WEEKLY UPDATE

End-year rally on the bond markets!

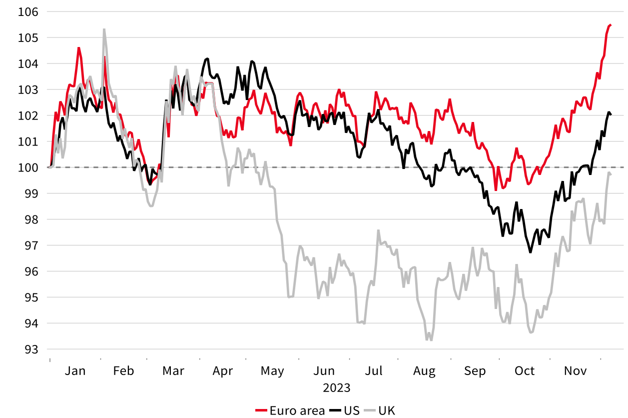
The first three quarters of this year saw continued upward pressure on interest rates beyond 2022, but the trend has changed significantly since October on the back of a rapid and significant drop in inflation. As a result, bond markets, especially in the euro area, have performed (too?) well in recent weeks.

Long bond yields have fallen sharply over the past month, particularly in the euro area. Although they have risen less than in other countries until then, 10-year euro government bond yields have fallen more than those in the United States and the United Kingdom over the past month and a half. As a result, bond prices, which move in the opposite direction to interest rates, have risen sharply since early November. This has allowed the UK government bond index performance to flirt with 0% this year. By comparison, Germany exhibits a performance of almost 5% and the US of almost 2% (**Chart 1**). Government bond markets in European countries with high public debt (e.g. Italy, Spain and France) benefited from this trend (up between 5% and 7% year-to-date). The corporate bond markets also benefited from this rally, with yields in the euro area exceeding 7% (Chart 2). This move is in line with (and reinforces our conviction on) our overweight position to bond markets, particularly investment grade companies, amid strong US and Eurozone corporate balance sheets.

Interest rates are expected to fall. The main reason for this move lies in the market's expectations about future monetary policy. The significant drop in inflation has allowed markets to move quickly from a scenario where central banks (especially the Federal Reserve and the Bank of England) tighten monetary policy too much to one where they will soon forcefully cut interest rates. Expectations for monetary easing have accelerated, particularly for the ECB and the Fed: the first rate cuts is priced in for March or April, with up to 150bp cut expected by the end of the year. These expectations are not so much driven by softer economic growth (recent data is somewhat mixed) but by a sharp drop in inflation (2.4% YoY in November in the euro area). November inflation figures for the US and UK, due out in the coming weeks, are likely to be converge towards those in the euro area, reinforcing rate cuts expectations.

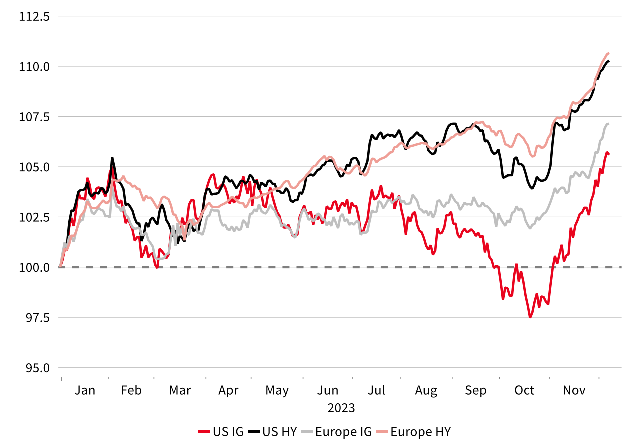
We believe in a balanced strategic position between stocks and bonds. All markets, stocks and bonds will continue to benefit from this interest rate adjustment. However, monetary policy market expectations may be too optimistic. The main central banks are scheduled to meet next week. They are expected to confirm the end of the rate hike cycle and to welcome the drop in inflation but could also send a signal to markets that any talk of rate cuts is premature. Moreover, due to the less favourable base effect, it is possible that December inflation numbers (released early to mid-January) will rise again.

Sovereign bond market performance (100=31/12/2002)



Sources: SGPB, Macrobond, 07/12/2023

Corporate bond market performance (100=31/12/2022)



Sources: SGPB, Macrobond, 07/12/2023

SOCIETE GENERALE
Private Banking

OUR MACRO COMMENTS

Events of the week

November's US employment report showed an increase of 199,000 jobs, signalling a stubbornly tight labour market. Although this is below the 2023 average, it is still a very strong figure. Moreover, despite a slight increase in the participation rate, the unemployment rate fell from 3.9% to 3.7%. Finally, average hourly earnings growth accelerated to 0.4% mom, after 0.2% in October.

