

ECB talks tough on inflation despite the energy crisis

Biggest ECB rate hike so far

This week, as had been widely expected for some days, the ECB raised its policy rates by 75 basis points, taking the deposit rate to 0.75%, the refinancing rate to 1.25% and the marginal lending rate to 1.50%. The move represents an acceleration of the policy tightening begun late last year, when the bank stopped expanding its balance sheet, and continued with a 50 bp rate rise in July. At her post-meeting press conference, Christine Lagarde also gave some fairly strong guidance as to future decisions, saying there would be further rate increases in coming months, which will certainly come at faster pace than the previous norm, while also indicating the size of the hikes would be decided meeting by meeting, based on circumstances at the time. Unlike the Federal Reserve and Bank of England, the ECB is not currently talking about reducing its balance sheet, but the issue may come under consideration before the year is out.

Greater economic uncertainty but also more inflationary risks

This latest tightening of policy and tone by the ECB was driven by its revised forecasts, which identified more uncertainties affecting economic activity and, most importantly, projected a big upgrade to future inflation. Growth-wise, the central bank's baseline scenario of high pressure on energy has the economy remaining near stagnant for the next few quarters. This would tip over into recession if Russia cuts off all energy supply to Europe: +0.9% growth in 2023 under baseline scenario vs. -0.9% in the alternative scenario, following +3.1% in 2022. Inflation, meanwhile, is forecast to stay high throughout 2023 under all scenarios: +5.5% baseline and +6.9% in the stress scenario, compared to +8.1% on average in 2022.

This latest turn of the ECB's monetary screw confirms us in our watchful approach to euro zone fixed-income markets

While the rate-hike announcements came as little surprise, the hawkish tone indicates our current balanced position in bond markets is the right one. True, yields may now look tempting, particularly real yields, but another rate hike would knock performance back again. Bear in mind, however, that the current energy shock could have dire consequences for the economy and will limit how high interest rates can go.

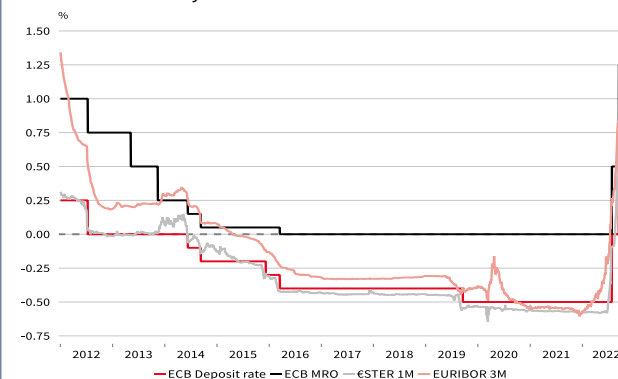
Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (09/09/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021



The European Central Bank is tightening to fight inflation

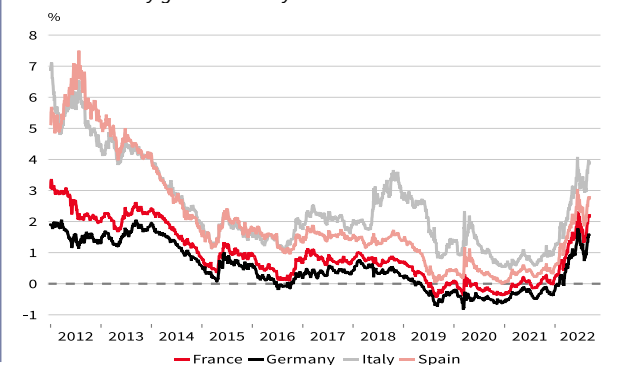
Euro Area: main key rates.



Sources: SGPB, Macrobond, ECB, EMMI 00/09/2022

Main European government bonds yields rose since the beginning of 2022

Euro Area: 10y government yields.



Sources: SGPB, Macrobond, 09/09/2022

OUR MACRO COMMENTS

Events of the week



The United Kingdom has a new prime minister. Almost two months after Boris Johnson resigned, Liz Truss was elected by her peers to lead the British Conservative Party. Winner over centrist Rishi Sunak, Liz Truss has already announced a massive package of aid to protect British households from the double-digit inflation that is hitting the country.



The Eurozone states meet this Friday in the framework of an emergency energy meeting. The meeting takes place against a backdrop of soaring energy prices, notably after the announcement by Russia of the closure of the Nord Stream 1 pipeline, which normally supplies Russian gas to Germany.

