

Rising interest rates: the question of the sustainability of private debt

In an environment of high inflation, central banks have started to tighten financial conditions. In the United States and the United Kingdom, monetary authorities have already begun a cycle of rate hikes with the objective of reaching a neutral level in the coming quarters and have also announced balance sheet reduction programmes. In the Euro area, the ECB is expected to stop its net purchases in Q3-2022 and is expected to start raising its key rate at the end of the year. This is already translating into interest rate hikes (e.g. for home loans) and tighter financial conditions. This new context now raises the question of the sustainability of private sector debt, the level of which increased during the sanitary crisis.

Although interest rates are rising, household debt is not at risk at this stage. First, over the last ten years, with the exception of France, households in the Euro area and the United States have largely reduced their debt levels (Graph 1), while the share of floating rate debt has also decreased. Second, household debt servicing remains moderate following years of low interest rates. Thirdly, households are in generally good financial health after the Covid crisis. Indeed, the support measures taken during the health crisis have kept household incomes stable or even increased. These measures also resulted in a significant jump in household savings rate. Thus, because of their robust financial balance sheet, households seem to be able to resist the new context of rising interest rates.

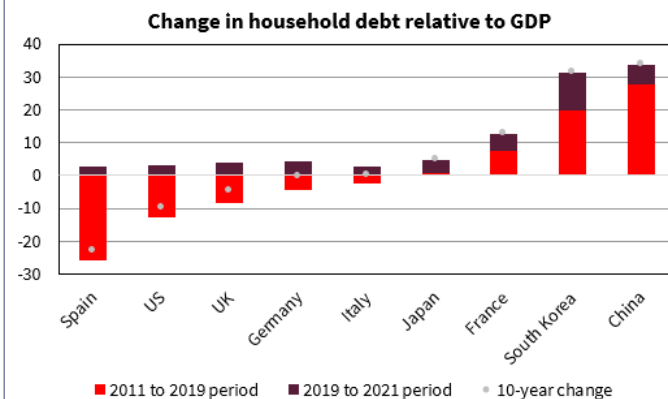
For the corporate sector, the situation appears more mixed, as well as more contrasted from one country to another. Indeed, in Spain and Italy, two of the countries that suffered most from the 2011 debt crisis, corporate debt has also fallen considerably over the last ten years. In France, however, the situation is quite different, with the countries' companies experiencing the largest increase in debt among the major economies (Graph 2). It should be noted, however, that a significant proportion of this debt comes from state-guaranteed loans, thus reducing the risk associated to these debt. In the other major developed economies, corporate debt has also increased in the context of the global health crisis, but this increase is more moderate and has been accompanied by an upsurge in liquid assets. As a result, "net" debt remains broadly stable, reducing credit risk in the context of tighter financial conditions.

In essence, rising interest rates do not pose a systemic risk or an immediate risk to financial stability. The tightening of financial conditions is expected to slow down the economy but households and companies appear to be able to cope with the new environment. The private debt situation (households and companies) of some major economies – China, South Korea and France in particular – remains to be monitored, although debt servicing remains at sustainable levels for now.



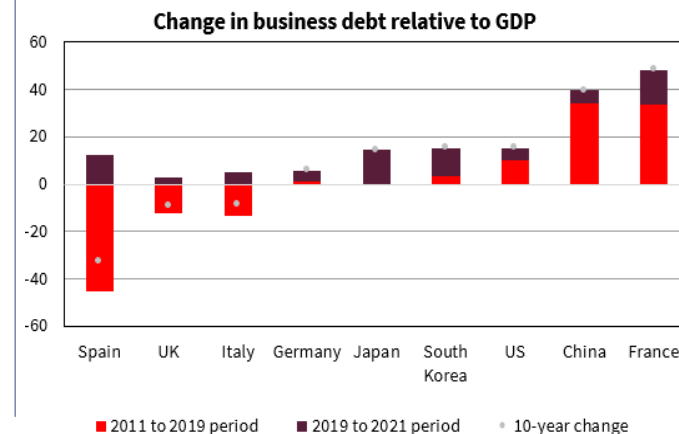
Household debt has broadly fallen or remained stable over the last ten years

Main economies: household debt as a percentage of GDP



With few exceptions, corporate indebtedness has generally increased over the last ten years

Main economies: business debt as a percentage of GDP



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

All data taken from Bloomberg, Macrobond, (15/04/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



Energy and food prices are rising rapidly in Asia, which has been spared for a long time. In addition, the gap between production costs and consumer prices is currently particularly wide, raising fears of future price pressures. Another source of inflation in the coming months could be the disruption of value chains due to the multiple Chinese lockdowns.



Elon Musk proposed this week to buy Twitter for \$43 billion. The entrepreneur had already acquired 9.2% of the capital of the social network at the beginning of April, thus becoming its first shareholder. Although the offer is generous since Elon Musk is offering \$54.20 per share (20% more than the current price), this acquisition proposal remains unsolicited by management.

