

Resilient economy and stubborn inflation risk further monetary tightening

Business surveys and economic data for the first two months of the year suggest the European and United States economies are holding up well, as services are bouncing back. The same data show strong labour markets putting upward pressure on wages and services inflation. In these circumstances, money markets are starting to price in higher interest rates and a delayed pivot by main Central Banks

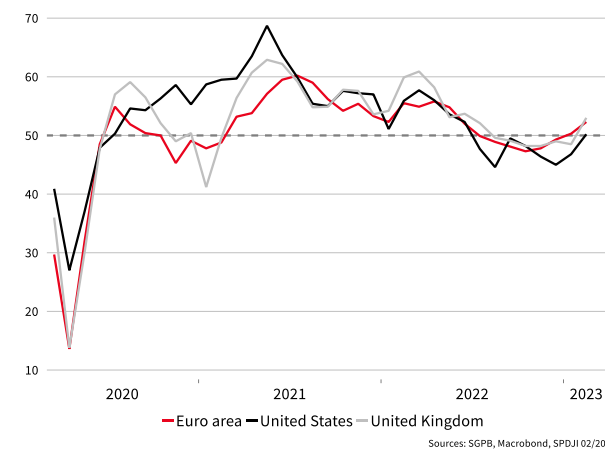
Economy holding up. Economic data for the first two months of the quarter confirm the soft-landing scenario. The composite PMIs for the Euro area and United Kingdom in February are back in expansionary territory, at 52 and 53, respectively. This improvement is mainly due to greater confidence on services, both current and outlook. In manufacturing, the surveys are still pointing to a modest contraction. The United States composite PMI is also back in expansionary territory, similarly, led by improved services.

Strong labour markets and inflation Economic data continue to beat forecasts, with jobs, and less reassuringly, inflation figures are also running ahead of expectations. The employment components of indices remain expansionary for services and industrial sectors, suggesting companies are stepping up their hiring plans. The same numbers confirm that labour markets remain tight, with unemployment rates at lows and unfilled vacancies still running high. Labour market pressures are continuing to feed inflation, particularly in services, where PMI surveys suggest prices will keep accelerating for the next few months. The only respite comes from goods prices, which look set to continue easing thanks to lower energy prices and ample inventories.

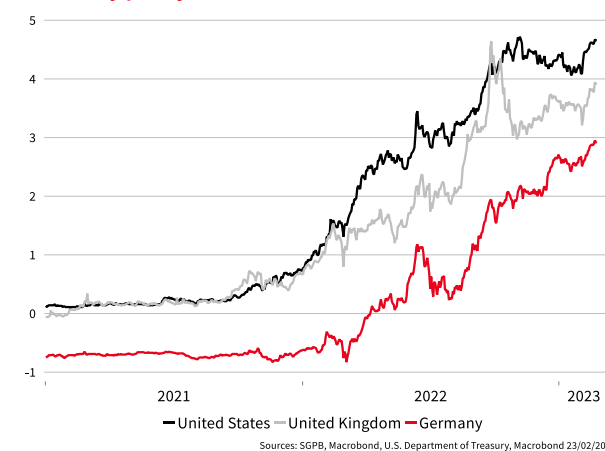
Risk of further monetary tightening At the start of the year money markets were expecting the end of rate hikes in the United States and Europe. But the strength of the economy and employment and stubbornly high services inflation have driven an adjustment in interest rates. This economic scenario could prompt the Fed, ECB and BoE to continue their tightening cycle and keep policy tight for longer. On this point, some central bankers have already said further rate hikes may be needed. Money markets have begun to price in an additional 50 bp of rate hikes compared to a month ago, and no pivot before 2024. Overall, we still see a soft-landing scenario for developed economies with underlying inflation coming back to target only gradually, leading central banks to keep conditions tight throughout 2023.



PMI indices showing an improvement in activity



Sovereign 2-year rates rising, suggesting a tightening of monetary policy





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All data taken from Bloomberg and Macrobond on the 24/02/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.




OUR MACRO COMMENTS

Events of the week

 The US Federal Reserve has released the minutes of its latest meeting. "Almost all" officials were in favour of a 25bp hike, except for two more restrictive members. The Fed is waiting for more tangible results from its monetary policy before making further decisions.

