

Central banks still in the transitory inflation camp

Eurozone and US central banks in line with expectations

The beginning of the month was marked by the monetary policy meetings of the European Central Bank (ECB), the Federal Reserve (Fed) and the Bank of England (BoE). As expected, the ECB kept its key rates unchanged. It also maintained the pace of securities purchases and announced that "as things stand", the end of net purchases related to the pandemic would take place as planned in March 2022. On the US side, as also expected, the Fed did not change its key rate and announced the tapering of its asset purchases program. More specifically, it will reduce its net purchases by 15 billion dollars per month starting in November (10 billion Treasuries and 5 billion MBS), which will stabilize its balance sheet in June 2022. On the other hand, the BoE surprised the markets by keeping its benchmark rate at 0.1% while the market consensus was for a 15 basis point increase. It also kept its asset purchase program unchanged.

Central banks continue to defend the thesis of transitory inflation

These decisions were highly awaited in a context where inflation in these 3 regions continues to be above the central banks' target and is expected to remain high in the coming months. During her press conference, Christine Lagarde maintained that inflation in the euro zone reflects transitory factors, namely the rise in energy prices, the increase in taxation in certain countries and the mismatch between supply and demand linked to the reopening of the economy. Furthermore, she emphasizes that the conditions for a start to hike rates (inflation reaches 2% over a two-year horizon and remains at this level in the long term in the ECB's projections, core inflation compatible with total inflation at 2% over the medium term) would not be met in 2022. Jerome Powell, in a similar manner, also insisted on the transitory nature of inflation, expecting it to return to the target during 2022. J. Powell also emphasized that the reduction in asset purchases was to be decoupled from the rate hike cycle, leaving it to wait for a real recovery in the US labor market to begin.

Financial markets question the transitory aspect of inflation

Ms. Lagarde and Mr. Powell's statements come at a time when financial markets are beginning to anticipate that inflationary pressures could be more durable than central banks had expected, forcing them to raise rates sooner and faster than expected. Thus, the markets are now anticipating two Fed rate hikes in 2022 and four rate hikes in 2023. On the ECB side, statements by Mrs. Lagarde and other ECB members have allowed a decrease in rate hike expectations after a visible adjustment in late October.

Conclusion

In an environment where inflation will remain high in the months to come with the risk of upside surprises, the interest rate market will remain volatile. The very cautious nature of central banks will continue to be favorable to equities and corporate bonds.

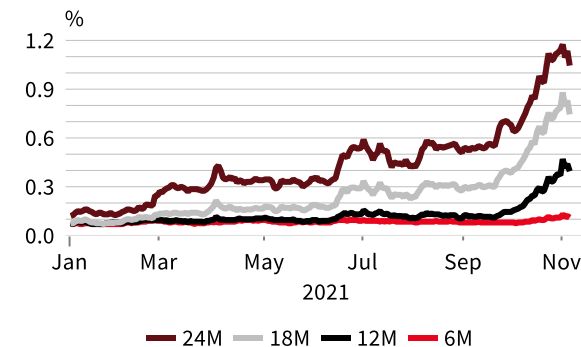
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (05/11/2021). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



Markets are beginning to price Fed hikes in 2022

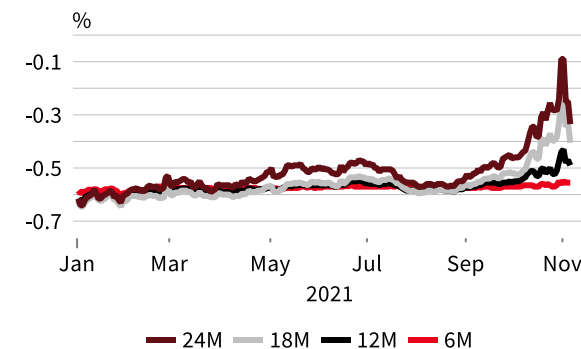
USA: Fed funds futures (by month)



Sources: SGPB, Macrobond, CME Group, 04/11/2021

Expectation of rate hikes in the euro area dampened by the ECB

Eurozone: Eonia futures (by month)



Sources: SGPB, Macrobond, ICE, 04/11/2021

OUR MACRO COMMENTS

Events of the week



Opec+ members decided this week to limit their production increase to 400,000 barrels per day in December, despite the insistence of consuming countries that called for a larger move to temper rising prices.



The Chinese government decided to resume containment measures in the north of the country and urged households to stockpile some basic necessities. In addition, a World Economic Forum event scheduled to be held this month in China has been postponed.

Figures of the week



- ISM manufacturing PMI (october)
- ISM services PMI (october)



- Retail sales (YoY, september)



- Retail sales (YoY, september)



- Non-manufacturing PMI (october)
- NBS manufacturing PMI (october)



- Overall household spending (YoY, september)

	Actual	Forecast	Previous
ISM manufacturing PMI (october)	60.8 ↑	60.6	61.1
ISM services PMI (october)	66.7 ↑	62	61.9
Retail sales (YoY, september)	2.5% ↑	1.5%	0%
Retail sales (YoY, september)	-0.9% ↓	1.8%	0.4%
Non-manufacturing PMI (october)	52.4 ↓	52.9	53.2
NBS manufacturing PMI (october)	49.2 ↓	49.7	49.6
Overall household spending (YoY, september)	-1.9% ↑	-3.9%	-3%

Sources : Refinitiv Eikon, 5 november 2021.

