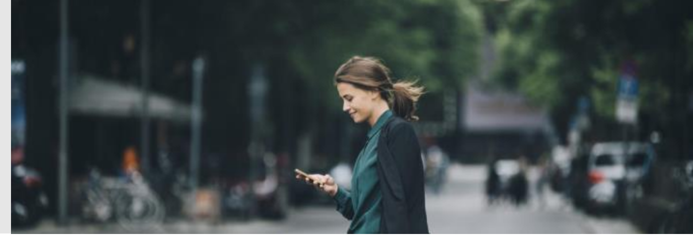
WEEKLY UPDATE

Ukraine: so far households are feeling the pinch more than companies



The Ukraine war grinds on, which means we cannot yet draw a full picture of its economic impacts. That said, the conflict began at the end of February and some early indicators for March and April are now out, giving us a first assessment of how economic activity is being affected. Business activity and confidence indicators show different trends among households, which are apparently hard hit, and companies, who seem near immune.

Household confidence has plunged. Confidence has dropped to levels last seen during the first Covid lockdown in spring 2020. United States and European households are suffering similar dips in sentiment, although for slightly differing reasons. In the United States, confidence began to fade before the Ukraine war and mainly reflected the sharp rise in inflation over recent months. In the Euro area, the key factor undermining confidence is the shock from the war. Households are being affected by the conflict in a near neighbor and the energy price hikes specific to Europe have taken a direct toll. But taking a broader view, with wages no longer automatically indexed to inflation and energy demand effectively inelastic, it comes as no surprise that households fear a hit to their purchasing power. To offset this, they are likely to either run down savings or cut back on other areas of consumption. It should also be noted that in the Euro area, consumption is already showing early signs of a slowdown (in France, household consumption is down by 1.3% quarter-on-quarter in Q1-2022), while at this stage, consumption remains more vigorous in the United States. (+2.7% in Q1).

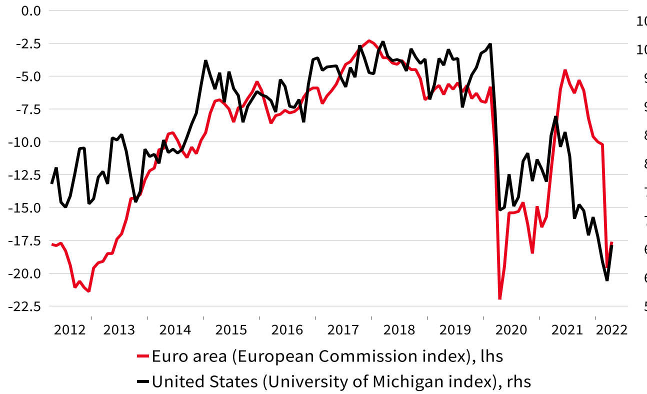
Companies' activity is holding up. Purchasing manager surveys reveal surprisingly robust sentiment in the private sector on both sides of the Atlantic. Such resilience reflects underlying trends in economic activity, including, in Europe, a gradual return to business-as-usual for service sectors post the Covid Delta variant. It also reflects the fact that, so far, companies have been able to pass on higher production costs to final prices. Wage pressures in Europe remain modest - speeding up in the United States but still lagging inflation - offering companies another way to damp down spiraling costs. On this point, of the S&P 500 companies who have so far reported Q1 results, 80% have posted earnings ahead of analyst forecasts. In the STOXX 600, 60% beat earnings expectations. That said, digging down into the surveys reveals hints of a slowdown to come, notably a decline in order books.

Conclusion

The Ukraine war seems to be hitting households first. Activity levels at companies are holding up, indicating sound economic fundamentals (labour markets heading in the right direction, savings still high, etc.). However, the slowing of household demand represents a rude shock coming down the track, which will make itself felt at some point. The question is whether central banks - and particularly the ECB - will have time to adjust monetary policy to deal with high inflation before it hits.

In the United States and the Euro area, consumer confidence has been collapsing for some months

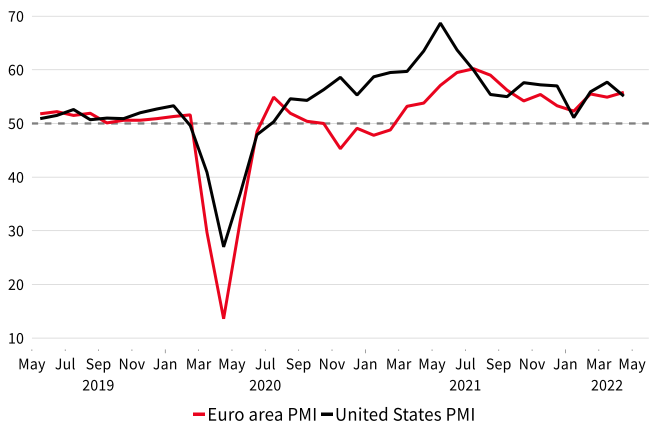
Indicators of consumer confidence



Sources: SGPB, Macrobond, DG ECFIN, University of Michigan 04/2022

In the United States, as in the Euro area, indicators of activity seem to resist the shock of the war in Ukraine

Composite PMI (purchasing managers index) indicators



Sources: SGPB, Macrobond, IHS Markit 04/2022

SOCIETE GENERALE
Private Banking

OUR MACRO COMMENTS

Events of the week

The World Bank released a report on Tuesday assessing the impact of the war in Ukraine on commodity prices. The Washingtonian institution estimates that the prices of commodities (food, fuels, fertilizers, etc.) should remain high until 2024. If these prices increase massively in 2022, they will start to fall as early as 2023, before stabilizing at the end of 2024.

