WEEKLY UPDATE

Central banks still vigilant despite tightening financial conditions

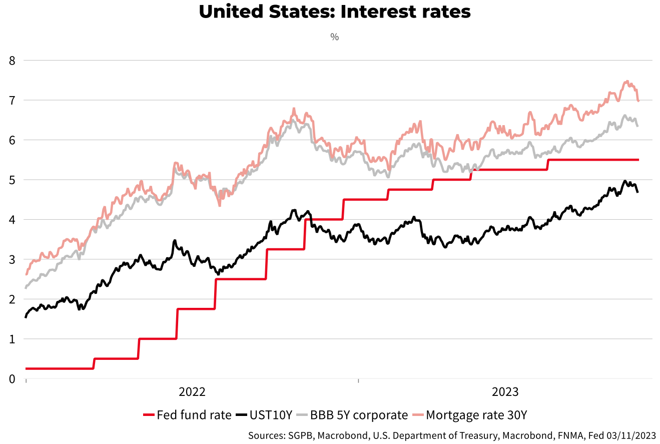
Financial conditions have tightened further over the past few months: bond yields and mortgage rates have been pushed upward while equity markets declined. However, this does not seem to give central banks any incentive to ease policy. Similar to the European Central Bank (ECB) last week, both the Federal Reserve (Fed) and Bank of England (BoE) have repeated they want to keep policy rates high for longer,. As they remain concerned inflationary pressures could remain entrenched, central banks also maintained their hawkish stance. Meanwhile, the Bank of Japan (BoJ) took another step into its gradual policy normalisation. However, these central banks' decisions were broadly in line with expectations, helping equity markets to rebound some of the lost ground.

Fed stands by its policy and hawkish tone. As widely expected, the US central bank kept its policy rate at 5.25-5.5% for its second consecutive meeting and said it would continue to run down its balance sheet as planned. Fed Chair Jerome Powell again struck a hawkish tone at the press conference, emphasising that rate hikes may still be on the agenda over the coming meetings. He did, however, stress the significant progress made in the battle against inflation. He also said the recent tightening in financial conditions should help bring inflation back towards the 2% target. Coming out of this meeting we still believe in our scenario, that the Fed has finished tightening but will keep rates high for some months yet. Inflation continues to soften and is likely to end the year below the Fed's forecasts as tensions in the labour market continue to ease and the economy slows.

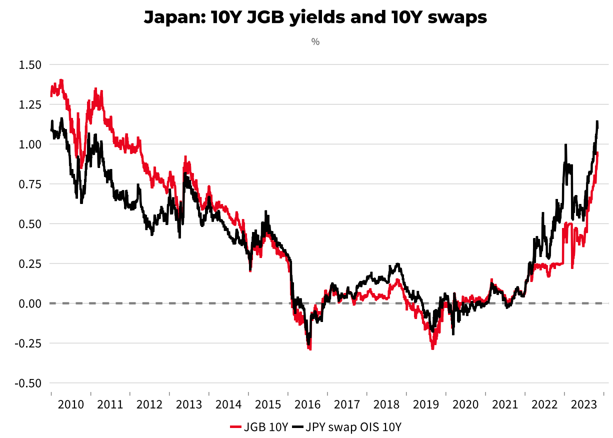
BoE keeps rates on hold. Equally unsurprisingly, the BoE left its bank rate at 5.25% and its balance sheet run-off plans unchanged. It too stuck to its restrictive tone given that UK inflation is proving painfully slow to ease despite a backdrop of sluggish growth.

BoJ continues to modify its yield curve control policy. Having left its policy rate on hold at -0.1%, the Bank of Japan announced it was further loosening its yield curve control framework setting the target for 10-year JGB yields at 1% which it now describes as a "reference" rather than a ceiling. Yields duly edged up to 1%, but overall, this appeared as a disappointment for the markets which had expected more radical changes given the steep rise in US long bond yields and the relatively high inflation. The net result was that the yen lost more ground. We, however, are sticking by our view that the change in Japanese monetary policy will be a very gradual process. The BoJ will want to see clear signs of additional increase in wages before it starts worrying about inflation and, fearful of market turbulence, will tread very slowly in returning policy to normal after years of ultra-accommodative policy.

Bond yields catch up with Fed's "high for longer" message



Markets expect BoJ policy to normalise with core inflation close to 2%



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OUR MACRO COMMENTS

Events of the week

Q3 2023 real GDP growth for the euro area was slightly below expectations at -0.1% quarter-on-quarter versus 0% expected (-0.1% in Germany, 0% in Italy, 0.1% in France and 0.3% in Spain). Headline inflation reached 2.9% year-on-year in the euro area, versus 3.1% expected, and core inflation was in line with expectations at 4.2%. Italian inflation fell below the 2% mark, while German and French inflation remained high, at 3.0% and 4.5% respectively.

