

The ECB is holding (at last)

After ten consecutive rate hikes, raising rates by 450 bp in 14 months, the European Central Bank has finally taken a breather. The decision was motivated by softer inflation and a clear downward trend in credit growth. The decision was widely expected, and was no doubt made all the easier by the current market uncertainty. However, ECB President Christine Lagarde was quick to stress that any talk of rate cut would be premature.

The ECB met amidst ongoing market jitters this week. US bond yields continue to be driven upward by the combination of a still robust US economy and concerns related to the financing of the public sector deficit. 10-year Treasury yields have risen by around 100 bp since the beginning of July and, despite the less resilient European economy, euro area bond yields have been dragged up in their wake, rising by nearly 50 bp since July. Meanwhile geopolitics is adding to market nerves, although so far, we have seen no clear movement suggesting a collapse in confidence.

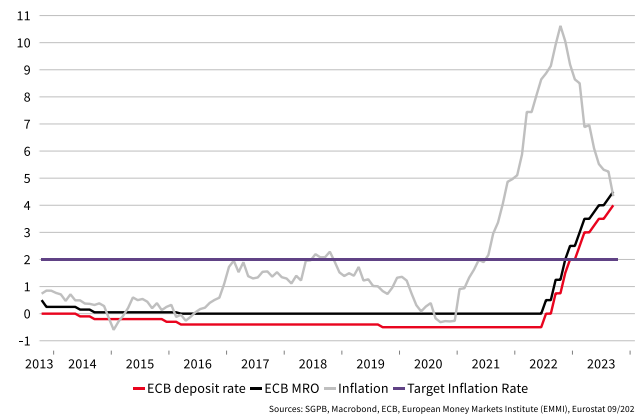
Credit channel transmission mechanism working fine. Bank lending data published in the days before the central bank meeting showed corporate and household credit continued to decline in September. Moreover, the euro area bank lending survey showed lending conditions tightened further in Q3 and demand continued to weaken. All of which is music to the ECB's ears, suggesting the recent rate increases have been sufficient to suppress lending, which remains the main monetary transmission channel into the real economy.

The ECB decides to pause. The European Central Bank decided to keep its key interest rates on hold, ending a sequence of ten straight rises since July 2022. This leaves the deposit rate at 4% and the repo rate at 4.50%, both 450 bp higher than at the start of the cycle in July 2022. The ECB president was quick to highlight, however, that a pause did not mean they were ruling out any further rate rise – monetary policy is now on data dependency mode. She added that it is totally premature not only to cut rates but even to discuss a cut. Rates are therefore likely to stay elevated for some time given that inflation still looks too high.

Tools to combat fragmentation. The ECB will also continue to run down its balance sheet at the same pace. There were no new announcements and no discussion on reinvesting securities bought under the pandemic-era PEPP program. President Lagarde did however note that the ECB had a range of tools to prevent fragmentation – i.e. excessive widening of sovereign rate spreads – with the flexibility of the PEPP as the instrument of first resort.

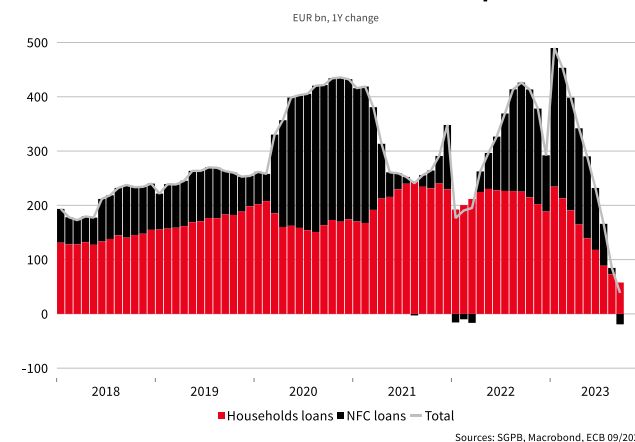


Job done? Inflation about to be lower than ECB rates Euro area: ECB rates and inflation



The monetary transmission credit channel is working

Euro area: Bank loans to the non financial private sector



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

All data taken from Bloomberg and Macrobond on the 27/10/2023, 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



U.S. GDP growth proved above – already high - expectations for the third quarter of 2023. Indeed, growth reached 4.9% (annualized rate), against 4.3% expected by the consensus. Reflecting the strong resilience of the US economy to rising interest rates, this momentum is largely due to strong household consumption while investment remained robust.



A third of the largest US companies have reported their Q3 2023 results, and they are encouraging. The turnover of these companies grew by 4% compared to Q3 2022, and profits by 11%, 1 point higher than expectations for turnover, and 4 points for profits. In Europe, on the other hand, the results are less favourable. Sales contracted by 3.5%, a negative surprise of 3 points (markets expected a negative growth of 0.5%). On the other hand, profits fell by 8.4%, while markets expected a drop of about 11%.

