WEEKLY UPDATE

Central banks likely reached the peak policy rate

The Fed and ECB both raised rates by a quarter point at their final meetings before the summer break. These hikes should be the last in the current tightening cycle - the fastest since the 1980s. Rates will now likely stay on hold for the next few months. Tighter policy has been accompanied by sharp falls in inflation on both sides of the Atlantic, but while growth has continued to boom in the United States, up to and including Q2 figures, in the euro area tightening has taken its toll activity.

Federal Reserve: a final 25 bp hike before a likely pause

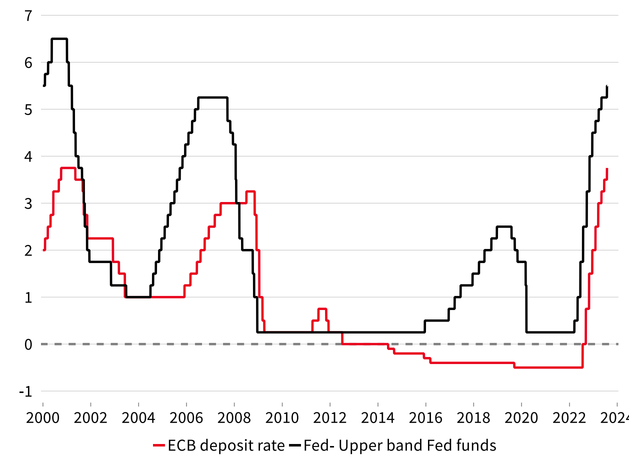
The US central bank raised the target range for its funds rate by 25bp to 5.25-5.50%, a high since 2002, and stood by plans to shrink its balance sheet by USD 60 bn per month. At his press conference, Jerome Powell stressed that inflation and jobs figures published between now and September 20 would determine future monetary policy. He added that financial conditions remained restrictive and that “monetary policy is working about as we expect”. This decision comes against a backdrop of already falling inflation, with underlying inflation now also showing clear signs of easing amid resilient economic growth. Quarter-on-quarter growth figures for 2Q23 show GDP expanding at an annualized pace of 2.4%, amid sustained household consumption and a quickening revival in corporate investment. The US economy is clearly back to its pre-Covid health. Overall, given the gradual decline in underlying inflation and resilient activity and employment, *we think the Fed will hold its policy rate at 5.5% through its next few meetings.*

ECB: hints of a pause, inflation falling but economy stagnating.

Bank also raised all policy rates by 25 bp, taking the deposit rate to 3.75% and the refi to 4.25%. It also maintained its pace of balance sheet reduction at EUR 15 bn per month. At the press conference, Christine Lagarde emphasized that the ECB would be keeping a close eye on underlying prices and on its Staff projections when deciding whether to hike or hold at the 14 September meeting. Otherwise, she struck a fairly neutral tone, saying it was an open question “whether we hike or whether we pause” in September. “But what I can assure you of is that we are not going to cut.” This was a widely expected decision with headline inflation now falling fast (5% in France and 6,2% in Germany) but underlying inflation proving stickier. Also, while, as in the US, the jobs market remains buoyant, the main zone economies are stagnant. French, German and Spanish GDP grew by 0,5%, 0% and 0,4%, respectively, in 2Q23, leaving the euro area economy ticking over at barely above pre-Covid levels. A gap has thus opened up between European economies and the United States. Domestic demand is much weaker in Europe as monetary policy is for the moment taking a heavier toll on European activity. Overall, given a gradual but accelerating decline in inflation and weak economic activity *we think the BCE will hold its policy rate at 3.75% through its next few meetings.*

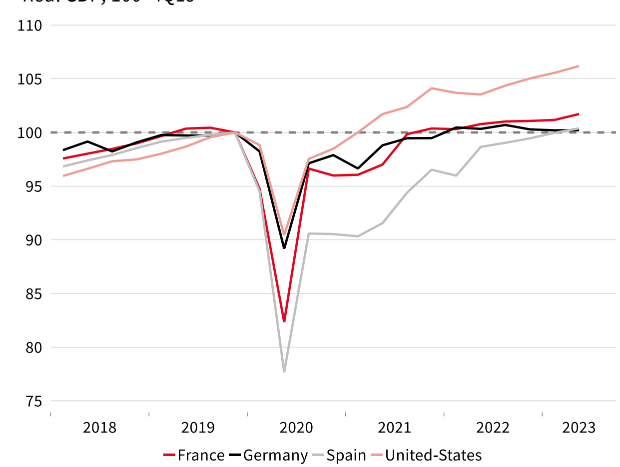
A monetary tightening cycle that likely reached its peak

Monetary policy rates



Activity momentum is widenning across the Atlantic

Real GDP, 100=4Q19



OUR MACRO COMMENTS

Events of the week

Banking conditions for the second quarter as well as monetary data for June show a marked tightening of monetary conditions in the Euro area. Indeed, the survey on credit conditions shows credit demand by households and businesses at their lowest level since 2012 while credit conditions remain restrictive. In total, outstanding bank credit to the private sector increased by only 3.4% year-on-year in June, below the rate of inflation.

