

Housing markets face rising interest rates risk

Since Covid hit, residential property prices have surged in most developed economies. Prices are up around 30% in the United States, 20% in Germany and more than 10% in France since end-2019. This spurt has accelerated an already long-standing upward drift in prices (Chart 1). A number of factors lie behind this latest jump in the cost of housing. First, ultra-accommodating monetary policies put in place during the Covid crisis drove down interest rates. Then, savings built up during the enforced asceticism of the pandemic have left households with cash to spend. Finally, the lockdowns and normalisation of working from home have encouraged many to move to smaller towns, enhancing the appeal of these markets.

Over the next few quarters, the rise in interest rates now under way should rein in this upward trend in housing prices. Several factors are already constraining how much households can spend on housing. First, housing costs are now high, making them less affordable for many. Also, general inflation is eroding real incomes and squeezing purchasing power. Lastly, tougher monetary policy is starting to push up mortgage rates (Chart 2). This combination of factors suggests that activity on property markets is likely to slow sharply and could trigger contractions in house prices. In Europe, any fall would probably be limited as, with securities markets plunging since the start of the year, households still see property as their favorite way to invest savings. In the United States, the adjustment in housing prices could be sharper in the face of sharper rises in mortgage rates.

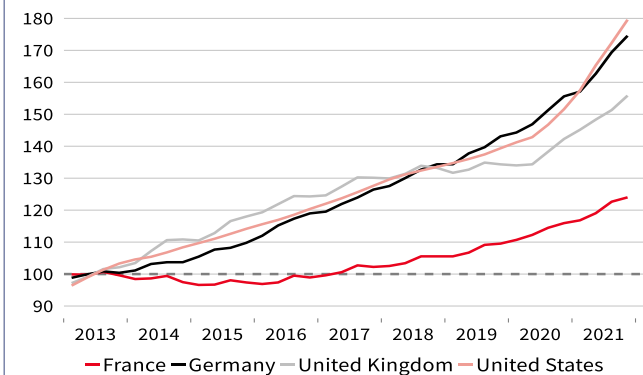
Longer term, however, housing markets can still count on some support factors and any price dips is likely be short-lived. In many countries, including France and the United States, housing supply lags behind buoyant demand, which is being fed by dynamic population trends. In addition, changes in environmental standards, which are particularly necessary for housing in terms of energy efficiency, will be a factor in supporting real estate investments and therefore prices in the relevant markets - particularly through government support for the energy transition.



Housing prices have exploded in the major developed economies over the past decade

Housing prices, rebase 100: 2013

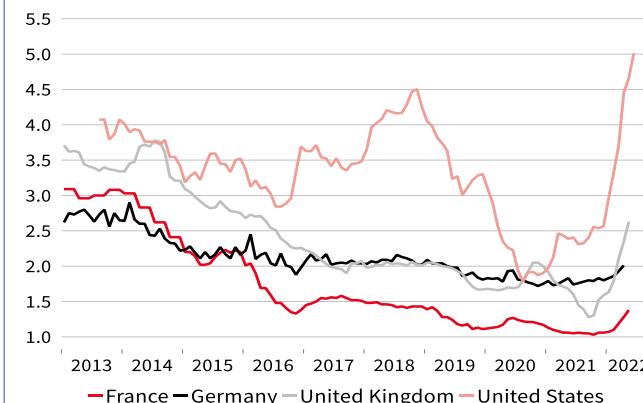
Rebase : 100 = 2013



Sources: SGPB, Macrobond, BIS 2021 Q4

Drastic rise in mortgage rates following monetary tightening by central banks

Interest rates on mortgage loans



Sources: SGPB, Macrobond, Crédit Logement, BUBA, BoE, FNMA 05/2022

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

All data taken from Bloomberg, Macrobond, (01/07/2022). 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



No new cases of Covid-19 were detected during 24 hours in Shanghai and Beijing - the first time this has happened since February. Authorities have decided to lift containment in these two cities. Quarantine rules on arrival in China have also been eased. This partial reopening of China has also led to a rebound this week in the luxury goods and aeronautics sectors on the Paris stock exchange.



Fears of recession in the Euro area have pushed investors into the Swiss Franc, which this week reached parity with the Euro. The Swiss central bank, until very recently, managed to contain the appreciation of the Franc, notably with largely negative key rates. With the 50-point rate hike decided this month, its fight against inflation seems to have become a higher priority.