 In Europe, 60% of the companies in the STOXX 600 index have published their results to date. 61% of European companies have exceeded expectations in terms of sales. Sales figures for these companies are up 12% and are in line with consensus. On the EPS side, 60% of European companies exceeded EPS expectations. EPS for these companies increased by 8.3% and came in 8.5% above consensus


Figures of the week

	Actual		Forecast	Previous
 • S&P Global Manufacturing PMI (February)	48.5	↓	49.3	48.8
	53	↑	51	50.8
 • S&P Global Manufacturing PMI (February)	47.8	↑	47.1	46.9
	50.5	↑	47.2	46.8
 • Inflation Rate (YoY, January)	4.3%	↑	4.2%	4%
 • GfK Consumer Confidence (February)	-38	↑	-42	-45
 • ZEW Economic Sentiment Index (February)	28.1	↑	22	16.9
	91.1	↑	91.6	90.1

Sources : Macrobond, 24 February 2023

The week ahead


Monday


 Durable Goods Orders

Tuesday


 Inflation Rate

Wednesday

 ISM Manufacturing PMI

 NBS Manufacturing PMI

Thursday

 Inflation Rate, Unemployment Rate

Friday

 ISM Non-Manufacturing PMI

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	2,40	2,41	1,41	1,91	-0,58
USD SOFR O/N	4,55	4,55	3,79	4,30	0,05
JPY TONAR O/N	-0,01	-0,03	-0,07	-0,02	-0,02
GBP SONIA O/N	3,93	3,93	2,93	3,43	0,45
CHF O/N	0,80	0,80	0,75	0,80	-0,72

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,99	2,93	2,37	2,98	0,73
10Y Bund	2,51	2,47	1,92	2,44	0,22
10Y BTP	4,33	4,21	3,78	4,55	1,93
10Y JGB	0,70	0,63	0,24	0,41	0,19
10Y Bonos	3,49	3,43	2,88	3,51	1,25
10Y Swiss	1,44	1,38	1,01	1,57	0,27
10Y Gilt	3,71	3,58	2,99	3,66	1,52
10Y USNote	3,93	3,81	3,71	3,88	1,99

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,34	3,23	2,81	3,12	0,96
EUR Corporate Baa	4,43	4,31	4,27	4,65	1,43
GBP Corporate Baa	4,54	4,36	4,10	4,59	2,21
USD Corporate Aaa	4,71	4,57	4,45	4,62	2,84
USD Corporate Baa	5,74	5,57	5,64	5,70	3,48
USD EM aggregate	7,59	7,37	7,81	7,52	5,21

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	80,27	-5,9%	-4,8%	-6,6%	-17,7%
Or, USD/oz	1 825	-0,6%	4,3%	0,0%	-4,3%
Copper, USD/metric ton	9 131	3,1%	14,2%	8,7%	-8,3%
Platinum, USD/oz	947	2,2%	-5,0%	-11,1%	-12,2%
Palladium, USD/oz	1 506	2,1%	-20,0%	-15,8%	-35,9%
Silver, USD/oz	21,86	1,8%	2,8%	-8,7%	-9,3%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,06	-0,5%	3,1%	-0,4%	-6,2%
EUR/CHF	0,99	0,0%	1,1%	0,2%	-4,9%
USD/GBP	0,83	-0,5%	0,0%	-0,2%	12,4%
USD/JPY	134,61	0,2%	-3,7%	2,9%	17,0%
USD/BRL	5,17	-1,2%	-4,0%	-3,2%	2,7%
USD/CNY	6,89	0,6%	-3,8%	-0,1%	9,1%
USD/RUB	75,31	0,9%	24,3%	3,2%	-6,8%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 075	-2,1%	0,0%	1,3%	-4,4%
Eurostoxx 50	4 243	-0,9%	7,5%	10,0%	6,8%
Dax 40	15 400	-0,7%	6,7%	9,5%	5,3%
CAC 40	7 299	0,0%	9,3%	10,7%	7,6%
FTSE 100	7 931	-0,8%	6,2%	6,4%	5,8%
SMI	11 300	0,2%	1,9%	5,3%	-5,4%
SP500	3 991	-3,8%	-0,9%	3,9%	-5,5%
TOPIX	1 975	-0,6%	-1,0%	4,4%	5,0%
iBovespa	107 152	-2,2%	-1,6%	0,7%	-4,3%
Hang Seng	20 424	-1,9%	16,5%	3,2%	-13,7%
Sensex 30	59 745	-2,5%	-2,9%	-2,3%	4,4%
CSI 300	4 107	-0,4%	8,8%	6,1%	-11,2%

Source: Bloomberg, on 23 February 2023.

-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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