

Central banks toughen tone; financial markets shake

A week dominated by increasingly hawkish central bank statements. The ECB set the tone, surprising the markets by pre-announcing the start of a series of interest rate rises and the end of all asset purchase programmes. The Federal Reserve then raised its Funds rate by an unexpected 75 bp – its biggest single hike for more than 28 years. The Bank of England followed suit with a more predictable 25 bp base rate rise and has now tightened policy by 125 points since December. Finally, even the Swiss National Bank pitched in, raising its policy rate 50 bp this week. This string of announcements triggered a major correction in all financial markets. Bond markets dropped -3% in a week (Bloomberg Global Aggregate Index) in the wake of the interest rate rises. From 8 June, equity markets joined the retreat, losing 11% in the US and Euro area, 9% in the UK and 6% across emerging markets (MSCI indices) (Chart 1).

Willing to trigger recession? The more hawkish tone struck by central banks raises fears they may be willing to contemplate recession if it will ultimately rein in inflation. There is no doubt they are increasingly worried about inflation. The adjective “transitory” has been dropped following successive shocks that show no sign of abating. Monetary authorities see economies holding up despite these shocks and worry that price pressures may lock in. It would now take a major fall in the inflation figures to stay in their hand. Short term, we could see such a fall if oil prices drop, but this is hard to imagine in the new geopolitical environment. A real easing of pressure on production chains could have the same effect, but this looks equally unlikely, particularly as Chinese lockdowns continue to drag on. The last solution would be a decline in global demand, and this could be deliberately engineered by tightening monetary policy. This is the recession scenario which markets are now pricing in.

Financial stability at risk. The rise in interest rates is worrying not only because of its effect on the economy but also because it might impact financial stability. The Covid crisis led to a fresh surge in levels of indebtedness. True, there was also an expansion of liquidity which should limit the risks, at least in the short term. But some classes of economic agents could soon find themselves in trouble. As we saw with the heavy pressure on Euro area sovereign debt markets this week (Chart 2). On this occasion, the ECB came out all guns blazing to deal with the problem, but situations may arise where this is not the case.

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

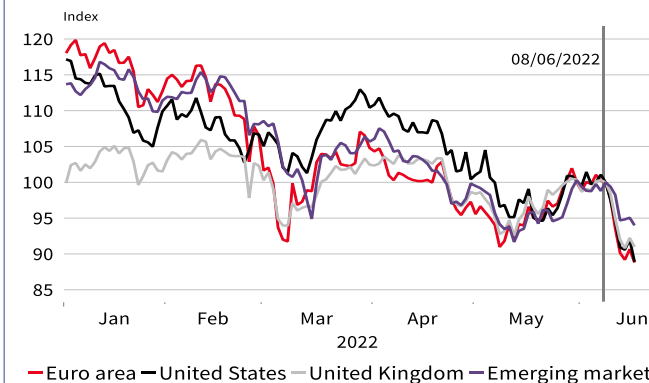
All data taken from Bloomberg, Macrobond, (17/06/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



A fall in equity markets since the beginning of the year accentuated by central bank announcements

Equity markets: MSCI indices

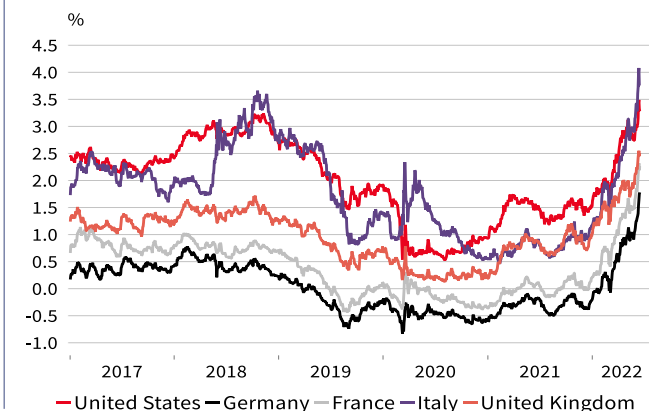
Rebase : 100 = 08/06/2022



Sources: SGPB, Macrobond, MSCI 16/06/2022

A sharp rise in sovereign rates since the beginning of the year in a context of monetary tightening

10-year sovereign rates



Sources: SGPB, Macrobond, U.S. Department of Treasury, Macrobond 16/06/2022

OUR MACRO COMMENTS

Events of the week



Faced with the widening spread in borrowing costs between Euro area countries, the ECB Governing Council met exceptionally on Wednesday. At the end of this unplanned meeting, the ECB pledged to put in place a new tool to fight against the risk of fragmentation within the zone and therefore reducing the spreads on the debts of southern European countries.



The Swiss Central Bank (SNB) increased its key interest rate by 50 basis points on Thursday. Fixed and maintained at -0.75% since 2015, the SNB's rate is now -0.25%. The objective of this unexpected increase is to fight inflation, which at 2.9% exceeds the 2% threshold acceptable to the SNB. In reaction, the Swiss franc appreciated to €1.02, approaching parity with the euro.

