

WEEKLY UPDATE

Excess savings eaten up by inflation

An odd feature of the Covid crisis was that many households built up substantial savings buffers, which helped the recovery once the pandemic eased. The value of these savings and what they were spent on has varied wildly between countries since. However, wherever they are in the world, households have now seen the real value of their financial assets eaten up by inflation.

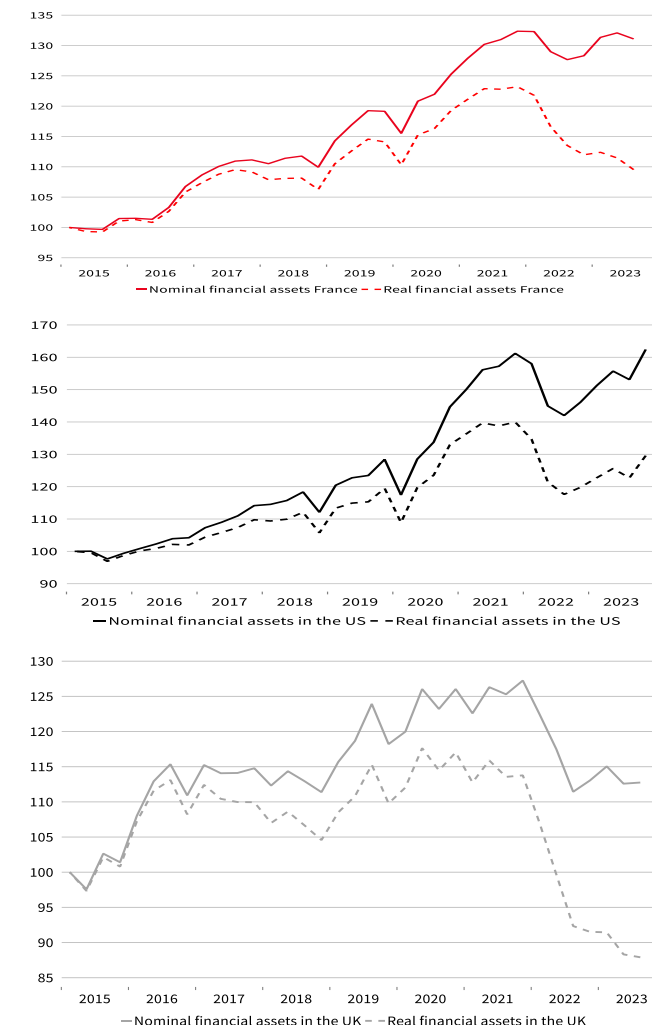
Substantial post-Covid savings buffer. Covid and its associated crisis led households in developed economies piling up massive savings under their mattresses. Government support meant they could maintain all or some of their incomes, which they could not then spend because of pandemic restrictions. Excess savings reached substantial levels, nearly 10% of GDP in the United States – where public support was especially generous – and around 7% in Europe. And these buffers formed one of the peculiarities of the post-Covid recovery: it allowed households to mitigate the shocks of rising inflation and interest rates. In particular, US households have been markedly tapping these excess savings to fund a boom in spending.

Valuation of households' financial assets played a major role. Financial wealth has seen big swings in asset prices since 2020, with very different impacts in different countries. Booming equity markets in the United States have boosted Americans' financial wealth in recent years. In contrast, bond-favouring British households have seen their savings plunge in value alongside the debt markets. In France, the net effect seems to be modestly positive. French households hold much of their savings in risk-free vehicles which are largely immune to market moves.

But everywhere inflation has been eating into savings. since the beginning of 2020, consumer prices have risen by a cumulative 14% in the United States, 19% in the United Kingdom and 18% in the euro area (13% in France). This kind of inflation automatically erodes the purchasing power of savings. The net effect has been to knock the real-terms financial wealth of households back to its pre-Covid level. Effectively, we are now back to square one: inflation has eaten the Covid savings buffer.



Nominal and real financial assets in France, the US and the UK (100=01/01/2015)



Sources: SGPB, Macrobond, Banque de France, Eurostat, BUBA, Bank of Italy, BDE, ONS, Fed, OECD, INSEE, BEA 2023 Q3


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


All data taken from Bloomberg and Macrobond on the 22/03/2024, 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 Bank of Japan (BoJ)**, in a move widely anticipated by markets, not only raised its policy rate for the first time in 17 years, from -0.1% to a range of 0% to 0.1%, ending its negative rate policy, but also dropped its yield curve control policy and its risky asset purchase programme IETFs, J-REITs). This marks a first step towards normalisation of the BoJ monetary policy, reflecting Japan's now above target inflation and fast-rising salaries in the private sector. Governor Ueda, though, made no commitment to further rate hikes in the future.

 **The Federal Reserve (Fed)** was sounding reassuring after January and February inflation prints came in stronger than expected. The bank kept a relatively dovish stance and is expecting three cuts this year, despite slightly upgrading its inflation outlook. We see a first cut in June as probable. That said, we also note the Fed is now expecting to make fewer rate cuts in 2025 and 2026, suggesting real interest rates (deflated by inflation) will remain high.