Figures of the week



- Inflation (in year on year variation, June)
- Retail sales (in year on year variation, May)
- Unemployment rate (June)



- Durable goods order (in year on year variation, May)
- GDP (annualized, Q1)



- NBS Manufacturing PMI (June)
- Non-manufacturing PMI (June)



- Inflation (in year on year variation, June)

	Actual	Consensus	Previous
Inflation (in year on year variation, June)	8,2% ↓	8,8%	8,7%
Retail sales (in year on year variation, May)	-3,6% ↓	-2%	-0,4%
Unemployment rate (June)	5,3% ↑	5%	5%
Durable goods order (in year on year variation, May)	0,7% ↑	0,1%	0,4%
GDP (annualized, Q1)	-1,6% ↓	-1,5%	-1,5%
NBS Manufacturing PMI (June)	50,2 ↑	50,5	49,6
Non-manufacturing PMI (June)	54,7 ↑	52,5	47,8
Inflation (in year on year variation, June)	6,5% ↑	6,3%	5,8%

The week ahead

Tuesday



Caixin services PMI (June)



S&P global composite PMI (June)



S&P global composite PMI (June)

Wednesday



Retail sales (May)



ISM services PMI (June)

Sources: Bloomberg, on July 1st, 2022.

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,58	-0,58	-0,58	-0,59	-0,58
USD SOFR O/N	0,30	1,45	0,27	0,05	0,05
JPY TONAR O/N	-0,03	-0,05	0,00	-0,02	-0,05
GBP SONIA O/N	1,19	1,19	0,69	0,19	0,05
CHF O/N	-0,16	-0,19	-0,71	-0,71	-0,73

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,06	2,16	1,09	0,20	0,06
10Y Bund	1,60	1,67	0,65	-0,21	-0,19
10Y BTP	3,38	3,50	2,14	1,17	0,82
10Y JGB	0,22	0,23	0,21	0,07	0,06
10Y Bonos	2,58	2,68	1,55	0,56	0,48
10Y Swiss	1,30	1,36	0,72	-0,13	-0,20
10Y Gilt	2,36	2,46	1,67	1,02	0,83
10Y USTnote	3,10	3,16	2,35	1,52	1,45

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,47	2,62	1,25	0,33	0,19
EUR Corporate Baa	3,66	3,65	1,85	0,66	0,46
GBP Corporate Baa	3,42	3,48	2,44	1,52	1,13
USD Corporate Aaa	3,90	3,96	3,06	2,13	1,99
USD Corporate Baa	5,11	5,11	3,89	2,60	2,32
USD EM aggregate	7,16	7,06	5,65	4,33	3,85

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	115,61	5,1%	2,6%	46,3%	54,9%
Or, USD/oz	1 818	-1,1%	-5,9%	-0,6%	2,7%
Copper, USD/metric ton	8 448	-3,2%	-18,7%	-12,7%	-10,2%
Platinum, USD/onoz	925	-0,6%	-6,0%	-4,3%	-12,2%
Palladium, USD/onoz	1 899	1,3%	-12,1%	-4,0%	-29,0%
Silver, USD/onoz	20,98	-2,1%	-15,3%	-9,1%	-18,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,05	0,0%	-5,5%	-7,1%	-11,5%
EUR/CHF	1,00	-1,8%	-3,0%	-3,6%	-8,9%
USD/GBP	0,83	1,5%	8,7%	11,7%	14,0%
USD/JPY	136,82	0,7%	12,1%	18,8%	23,3%
USD/BRL	5,23	1,8%	9,9%	-6,1%	4,2%
USD/CNY	6,70	0,0%	5,6%	5,5%	3,8%
USD/RUB	53,31	-1,2%	-36,8%	-28,9%	-27,0%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 024	1,4%	-11,8%	-11,7%	-8,4%
Eurostoxx 50	3 514	1,4%	-11,2%	-18,2%	-13,5%
Dax 40	13 003	-1,1%	-11,0%	-18,1%	-16,3%
CAC 40	6 031	1,9%	-10,5%	-15,7%	-7,3%
FTSE 100	7 312	3,1%	-3,5%	-1,0%	3,9%
SMI	10 812	2,7%	-11,7%	-16,0%	-9,5%
SP500	3 819	1,6%	-17,0%	-19,9%	-11,1%
TOPIX	1 894	2,2%	-3,8%	-5,0%	-2,6%
iBovespa	99 622	0,1%	-17,2%	-5,0%	-21,4%
Hang Seng	21 997	4,7%	-1,1%	-6,0%	-23,7%
Sensex 30	53 027	2,3%	-9,6%	-9,0%	1,0%
MOEX	-	-	-	-	-
CSI 300	4 421	3,5%	3,9%	-10,5%	-15,4%

Source: Macrobond, on July 1st, 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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