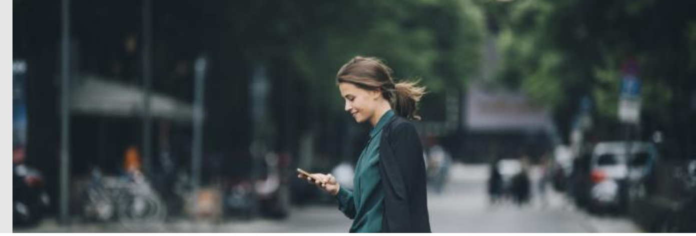
WEEKLY UPDATE

Activity resists, inflation still spreading and central banks remain restrictive



Third-quarter figures show advanced economies are holding up (see Chart 1) despite the several headwinds that they are facing. Euro area GDP grew 0.2% quarter-on-quarter (2.1% year-on-year) and economic growth was positive in Germany (+0.3% qoq) and Italy (+0.5% qoq), both of which the consensus had projected to be in contraction during the quarter. GDP also grew in the United States, by 0.6% qoq. These better-than-expected figures on both sides of the Atlantic were driven by two factors: a continuing rise in household consumption, funded from surplus savings and strong labour markets, and resilient corporate investment. So far, the impact of rate hikes and the inflationary squeeze on purchasing power has mainly been restricted to the property investment component of demand, which is sharply down in the United States but also starting to shrink in Europe. While developed economies activity has resisted better than expected for now, the significant tightening of financing conditions and looming energy/geopolitical risks is likely to hit activity harder in the next few months.

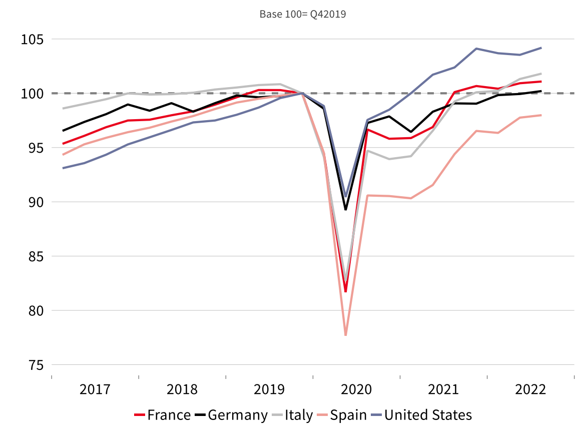
Inflation figures show prices still trending strongly upward (see Chart 2). Euro area inflation jumped to 10.7% in October. Much of this was due to food and energy but the underlying component was also still rising, to 5%. Among the big zone economies, Italy and Germany now have double-digit headline inflation while France has one of the lowest rates in the region thanks to government measures (notably the ‘tariff shield’ on energy prices). In the United States, leading indicators suggest inflation will stay high.

In this context, central banks have continued to tighten policy and signalled further rate rises for upcoming meetings. The ECB raised policy rates by 75 bp for the second time running, taking its deposit rate to 1.5%. It also tweaked the TLTRO rules to incentivise early repayments and so drain some liquidity from the system. At the press conference, Ms Lagarde said she expected rates to keep rising and that discussion was now turning to reducing the ECB's sovereign and corporate debt holdings. The Federal Reserve also raised rates by 75 bp in early November, taking the upper bound to 4%, while continuing to reduce holdings of treasuries on its balance sheet by USD 60 bn per month. At the Fed press conference, Mr Powell said the speed of rate rises would likely slow at the next few meetings, the terminal rate would likely be higher than was forecast in September, and it was very premature to talk about a pause or pivot.

Given the risks to growth and still restrictive monetary policies, we maintain our defensive allocation.

Activity resilient in major Western economies

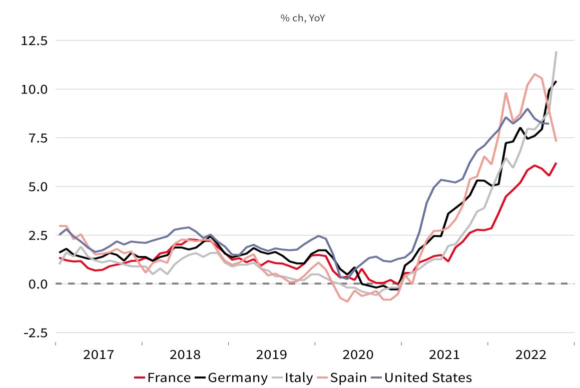
Real GDP in the main Western economies



Sources : SGPB, Macrobond, INSEE, GFSO, INIS, SNSI, BEA, 10/2022

Inflationary pressures remain strong

Inflation in the main Western economies



Sources : SGPB, Macrobond, INSEE, BUBA, Istat, INE, BLS, 10/2022

SOCIETE GENERALE
Private Banking

OUR MACRO COMMENTS

Events of the week

US job openings rose month-on-month in September, chilling markets early in the week. August figures had hinted at an easing of pressure on the US job market. But these latest figures show pressures are still there, driving up inflation.

