86
USD Corporate Baa	5,65	5,72	5,52	5,70	5,04
USD EM aggregate	7,37	7,50	7,39	7,52	7,35

<b>Commodities</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>
Brent, USD/BL	79,50	0,1%	-4,0%	-7,5%
Or, USD/oz	1 977	1,0%	-0,9%	8,3%
Copper, USD/metric ton	8 382	0,0%	-5,7%	-0,2%
Platinum, USD/oz	988	5,4%	-7,0%	-7,2%
Palladium, USD/oz	1 324	4,7%	-18,3%	-26,0%
Silver, USD/oz	25,02	8,0%	1,1%	4,5%

<b>FX rates</b>	<b>Last.</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>
EUR/USD	1,12	1,8%	2,6%	5,0%
EUR/CHF	0,96	-0,3%	-2,3%	-2,5%
USD/GBP	0,78	0,9%	-3,4%	-6,5%
USD/JPY	139,62	0,9%	3,7%	6,7%
USD/BRL	4,79	-0,3%	-4,8%	-10,2%
USD/CNY	7,23	0,8%	4,9%	4,7%
USD/RUB	91,44	0,9%	11,8%	25,3%

<b>Equity indices</b>	<b>-1W</b>	<b>-3M</b>	<b>YTD</b>	<b>-12M</b>
Developped markets	1,4%	1,4%	1,8%	4,5%
Euro area	0,0%	0,0%	-0,7%	13,1%
Germany	0,5%	0,5%	1,3%	14,5%
France	-0,1%	-0,1%	-2,9%	11,1%
United Kingdom	2,3%	2,3%	-3,9%	1,8%
Switzerland	0,9%	0,9%	-2,2%	3,6%
United States	2,1%	2,1%	9,9%	18,9%
Japan	2,6%	2,6%	11,7%	20,5%
Brazil	-0,1%	-0,1%	13,1%	10,5%
Hong Kong	0,5%	0,5%	-6,9%	-4,2%
India	2,6%	2,6%	12,6%	9,7%
China	0,2%	0,2%	-6,6%	-0,5%

Source : Bloomberg, au 20 juillet 2023.

-1S = variation sur 1 semaine, -3M = variation sur 3 mois, -12M = variation sur 12 mois, Début d'année = variation depuis le début de l'année. Actions ; rendement total en devise locale. Obligations souveraines = rendement à 10 ans. Les chiffres sont arrondis.

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