Figures of the week



- Trade balance (August)
- ISM services PMI (August)



- Retail sales (YoY, August)
- S&P services PMI (August)
- Monetary Policy decision



- S&P services PMI (August)



- Trade balance (August)
- Inflation (YoY, August)
- Caixin services PMI (August)



- S&P services PMI (August)

	Actual	Forecast	Previous
	\$-70,7B	\$-70B	\$-80,9B
	56,9	55	56,7
	-0,9%	-1,4%	-3,2%
	49,8	50,2	51,2
	1,25%	1,25%	0,5%
	47,7	48,2	49,7
	\$79,4B	\$92,7B	\$101,26B
	2,5%	2,7%	2,9%
	55	51	55,5
	50,9	52,5	52,6

Sources : Macrobond, 9 September 2022.

The week ahead

Tuesday



Inflation (August)



Economic sentiment (September)



Unemployment (July)

Wednesday



Trade balance (August)



Inflation (August)

Thursday



Monetary Policy decision



Retail sales (August)

Friday



Michigan consumer sentiment index (September)



Retail sales (August)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,08	-0,09	-0,58	-0,59	-0,57
USD SOFR O/N	2,28	2,29	0,76	0,05	0,05
JPY TONAR O/N	-0,04	-0,04	-0,04	-0,02	-0,01
GBP SONIA O/N	1,69	1,69	0,94	0,19	0,05
CHF O/N	0,36	0,21	-0,57	-0,71	-0,73

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,14	2,15	1,86	0,20	0,01
10Y Bund	1,58	1,54	1,32	-0,21	-0,33
10Y BTP	3,86	3,88	3,36	1,17	0,80
10Y JGB	0,24	0,22	0,24	0,07	0,04
10Y Bonos	2,73	2,73	2,47	0,56	0,36
10Y Swiss	0,88	0,79	1,04	-0,13	-0,25
10Y Gilt	3,02	2,80	2,23	1,02	0,73
10Y USNote	3,27	3,15	3,03	1,52	1,35

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,52	2,50	2,04	0,33	0,12
EUR Corporate Baa	3,73	3,68	2,90	0,66	0,40
GBP Corporate Baa	4,15	3,98	3,04	1,52	1,11
USD Corporate Aaa	4,19	4,09	3,73	2,13	1,94
USD Corporate Baa	5,26	5,16	4,72	2,60	2,29
USD EM aggregate	7,15	7,05	6,49	4,33	3,90

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	87,75	-7,6%	-29,0%	11,0%	20,7%
Or, USD/oz	1 718	0,4%	-7,3%	-6,0%	-4,0%
Copper, USD/metric ton	7 643	-0,7%	-21,1%	-21,1%	-17,6%
Platinum, USD/onoz	859	1,3%	-15,0%	-11,2%	-14,2%
Palladium, USD/onoz	2 003	-4,4%	1,6%	1,3%	-15,0%
Silver, USD/onoz	18,17	1,3%	-17,1%	-21,3%	-25,3%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	0,99	-1,2%	-8,0%	-12,7%	-16,4%
EUR/CHF	0,98	-0,4%	-6,6%	-5,7%	-10,1%
USD/GBP	0,87	1,5%	9,5%	18,1%	20,6%
USD/JPY	144,49	4,2%	8,0%	25,5%	31,5%
USD/BRL	5,25	1,3%	7,8%	-5,8%	1,6%
USD/CNY	6,97	1,1%	4,2%	9,7%	7,9%
USD/RUB	60,88	0,8%	1,0%	-18,8%	-16,6%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 010	-0,6%	-8,2%	-13,0%	-10,3%
Eurostoxx 50	3 502	-0,4%	-7,6%	-18,5%	-16,2%
Dax 40	12 916	0,6%	-10,6%	-18,7%	-17,3%
CAC 40	6 106	-0,3%	-5,3%	-14,6%	-8,4%
FTSE 100	7 238	-0,6%	-4,7%	-2,0%	2,0%
SMI	10 805	-0,5%	-5,8%	-16,1%	-11,5%
SP500	3 980	0,6%	-3,3%	-16,5%	-11,8%
TOPIX	1 916	-2,4%	-2,8%	-3,8%	-7,9%
iBovespa	109 764	0,2%	1,3%	4,7%	-3,2%
Hang Seng	19 044	-4,6%	-13,5%	-18,6%	-27,6%
Sensex 30	59 029	-0,9%	7,5%	1,3%	1,3%
MOEX	-	-	-	-	-
CSI 300	4 055	-0,6%	-3,9%	-17,9%	-18,4%

Source: Bloomberg, 09/09/2022

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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