Luiz Inácio Lula da Silva won the second round of the presidential election against outgoing President Jair Bolsonaro, with a result closer than expected (50.9% vs 49.1%). Mr. da Silva's program includes increased social spending and a greater focus on environmental protection. However, the configuration of Parliament and weaker public finances give it less leeway to implement its program.

Figures of the week

	Current		Forecast	Previous
• ISM Manufacturing PMI Index (October)	50.2	↓	50	50.9
• Job Openings (September)	10.7M	↑	10M	10.28M
• Monetary policy decision (upper band rate)	4%	↑	4%	3.25%
• Trade balance (September)	$-73.3B	↓	$-72.2B	$-65,7B
• Unemployment rate (September)	3.7%	↑	3.6%	3.5%
• Inflation (YoY, October)	10.7%	↑	10.2%	9.9%
• Core inflation (YoY, October)	5%	↑	4.9%	4.8%
• Gross Domestic Product (YoY, Q3)	2.1%	↓	2.1%	4.3%
• Unemployement rate (September)	6.6%	↓	6.6%	6.7%
• ISM Manufacturing PMI Index (October)	49.2	↑	49	48.1
• Monetary policy decision (upper band rate)	3%	↑	3%	2.25%
• Monetary policy decision (upper band rate)	2.85%	↑	2.85%	2.6%

Sources : Macrobond, 4 November 2022.

The week ahead

Monday
Trade Balance (October)
Tuesday
Retail Sales (September)
Midterm Elections
Wednesday
Inflation (October)
Thursday
Inflation (October)
Friday
Gross Domestic Product (Q3)
Michigan Consumer Sentiment (November)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	1,40	0,66	-0,09	-0,59	-0,57
USD SOFR O/N	3,05	3,03	2,29	0,05	0,05
JPY TONAR O/N	-0,06	-0,06	-0,01	-0,02	-0,03
GBP SONIA O/N	2,19	2,19	1,19	0,19	0,05
CHF O/N	0,74	0,70	0,04	-0,71	-0,72

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,67	2,65	1,44	0,20	0,17
10Y Bund	2,14	2,16	0,85	-0,21	-0,19
10Y BTP	4,28	4,32	3,03	1,17	1,04
10Y JGB	0,24	0,24	0,19	0,07	0,08
10Y Bonos	3,22	3,20	1,99	0,56	0,52
10Y Swiss	1,13	1,19	0,47	-0,13	-0,12
10Y Gilt	3,41	3,58	1,92	1,02	1,07
10Y USTnote	4,10	4,04	2,73	1,52	1,60

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,18	3,24	1,63	0,33	0,24
EUR Corporate Baa	4,69	4,77	2,82	0,66	0,58
GBP Corporate Baa	4,44	4,66	3,00	1,52	1,43
USD Corporate Aaa	4,93	4,91	3,65	2,13	2,12
USD Corporate Baa	6,23	6,21	4,72	2,60	2,51
USD EM aggregate	8,47	8,51	6,89	4,33	4,37

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	95,52	1,5%	-1,5%	20,9%	17,6%
Or, USD/oz	1 635	-1,8%	-7,4%	-10,6%	-7,6%
Copper, USD/metric ton	7 654	-0,2%	-1,7%	-20,9%	-20,1%
Platinium, USD/oz	956	2,4%	6,2%	-1,1%	-8,5%
Palladium, USD/oz	1 902	-3,0%	-8,1%	-3,8%	-5,4%
Silver, USD/oz	19,78	1,0%	-0,7%	-14,3%	-16,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	0,99	-1,1%	-2,8%	-12,5%	-14,4%
EUR/CHF	0,99	-0,6%	1,0%	-4,8%	-6,6%
USD/GBP	0,87	1,2%	5,6%	18,1%	19,1%
USD/JPY	147,13	0,3%	9,5%	27,8%	29,0%
USD/BRL	5,14	-3,5%	-2,9%	-7,7%	-8,4%
USD/CNY	7,29	1,5%	7,9%	14,8%	13,8%
USD/RUB	62,01	0,9%	0,8%	-17,3%	-14,0%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 005	0,6%	-3,8%	-13,4%	-12,5%
Eurostoxx 50	3 622	0,5%	-3,0%	-15,7%	-16,0%
Dax 40	13 257	0,5%	-2,4%	-16,5%	-16,9%
CAC 40	6 277	0,0%	-3,0%	-12,2%	-9,7%
FTSE 100	7 144	1,2%	-4,0%	-3,3%	-1,4%
SMI	10 806	-0,1%	-3,3%	-16,1%	-12,7%
SP500	3 760	-1,9%	-9,5%	-21,1%	-19,3%
TOPIX	1 940	1,2%	0,5%	-2,6%	-4,5%
iBovespa	116 929	3,7%	12,7%	11,6%	10,7%
Hang Seng	15 827	3,3%	-19,9%	-32,4%	-36,8%
Sensex 30	60 906	2,3%	4,4%	4,6%	1,9%
CSI 300	3 678	0,6%	-9,6%	-25,6%	-23,7%

Source: Bloomberg, on 4 November 2022.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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