After remaining below the 50 mark since November 2022, the US manufacturing ISM survey fell from 49 to 46.7 - signaling a marked contraction in the sector's activity. The US employment report was relatively soft, with 150K job creations and 101K downward revisions to the past two months. The unemployment rate increased one-tenth to 3.8% while average hourly earnings continued easing to 4.1% yoy.

After rising for two months, China's PMI index deteriorated again in October, falling back below the 50 mark (49.5, compared with 50.2 expected) and signaling a contraction in manufacturing activity.

Figures of the week

	Actual	Forecast	Last
GDP Growth (qoq, 2023 Q3)	-0.1%	-0.2%	0.1%
Inflation (yoy, October)	3.0%	3.3%	4.3%
Unemployment Rate (October)	5.8%	5.8%	5.7%
GDP Growth (qoq, 2023 Q3)	-0.1%	0.1%	0.2%
Inflation (yoy, October)	2.9%	3.1%	4.3%
Core Inflation (yoy, October)	4.2%	4.2%	4.5%
GDP Growth (qoq, 2023 Q3)	0.1%	0.1%	0.6%
Inflation (yoy, October)	4.5%	4.5%	5.7%
Manufacturing PMI (NBS, October)	49.5	50.2	50.2
Manufacturing PMI (ISM, October)	46.7	49	49
Services PMI (ISM, October)	51,8	53	53.6
Unemployment Rate (October)	3.9%	3.8%	3.8%

Sources : Macrobond, Novembre 3rd ,2023

The week ahead

Monday

Factory Orders (September)

Tuesday

Trade Balance (October)

Trade Balance (September)

Industrial Production (September)

Wednesday

Trade Balance (September)

Retail Sales (September)

Thursday

Inflation (October)

Friday

GDP Growth (2023 Q3)
Manufacturing Production (September)

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MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,90	3,90	3,66	1,91	1,40
USD SOFR O/N	5,32	5,30	5,30	4,30	3,05
JPY TONAR O/N	-0,02	-0,02	-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	1,70	1,75	0,80	0,74

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3,37	3,45	3,06	2,98	2,67
10Y Bund	2,75	2,88	2,52	2,44	2,13
10Y BTP	4,65	4,90	4,16	4,55	4,28
10Y JGB	0,94	0,84	0,59	0,41	0,24
10Y Bonos	3,83	3,99	3,56	3,51	3,22
10Y Swiss	1,12	1,07	1,00	1,57	1,13
10Y Gilt	4,57	4,62	4,37	3,66	3,41
10Y USTnote	4,77	4,95	4,08	3,88	4,10

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,54	3,73	3,32	3,12	3,18
EUR Corporate Baa	4,70	4,86	4,47	4,65	4,69
GBP Corporate Baa	5,29	5,42	5,34	4,59	4,44
USD Corporate Aaa	5,37	5,53	4,79	4,62	4,93
USD Corporate Baa	6,48	6,64	5,86	5,70	6,23
USD EM aggregate	8,29	8,39	7,50	7,52	8,47

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84,81	-4,8%	1,8%	-1,3%	-11,2%
Or, USD/oz	1 982	0,1%	2,4%	8,5%	21,2%
Copper, USD/metric ton	8 124	1,3%	-5,4%	-3,3%	6,1%
Platinium, USD/oz	925	4,6%	-0,5%	-13,1%	-3,2%
Palladium, USD/oz	1 121	0,4%	-9,0%	-37,3%	-41,1%
Silver, USD/oz	22,67	-0,6%	-7,1%	-5,3%	14,6%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,05	-0,4%	-4,1%	-1,4%	6,3%
EUR/CHF	0,96	1,2%	0,0%	-2,8%	-2,8%
USD/GBP	0,82	0,2%	4,7%	-0,7%	-5,4%
USD/JPY	151,01	0,7%	5,3%	15,4%	2,6%
USD/BRL	5,02	0,3%	4,2%	-6,0%	-2,5%
USD/CNY	7,32	0,0%	1,7%	6,1%	0,4%
USD/RUB	92,88	-0,7%	-1,6%	27,2%	49,8%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0,3%	-6,8%	-2,6%	2,9%
Euro area	0,5%	-5,6%	6,1%	13,0%
Germany	0,2%	-6,8%	6,1%	12,6%
France	0,3%	-5,2%	5,1%	10,4%
United Kingdom	-1,0%	-2,9%	-1,5%	2,8%
Switzerland	1,0%	-6,3%	-2,1%	-2,8%
United States	1,2%	-6,1%	10,4%	12,7%
Japan	2,5%	0,4%	22,1%	19,1%
Brazil	2,0%	-4,8%	8,2%	-1,6%
Hong Kong	0,1%	-12,4%	-13,5%	8,1%
India	-0,7%	-3,3%	4,0%	4,4%
China	1,9%	-10,0%	-7,8%	-2,9%

Source: Bloomberg, on 2 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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