In the United States, the Nasdaq index experienced in April its worst monthly performance since the subprime crisis, with an 11% drop over the month. While the sector has long been one of the best performing in the United States, tech is now in sharp decline, Indeed, since the beginning of the year, the losses amount to 20% on this stock index heavy in technology companies.

Figures of the week

	Current		Consensus	Previous
GDP (in quarter on quarter variation, Q1)	0,2%	↓	0,3%	0,3%
Inflation (in year on year variation, March)	7,5%	↑	7,5%	7,4%
Core inflation (in year on year variation, March)	3,5%	↑	3,2%	2,9%
GDP (in quarter on quarter variation, Q1)	-1,4%	↓	1,1%	6,9%
Durable goods order (in year on year variation, March)	0.8%	↑	1%	-1,7%
Industrial production (in year on year variation, March)	0.3%	↓	0,5%	2%
BoJ interest rate	-0,1%	→	-0,1%	-0,1%
GDP (in quarter on quarter variation, Q1)	0,2%	↑	0,1%	-0,3%
Inflation (in year on year variation, March)	7,8%	↑	7,6%	7,6%
GDP (in quarter on quarter variation, Q1)	0%	↓	0,3%	0,8%

Sources : Bloomberg, on April 29th, 2022.

The week ahead

Monday

- Retail sales (March)
- ISM Manufacturing PMI Index (April)

Tuesday

- Unemployment (March)

Wednesday

- Retail sales (March)
- ISM Services PMI Index (April)
- Policy interest rate

Thursday

- Caixin Services PMI (April)
- Policy interest rate

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,57
USD SOFR O/N	0,30	0,27	0,04	0,05	0,01
JPY TONAR O/N	-0,02	-0,02	-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	1,31	1,34	0,29	0,20	0,04
10Y Bund	0,81	0,87	-0,08	-0,21	-0,22
10Y BTP	2,58	2,50	1,34	1,17	0,87
10Y JGB	0,25	0,25	0,12	0,07	0,08
10Y Bonos	1,80	1,80	0,68	0,56	0,43
10Y Swiss	0,79	0,89	0,00	-0,13	-0,23
10Y Gilt	1,85	1,94	1,25	1,02	0,80
10Y USTnote	2,82	2,85	1,85	1,52	1,63

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,49	1,40	0,44	0,33	0,19
EUR Corporate Baa	2,23	2,06	0,79	0,66	0,47
GBP Corporate Baa	2,68	2,65	1,75	1,52	1,17
USD Corporate Aaa	3,56	3,53	2,55	2,13	2,14
USD Corporate Baa	4,48	4,39	3,04	2,60	2,47
USD EM aggreate	6,20	6,03	4,77	4,33	3,96

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	104,95	-1,7%	17,0%	32,8%	56,6%
Or, USD/oz	1 886	-3,7%	3,7%	3,1%	5,9%
Copper, USD/metric ton	9 890	-3,5%	-0,4%	2,2%	0,7%
Platinium, USD/onz	910	-7,0%	-13,2%	-5,9%	-25,8%
Palladium, USD/onz	2 179	-8,8%	-2,9%	10,2%	-25,6%
Silver, USD/onz	23,64	-6,2%	-0,9%	2,4%	-8,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,06	-2,3%	-6,2%	-6,6%	-12,3%
EUR/CHF	1,02	-0,8%	-1,8%	-1,6%	-7,6%
USD/GBP	0,80	4,4%	8,1%	8,3%	11,2%
USD/JPY	128,30	0,5%	12,2%	11,4%	17,8%
USD/BRL	5,03	8,9%	-7,5%	-9,7%	-7,0%
USD/CNY	6,56	2,3%	3,8%	3,3%	1,2%
USD/RUB	74,14	-9,9%	-7,2%	-1,1%	-0,8%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 091	-5,4%	-4,2%	-6,0%	-1,3%
Eurostoxx 50	3 735	-4,2%	-10,3%	-13,1%	-7,0%
Dax 40	13 794	-4,0%	-10,8%	-13,2%	-9,8%
CAC 40	6 445	-2,7%	-7,7%	-9,9%	2,2%
FTSE 100	7 426	-2,7%	-0,6%	0,6%	6,6%
SMI	12 051	-2,1%	-0,4%	-6,4%	8,5%
SP500	4 184	-6,2%	-3,8%	-12,2%	0,0%
TOPIX	1 861	-2,8%	-1,6%	-6,6%	-2,5%
iBovespa	109 349	-4,4%	-1,7%	4,3%	-9,7%
Hang Seng	19 946	-4,8%	-17,9%	-14,8%	-31,4%
Sensex 30	56 819	-0,4%	-1,8%	-2,5%	14,2%
MOEX	-	-	-	-	-
CSI 300	3 896	-4,3%	-17,3%	-21,1%	-23,9%

Source: Macrobond, on April 29th, 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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