Figures of the week



- Inflation (in year on year variation, March)
- Core inflation (in year on year variation, March)
- Retail sales (in month on month variation, March)



- Industrial production (in month on month variation, February)
- Unemployment rate (in quarter on quarter variation, February)
- Inflation (en variation sur un an, mars)



- ECB Refinancing operations rate
- ECB Deposit facility rate



- Inflation (in year on year variation, March)
- Producer price index (in year on year variation, March)



- Inflation (in year on year variation, March)

	Current	Consensus	Previous
	8,5% ▲	8,4%	7,9%
	6,5% ▲	6,6%	6,4%
	0,5% ▼	0,6%	0,8%
	-0,6% ▼	0,4%	0,7%
	3,8% ▼	3,9%	3,9%
	7% ▲	6,7%	6,2%
	0% →	0%	0%
	-0,5% →	-0,5%	-0,5%
	1,5% ▲	1,2%	0,9%
	8,3% ▼	7,9%	8,8%
	7,6% →	7,6%	7,6%

The week ahead

Monday



GDP (Q1)



Industrial production (March)



Retail sales (March)

Wednesday



Policy interest rate



Industrial production (February)

Thursday



Inflation (March)



Core inflation (March)

Friday



Inflation (March)



Retail sales (March)

Sources: Bloomberg, on April 15th, 2022.

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,59	-0,58	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,30	0,05	0,05	0,01
JPY TONAR O/N	-0,01	-0,01	-0,02	-0,02	-0,01
GBP SONIA O/N	0,69	0,69	0,20	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,27	1,19	0,24	0,20	0,02
10Y Bund	0,83	0,65	-0,05	-0,21	-0,30
10Y BTP	2,36	2,34	1,22	1,17	0,81
10Y JGB	0,23	0,23	0,11	0,07	0,08
10Y Bonos	1,69	1,66	0,59	0,56	0,41
10Y Swiss	0,93	0,66	0,01	-0,13	-0,23
10Y Gilt	1,84	1,75	1,16	1,02	0,80
10Y USTnote	2,70	2,61	1,70	1,52	1,64

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,34	1,23	0,39	0,33	0,18
EUR Corporate Baa	2,00	1,86	0,73	0,66	0,48
GBP Corporate Baa	2,55	2,47	1,61	1,52	1,18
USD Corporate Aaa	3,37	3,23	2,32	2,13	2,14
USD Corporate Baa	4,22	4,08	2,81	2,60	2,48
USD EM aggregate	5,90	5,73	4,60	4,33	4,01

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	108,78	7,6%	29,4%	37,6%	64,2%
Or, USD/oz	1 978	2,7%	8,5%	8,2%	13,9%
Copper, USD/metric ton	10 305	-0,6%	3,5%	6,4%	14,5%
Platinum, USD/onz	985	1,8%	1,3%	1,9%	-16,5%
Palladium, USD/onz	2 366	5,1%	25,3%	19,6%	-12,0%
Silver, USD/onz	25,64	5,7%	10,3%	11,1%	1,2%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	-0,9%	-5,6%	-4,4%	-9,5%
EUR/CHF	1,01	-0,5%	-2,8%	-2,2%	-8,2%
USD/GBP	0,77	0,4%	5,3%	3,9%	5,7%
USD/JPY	125,72	1,6%	10,2%	9,2%	15,3%
USD/BRL	4,69	-0,1%	-15,0%	-15,8%	-17,5%
USD/CNY	6,37	0,2%	0,1%	0,2%	-2,5%
USD/RUB	82,21	-1,1%	7,8%	9,6%	8,7%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 142	-0,1%	-4,2%	-1,6%	4,5%
Eurostoxx 50	3 828	0,1%	-11,3%	-10,9%	-3,7%
Dax 40	14 076	-0,5%	-12,2%	-11,4%	-7,4%
CAC 40	6 542	0,7%	-9,2%	-8,5%	5,4%
FTSE 100	7 581	-0,1%	0,2%	2,7%	9,2%
SMI	12 379	0,5%	-1,9%	-3,9%	11,0%
SP500	4 447	-0,8%	-4,6%	-6,7%	7,8%
TOPIX	1 890	-1,7%	-5,8%	-5,1%	-3,2%
iBovespa	116 782	-1,2%	10,7%	11,4%	-2,9%
Hang Seng	21 374	-3,2%	-12,5%	-8,6%	-26,0%
Sensex 30	58 339	-2,1%	-4,7%	0,1%	20,2%
MOEX	-	-	-	-	-
CSI 300	4 140	-2,9%	-13,1%	-16,2%	-16,9%

Source: Macrobond, on April 15th, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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