Oil prices hit $77.24/bbl, the lowest since early July. That's largely the result of US crude oil production hitting a record high of 13.2 million barrels per day in September. This is more than any other country and represents an eighth of global production. In response, OPEC announced further production cuts for 2024 to keep prices high, but internal tensions within OPEC could limit its ability to control prices.

European figures were weak this week: French and German industrial production fell by 0.3% and 0.4% respectively over the month, against expectations of +0.2% for both countries. In Germany, factory orders fell by 3.7% over the month, whereas a slight increase was expected. Eurozone retail sales were slightly disappointing (+0.1% over the month vs. +0.2% expected).

Figures of the week

	Actual	Forecast	Last
Industrial Production (October, MoM)	-0.3% ↓*	0.2%	-0.6%
Factory Orders (October, MoM)	-3.7% ↓	0.2%	0.7%
Industrial Production (October, MoM)	-0.4% ↓	0.2%	-1.4%
Retail Sales (October, MoM)	0.1% ↓	0.2%	0.1%
Factory Orders (October, MoM)	-3.6% ↓	-2.8%	2.3%
ISM Services PMI (November)	52.7 ↑	52	51.8
Unemployment Rate (November)	3.7% ↓	3.9%	3.9%

Sources : Macrobond, December 8th 2023.
*Arrows represent variation from consensus

The week ahead

Tuesday

- Employment report (November)
- Inflation (November)
- Economic sentiment (December)

Wednesday

- Fed Interest rate decision

Thursday

- ECB Interest rate decision
- BoE Interest rate decision

Friday

- S&P manufacturing and Services PMI (December)
- Unemployment Rate (November)
- HCOB manufacturing and Services PMI (December)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3.90	3.90	3.65	1.91	1.40
USD SOFR O/N	5.32	5.31	5.30	4.30	3.80
JPY TONAR O/N	-0.01	-0.02	-0.08	-0.02	-0.08
GBP SONIA O/N	5.19	5.19	5.19	3.43	2.93
CHF O/N	1.65	1.69	1.79	0.80	0.80

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	74.22	-10.2%	-18.1%	-13.6%	-4.0%
Or, USD/oz	2,025	-0.9%	5.7%	10.9%	13.4%
Copper, USD/metric ton	8,383	-1.1%	-0.3%	-0.2%	0.2%
Platinium, USD/oz	901	-3.9%	-2.2%	-15.4%	-8.3%
Palladium, USD/oz	944	-9.8%	-21.6%	-47.2%	-48.9%
Silver, USD/oz	24.10	-3.5%	2.6%	0.6%	7.6%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2.75	2.98	3.18	2.98	2.24
10Y Bund	2.20	2.41	2.65	2.44	1.78
10Y BTP	3.89	4.11	4.40	4.55	3.60
10Y JGB	0.67	0.75	0.65	0.41	0.25
10Y Bonos	3.20	3.42	3.70	3.51	2.76
10Y Swiss	0.69	0.86	0.98	1.57	0.98
10Y Gilt	4.04	4.17	4.53	3.66	3.05
10Y USTnote	4.12	4.27	4.30	3.88	3.42

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1.08	-1.9%	0.3%	0.9%	2.4%
EUR/CHF	0.94	-1.8%	-1.4%	-4.4%	-4.4%
USD/GBP	0.79	0.8%	-0.8%	-4.4%	-3.2%
USD/JPY	147.14	-0.2%	-0.3%	12.5%	7.6%
USD/BRL	4.90	0.1%	-1.5%	-8.2%	-6.1%
USD/CNY	7.15	0.9%	-2.3%	3.6%	2.5%
USD/RUB	92.90	4.9%	-5.5%	27.3%	47.7%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2.91	3.10	3.51	3.12	2.58
EUR Corporate Baa	4.07	4.32	4.68	4.65	3.99
GBP Corporate Baa	4.76	4.83	5.48	4.59	4.17
USD Corporate Aaa	4.67	4.81	4.98	4.62	4.21
USD Corporate Baa	5.67	5.82	6.07	5.70	5.36
USD EM aggregate	7.42	7.61	7.75	7.52	7.37

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0.6%	1.2%	3.2%	3.0%
Euro area	2.6%	5.8%	16.3%	14.3%
Germany	3.0%	5.8%	18.4%	16.8%
France	2.3%	3.4%	12.8%	11.6%
United Kingdom	1.2%	1.2%	0.9%	0.3%
Switzerland	1.8%	0.7%	2.5%	-0.1%
United States	0.0%	1.9%	18.5%	15.6%
Japan	1.0%	-0.2%	26.2%	22.5%
Brazil	-0.4%	8.3%	18.1%	15.2%
Hong Kong	-3.1%	-10.8%	-16.8%	-12.5%
India	4.1%	5.7%	13.9%	11.6%
China	-2.5%	-10.8%	-12.2%	-14.1%

Source: Bloomberg, on December 7, 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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