Figures of the week



- Industrial production (in year on year variation, April)
- Unemployment rate (April)
- BoE policy interest rate



- Retail sales (in month on month variation, May)
- Fed policy interest rate



- Inflation (in year on year variation, May)
- Core inflation (in year on year variation, May)



- BoJ policy interest rate



- Retail sales (in year on year variation, May)

	Current	Consensus	Previous
Industrial production (in year on year variation, April)	0,7% ➔	0,5%	0,7%
Unemployment rate (April)	3,8% ⬆️	3,6%	3,7%
BoE policy interest rate	1,25% ⬆️	1,25%	1%
Retail sales (in month on month variation, May)	-0,3% ⬇️	0,2%	0,9%
Fed policy interest rate	1,75% ⬆️	1,5%	1%
Inflation (in year on year variation, May)	8,1% ⬆️	8,1%	7,4%
Core inflation (in year on year variation, May)	3,8% ⬆️	3,8%	3,5%
BoJ policy interest rate	-0,1% ➔	-0,1%	-0,1%
Retail sales (in year on year variation, May)	-6,7% ⬆️	-7,1%	-11,1%

Sources: Bloomberg, on June 17th, 2022.

The week ahead

Monday



Policy interest rate

Wednesday



Inflation (May)



Retail sales (May)

Thursday



S&P Global PMI composite (preliminary, June)



S&P Global PMI composite (preliminary, June)



Inflation (May)

Friday



Michigan Consumer Sentiment Index (June)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,56
USD SOFR O/N	0,30	0,76	0,05	0,05	0,01
JPY TONAR O/N	-0,02	-0,04	-0,01	-0,02	-0,03
GBP SONIA O/N	0,94	0,94	0,45	0,19	0,05
CHF O/N	-0,30	-0,78	-0,78	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,19	1,86	0,84	0,20	0,06
10Y Bund	1,75	1,32	0,37	-0,21	-0,19
10Y BTP	3,75	3,36	1,89	1,17	0,78
10Y JGB	0,25	0,24	0,20	0,07	0,05
10Y Bonos	2,85	2,47	1,33	0,56	0,40
10Y Swiss	1,43	1,04	0,43	-0,13	-0,20
10Y Gilt	2,45	2,23	1,66	1,02	0,86
10Y USTnote	3,33	3,03	2,19	1,52	1,57

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,59	2,04	1,12	0,33	0,18
EUR Corporate Baa	3,54	2,90	1,72	0,66	0,44
GBP Corporate Baa	3,35	3,04	2,52	1,52	1,15
USD Corporate Aaa	4,05	3,73	3,04	2,13	2,07
USD Corporate Baa	5,15	4,72	3,89	2,60	2,39
USD EM aggregate	7,00	6,49	5,77	4,33	3,85

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	118,78	-3,9%	21,3%	50,3%	60,8%
Or, USD/oz	1 834	-1,0%	-4,7%	0,3%	1,3%
Copper, USD/metric ton	9 260	-4,4%	-8,5%	-4,3%	-2,9%
Platinum, USD/onz	938	-7,1%	-7,3%	-3,0%	-18,5%
Palladium, USD/onz	1 833	-7,0%	-26,5%	-7,3%	-33,6%
Silver, USD/onz	21,46	-2,1%	-14,0%	-7,0%	-22,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,04	-2,9%	-5,1%	-7,9%	-14,0%
EUR/CHF	1,04	-0,4%	0,7%	0,6%	-4,4%
USD/GBP	0,83	4,0%	8,5%	12,2%	16,9%
USD/JPY	134,56	0,5%	13,6%	16,9%	22,4%
USD/BRL	5,12	5,1%	0,2%	-8,1%	2,0%
USD/CNY	6,71	0,5%	5,7%	5,7%	4,9%
USD/RUB	58,17	-3,5%	-42,6%	-22,4%	-19,1%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 022	-7,2%	-8,5%	-11,9%	-9,9%
Eurostoxx 50	3 532	-6,8%	-9,2%	-17,8%	-14,9%
Dax 40	13 485	-6,7%	-6,6%	-15,1%	-14,2%
CAC 40	6 030	-6,5%	-8,5%	-15,7%	-9,4%
FTSE 100	7 273	-4,2%	-0,3%	-1,5%	1,2%
SMI	10 784	-6,0%	-9,4%	-16,2%	-10,0%
SP500	3 790	-7,9%	-13,0%	-20,5%	-10,3%
TOPIX	1 856	-5,8%	0,1%	-6,8%	-6,1%
iBovespa	102 807	-5,1%	-7,5%	-1,9%	-20,5%
Hang Seng	21 308	-3,2%	6,1%	-8,9%	-25,1%
Sensex 30	52 541	-4,3%	-7,5%	-9,8%	0,1%
MOEX	-	-	-	-	-
CSI 300	4 278	1,4%	2,9%	-13,4%	-15,8%

Source: Macrobond, on June 17th, 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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