The week ahead

Monday



Trade balance



Leading economic indicator

Tuesday



Retail sales



Trade balance

Wednesday



Inflation



Inflation



Inflation

Thursday



GDP

Friday



Michigan consumer sentiment index

MARKETS PERFORMANCE

Interest rates						Government bonds*					Equities*						
	Last	1wk	3mth	YTD	12mth		1wk	3mth	YTD	12mth		Last	1wk	3mth	YTD	12mth	
EONIA (EUR)	-0.49%	0 pb →	0 pb	1 pb	-2 pb	United States (3-7yr)	0.4% ↑	-1.5%	-1.9%	-1.9%	MSCI AC World	756	1.2% ↑	4.1%	18.9%	33.1%	
3mth Euribor (EUR)	-0.57%	-1 pb ↓	-3 pb	-2 pb	-5 pb	United Kingdom (3-7yr)	0.4% ↑	-1.4%	-2.3%	-2.3%	Eurostoxx50	4333	2.4% ↑	5.0%	24.9%	40.5%	
3mth Libor (USD)	0.14%	1 pb ↑	2 pb	-9 pb	-9 pb	Germany (3-7yr)	0.5% ↑	-1.1%	-1.1%	-1.7%	DAX	16030	2.1% ↑	2.2%	16.8%	30.1%	
3mth Libor (GBP)	0.23%	-3 pb ↓	15 pb	20 pb	18 pb	Japan (3-7yr)	0.0% →	-0.3%	-0.1%	-0.1%	CAC 40	6988	2.7% ↑	3.8%	28.7%	45.3%	
10-year US Treasury bond	1.52%	-5 pb ↓	34 pb	61 pb	76 pb						S&P 500	4680	1.9% ↑	6.7%	26.1%	37.9%	
10-year German bond	-0.22%	-7 pb ↓	27 pb	35 pb	42 pb	Credit	1wk	3mth	YTD	12mth	FTSE 100	7280	0.5% ↑	3.5%	16.3%	28.3%	
10-year French bond	0.12%	-8 pb ↓	26 pb	46 pb	48 pb	BAML EURO Corp. IG	0.43% ↑	-1.2%	-0.3%	0.6%	SMI	12403	2.1% ↑	1.9%	19.2%	24.2%	
10-year UK bond	0.94%	-7 pb ↓	43 pb	75 pb	73 pb	BAML EURO Corp HY	0.12% ↑	-0.3%	3.3%	7.9%	Topix	2056	2.8% ↑	7.9%	16.1%	29.0%	
						BAML GBP Corp IG	-0.13% ↓	-2.1%	-2.8%	0.1%	IBOV Brazil	103412	-2.2% ↓	-15.1%	-13.1%	5.7%	
Exchange rates	Last	1wk	3mth	YTD	12mth	BAML USIG	0.23% ↑	-1.1%	-0.7%	1.4%	MICEX Russia *	4185	-0.1% ↓	9.8%	27.2%	50.2%	
EUR/USD	1.16	-1.1% ↓	-2.4%	-5.4%	-1.5%	BAML USHY	0.19% ↑	0.8%	4.7%	9.3%	MSCI EM	1268	-0.6% ↓	-2.1%	0.3%	14.4%	
EUR/CHF	1.05	-1.0% ↓	-1.8%	-2.5%	-1.5%	BAML Global EM Sov. External Plus	-0.23% ↓	-2.3%	-3.1%	2.2%	SENSEX 30 India	60068	0.1% ↑	10.7%	27.0%	49.4%	
GBP/USD	1.35	-2.1% ↓	-2.8%	-1.3%	3.9%	Commodities	Last	1wk	3mth	YTD	12mth	Hang Seng (H-K)	25225	-1.3% ↓	-4.0%	-5.0%	4.0%
USD/JPY	113.8	0.2% ↑	3.9%	10.2%	8.9%	Brent	\$80.7	-4.4% ↓	14.4%	55.5%	95.3%	Shanghai Composite	3527	0.2% ↑	1.4%	1.5%	7.6%
USD/BRL	5.60	-0.8% ↓	8.4%	7.9%	-1.1%	Gold	\$1793	-0.5% ↓	-0.9%	-5.5%	-5.6%						
USD/CNY	6.40	0.1% →	-1.1%	-2.0%	-3.8%	Copper	\$9699	-1.6% ↓	2.7%	25.2%	42.0%						
USD/RUB	71.4	1.6% ↑	-2.5%	-3.5%	-8.0%												

Source: DataStream, on 4 November 2021.

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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