Figures of the week



- Manufacturing PMI (October, HCOB)
- Services PMI (October, HCOB)



- Manufacturing PMI (October, S&P)
- Services PMI (October, S&P)



- Business Climate (October, IFO)



- GDP Growth Rate (2023Q3, annualised rate)



- Consumer Confidence

	Actual	Forecast	Previous
• Manufacturing PMI (October, HCOB)	43	43.7	43.4
• Services PMI (October, HCOB)	47.8	48.7	48.7
• Manufacturing PMI (October, S&P)	50	49.5	49.8
• Services PMI (October, S&P)	50.9	49.8	50.1
• Business Climate (October, IFO)	-0.9%	1.8%	0.4%
• GDP Growth Rate (2023Q3, annualised rate)	4.9%	4.3%	2.1%
• Consumer Confidence	84	83	83

Sources : Macrobond, October 27th 2023.

The week ahead

Monday



Economic Sentiment (October)



Inflation Rate (October)

Tuesday



BoJ Interest Rate Decision
Unemployment Rate (September)
Retail Sales (September)



GDP Growth Rate (2023Q3)



OPEC 2022 World Oil Outlook

Wednesday



Fed Interest Rate Decision

Thursday



BoE Interest Rate Decision



Unemployment Rate (October)

Friday



Unemployment Rate (October)
ISM/PMI Surveys

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,90	3,40	1,91	0,66
USD SOFR O/N	5,30	5,30	5,06	4,30	3,03
JPY TONAR O/N	-0,02	-0,01	-0,07	-0,02	-0,06
GBP SONIA O/N	5,19	5,19	4,93	3,43	2,19
CHF O/N	1,70	1,71	1,76	0,80	0,70

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,45	3,51	3,01	2,98	2,65
10Y Bund	2,88	2,93	2,44	2,44	2,12
10Y BTP	4,90	4,99	4,04	4,55	4,32
10Y JGB	0,84	0,78	0,46	0,41	0,24
10Y Bonos	3,99	4,06	3,44	3,51	3,20
10Y Swiss	1,07	1,13	0,91	1,57	1,19
10Y Gilt	4,62	4,67	4,27	3,66	3,58
10Y USNote	4,95	4,91	3,86	3,88	4,04

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,73	3,83	3,36	3,12	3,24
EUR Corporate Baa	4,86	4,91	4,55	4,65	4,77
GBP Corporate Baa	5,42	5,51	5,34	4,59	4,66
USD Corporate Aaa	5,53	5,53	4,61	4,62	4,91
USD Corporate Baa	6,64	6,63	5,71	5,70	6,21
USD EM aggregate	8,39	8,44	7,44	7,52	8,51

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	89,06	-2,5%	7,8%	3,6%	-5,4%
Or, USD/oz	1 980	1,6%	0,4%	8,4%	18,9%
Copper, USD/metric ton	8 019	0,0%	-6,5%	-4,5%	4,6%
Platinum, USD/oz	884	-2,6%	-8,8%	-17,0%	-5,4%
Palladium, USD/oz	1 116	-2,4%	-13,2%	-37,6%	-43,1%
Silver, USD/oz	22,81	-1,7%	-7,5%	-4,7%	16,4%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,06	0,1%	-4,4%	-1,0%	5,5%
EUR/CHF	0,95	0,2%	-0,8%	-3,9%	-4,5%
USD/GBP	0,82	0,1%	6,4%	-0,8%	-4,5%
USD/JPY	149,94	0,1%	6,8%	14,6%	2,3%
USD/BRL	5,00	-1,3%	5,7%	-6,3%	-6,1%
USD/CNY	7,32	0,0%	2,3%	6,1%	1,9%
USD/RUB	93,51	-4,1%	3,9%	28,1%	52,2%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-2,5%	-8,3%	-2,9%	3,1%
Euro area	-0,8%	-6,3%	5,6%	13,0%
Germany	-1,3%	-7,7%	5,8%	12,9%
France	-0,7%	-5,5%	4,9%	10,2%
United Kingdom	-2,3%	-3,4%	-0,5%	5,1%
Switzerland	-2,6%	-7,0%	-3,1%	-3,8%
United States	-3,0%	-8,3%	9,0%	9,3%
Japan	-1,8%	-1,3%	19,2%	17,5%
Brazil	-1,1%	-7,9%	6,1%	0,1%
Hong Kong	-3,6%	-11,8%	-13,6%	11,5%
India	-2,8%	-4,0%	4,7%	7,6%
China	-2,9%	-10,3%	-9,5%	-4,2%

Source: Bloomberg, October 26th 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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