 **The Bank of England (BoE)**, also unsurprisingly, held the base rate at 5.25%. But, for the first time since late 2021 no committee member voted for a hike while one continued to advocate a cut. Even so, like its peers, the BoE is not yet prepared to ease policy, preferring to wait until inflation is sustainably under control. February's figure was down from 4% to 3.4% year-on-year.

 **The Swiss National Bank (SNB)** reduced its key interest rate by 0.25 pts, to 1.5%. The decision took markets by surprise - they were pricing in no change before June - but was taken for two main reasons: Swiss inflation is low (below 2% since June 2023) and the Swiss franc is high. On this last point, the CHF has lost around 1.5% against the dollar since the SNB's decision.

The week in data

Country	Data	Actual	Last	Forecast
Germany	Ifo Business Climate MAR	87.8	85,7	86.00
United States	Fed Interest Rate Decision	5.50%	5.50%	5.50%
Japan	BoJ Interest Rate Decision	0%	-0.10%	0%
United Kingdom	Inflation Rate YoY FEB	3.40%	4.00%	3.50%
United Kingdom	BoE Interest Rate Decision	5.25%	5.25%	5.25%
Switzerland	SNB Interest Rate Decision	1.50%	1.75%	1.75%
Euro area	HCOB Composite PMI Flash MAR	49.9	49.2	49.7

Source: Macrobond, 22nd March 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Tuesday	
Germany	GfK Consumer Confidence APR
United States	Durable Goods Orders MoM FEB
Wednesday	
France	Consumer Confidence MAR
Euro Area	Economic Sentiment MAR
Thursday	
Germany	Retail Sales YoY FEB
Germany	Unemployment Rate MAR
United States	Core PCE Price Index MoM FEB
Friday	
Japan	Unemployment Rate FEB
France	Inflation Rate YoY Prel MAR
France	Household Consumption MoM FEB
Italy	Inflation Rate YoY Prel MAR
United States	Personal Income MoM FEB
Saturday	
China	NBS Manufacturing PMI MAR

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3.91	3.91	3.90	1.91	2.90
USD SOFR O/N	5.31	5.31	5.31	4.30	4.55
JPY TONAR O/N	0.00	-0.01	-0.01	-0.02	-0.01
GBP SONIA O/N	5.19	5.19	5.19	3.43	3.93
CHF O/N	1.60	1.62	1.68	0.80	0.80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2.87	2.79	2.48	2.98	2.86
10Y Bund	2.43	2.36	1.97	2.44	2.34
10Y BTP	3.70	3.57	3.56	4.55	4.18
10Y JGB	0.75	0.76	0.64	0.41	0.24
10Y Bonos	3.24	3.15	2.92	3.51	3.37
10Y Swiss	0.70	0.72	0.62	1.57	1.06
10Y Gilt	4.00	4.00	3.61	3.66	3.46
10Y USNote	4.27	4.19	3.86	3.88	3.48

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3.12	3.07	2.70	3.12	3.44
EUR Corporate Baa	3.94	3.89	3.79	4.65	4.53
GBP Corporate Baa	4.55	4.57	4.30	4.59	4.62
USD Corporate Aaa	4.80	4.72	4.46	4.62	4.28
USD Corporate Baa	5.57	5.53	5.36	5.70	5.49
USD EM aggregate	7.17	7.14	7.07	7.52	7.46

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	85.70	2.5%	8.3%	-0.3%	13.2%
Or, USD/oz	2,186	0.5%	7.6%	19.7%	11.0%
Copper, USD/metric ton	8,897	0.8%	3.9%	5.9%	0.3%
Platinum, USD/oz	896	-4.2%	-6.1%	-15.9%	-8.9%
Palladium, USD/oz	987	-6.8%	-17.8%	-44.8%	-29.0%
Silver, USD/oz	24.86	2.3%	3.7%	3.8%	11.2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1.08	-0.9%	-0.9%	1.5%	0.5%
EUR/CHF	0.97	0.7%	2.4%	-1.9%	-2.9%
USD/GBP	0.79	0.7%	-0.4%	-5.2%	-3.8%
USD/JPY	151.62	2.6%	5.5%	15.9%	14.3%
USD/BRL	5.01	0.6%	2.6%	-6.2%	-4.8%
USD/CNY	7.20	0.2%	0.9%	4.4%	4.6%
USD/RUB	92.40	0.7%	2.0%	26.6%	20.0%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0.2%	6.9%	13.6%	17.2%
Euro area	0.0%	10.3%	29.7%	19.2%
Germany	0.3%	7.7%	28.0%	18.4%
France	0.3%	7.6%	23.8%	14.4%
United Kingdom	-0.4%	0.3%	3.8%	2.3%
Switzerland	-1.5%	4.3%	8.3%	7.8%
United States	1.1%	11.2%	36.1%	32.7%
Japan	3.9%	17.1%	45.4%	40.1%
Brazil	0.9%	-1.3%	21.4%	28.8%
Hong Kong	-3.2%	-0.4%	-16.4%	-15.6%
India	-0.9%	2.3%	17.9%	23.9%
China	0.4%	8.7%	-7.4%	-10.4%

Source : Bloomberg, au 22/03/2024. -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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