The Bank of Japan surprised markets by making a change to the functioning of the yield curve control regime. More specifically, it raised the ceiling on the 10-year JGB rate from 0.5% to 1%. This would allow the BoJ to begin to normalize monetary policy.

Figures of the week

	Current	Forecasted	Previous
GDP (2Q23, QoQ annual rate)	2,4%	1,8%	2,0%
Personal consumption deflator (June, YoY)	3,0%	3,0%	380,0%
Monetary policy rate (Upper range)	5,5%	5,5%	5,3%
GDP France (2Q23, QoQ)	0,5%	0,1%	0,2%
Inflation France (July prem, YoY)	5,0%	5,1%	5,2%
GDP Germany (2Q23, QoQ)	0,0%	0,1%	-0,3%
Inflation Germany (July prem, YoY)	6,5%	6,6%	6,8%
GDP Spain (2Q23, QoQ)	0,4%	0,4%	0,6%
Inflation Spain (July prem, YoY)	2,1%	1,6%	1,6%
Monetary policy rate (Deposit rate)	3,8%	3,8%	3,5%

Sources : Macrobond, 28 July 2023.

The week ahead

Week of 31 July

- PMI surveys
- 2Q23 GDP
  July inflation
- ISM PMI & job market data
- Central bank meeting

Week of 7 August

- July inflation
- July inflation
- 2Q23 GDP

Week of 14 August

- July inflation

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,40	3,40	2,90	1,91	-0,09
USD SOFR O/N	5,06	5,05	4,80	4,30	1,53
JPY TONAR O/N	-0,07	-0,05	-0,03	-0,02	-0,01
GBP SONIA O/N	4,93	4,93	4,18	3,43	1,19
CHF O/N	1,76	1,75	0,80	0,80	-0,03

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,01	2,86	2,89	2,98	1,44
10Y Bund	2,44	2,29	2,38	2,44	0,87
10Y BTP	4,04	3,90	4,25	4,55	3,30
10Y JGB	0,46	0,48	0,48	0,41	0,14
10Y Bonos	3,44	3,28	3,42	3,51	2,11
10Y Swiss	0,91	0,84	1,05	1,57	0,55
10Y Gilt	4,27	4,16	3,70	3,66	1,95
10Y USTnote	3,86	3,75	3,43	3,88	2,78

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,36	3,29	3,31	3,12	1,69
EUR Corporate Baa	4,55	4,49	4,49	4,65	2,93
GBP Corporate Baa	5,34	5,24	4,73	4,59	3,12
USD Corporate Aaa	4,61	4,52	4,23	4,62	3,68
USD Corporate Baa	5,71	5,65	5,39	5,70	4,82
USD EM aggregate	7,44	7,37	7,34	7,52	7,13

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	82,63	3,9%	6,3%	-3,9%	-22,9%
Or, USD/oz	1 972	-0,2%	-0,9%	8,0%	13,7%
Copper, USD/metric ton	8 575	2,3%	-0,1%	2,1%	13,3%
Platinium, USD/oz	969	-1,9%	-12,0%	-9,0%	10,2%
Palladium, USD/oz	1 285	-2,9%	-15,1%	-28,1%	-36,5%
Silver, USD/oz	24,67	-1,4%	-0,7%	3,0%	31,5%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,11	-1,5%	0,2%	3,5%	8,9%
EUR/CHF	0,96	-0,7%	-2,9%	-3,2%	-2,1%
USD/GBP	0,77	-0,3%	-3,5%	-6,8%	-6,9%
USD/JPY	140,38	0,5%	5,3%	7,3%	2,3%
USD/BRL	4,73	-1,3%	-6,3%	-11,4%	-10,9%
USD/CNY	7,15	-1,1%	3,2%	3,6%	5,8%
USD/RUB	90,00	-1,6%	9,1%	23,3%	48,1%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	1,4%	1,4%	5,4%	5,9%
Euro area	-0,4%	-0,4%	0,0%	12,7%
Germany	0,1%	0,1%	2,1%	14,7%
France	-0,2%	-0,2%	-2,0%	10,9%
United Kingdom	1,2%	1,2%	-2,2%	3,0%
Switzerland	0,6%	0,6%	-1,6%	4,2%
United States	0,0%	0,0%	12,6%	18,9%
Japan	0,2%	0,2%	12,8%	20,7%
Brazil	4,3%	4,3%	19,8%	15,2%
Hong Kong	2,2%	2,2%	-2,0%	-2,1%
India	-0,6%	-0,6%	10,6%	9,1%
China	1,5%	1,5%	-1,3%	0,9%

Source: Bloomberg, on 28 July 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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