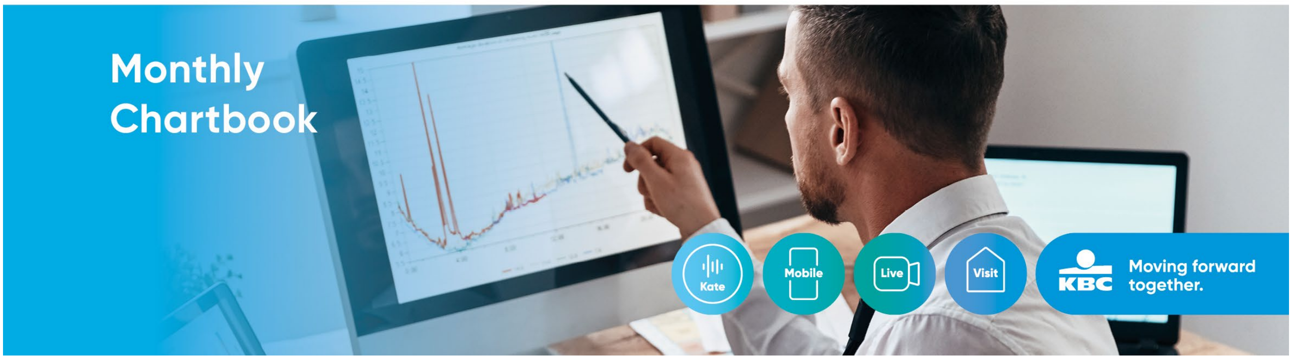
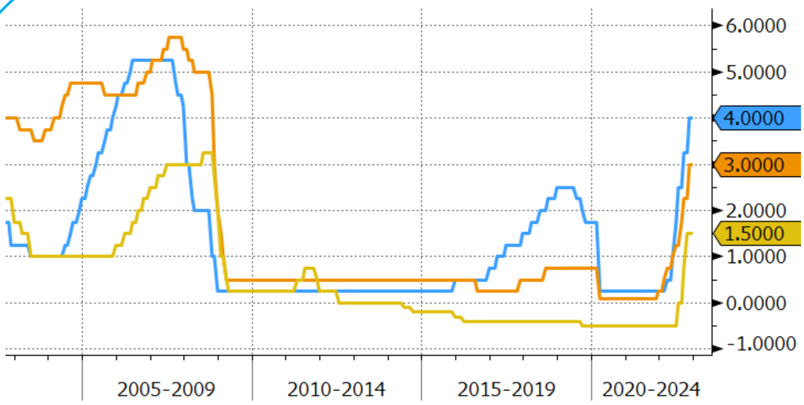


Thursday, 08 December 2022

Markets

Rates



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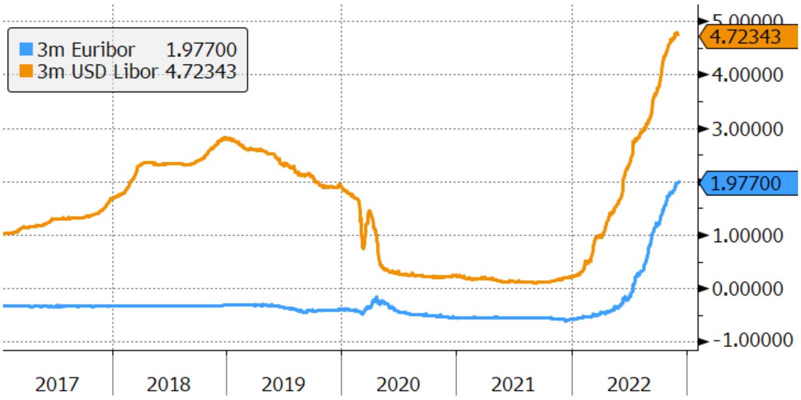
After a fourth consecutive 75 bps hike, the Fed is expected to slow down the pace of tightening to 50 bps in December. The ECB will probably follow suit after having delivered 150 bps of tightening during the past two meetings. The BoE's 75 bps hike in November was likely a one-off given rising internal division. More tightening is to follow though.



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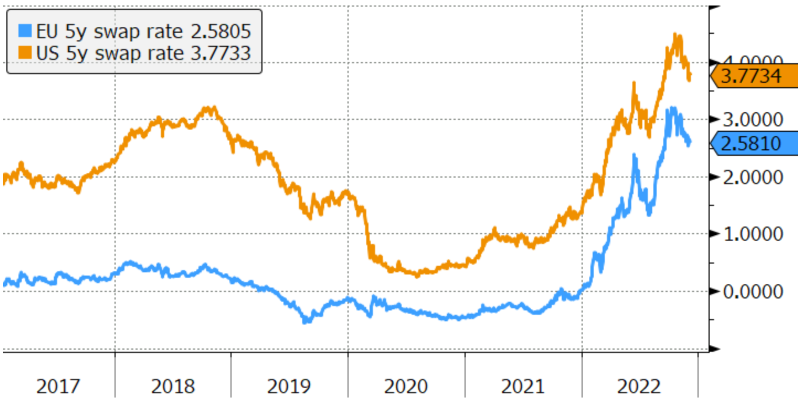
Short term money market rates continue to rise as markets further adjusted expectations on central bank tightening. Tentative signs of topping out begin to emerge in the US, where investors expect the Fed to hike to 4.75/5%.



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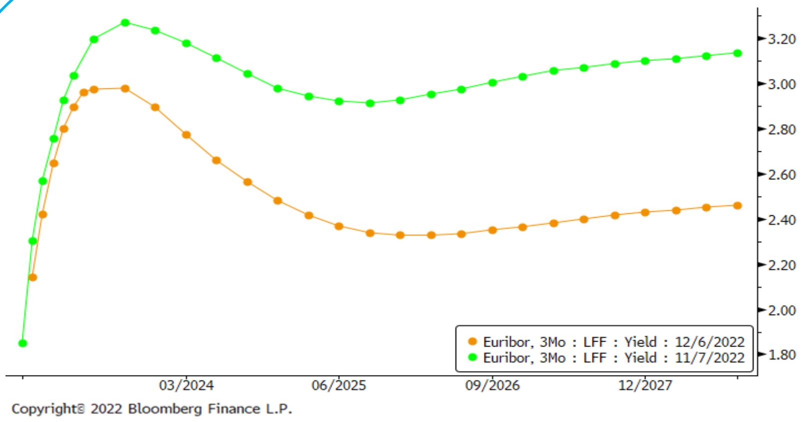
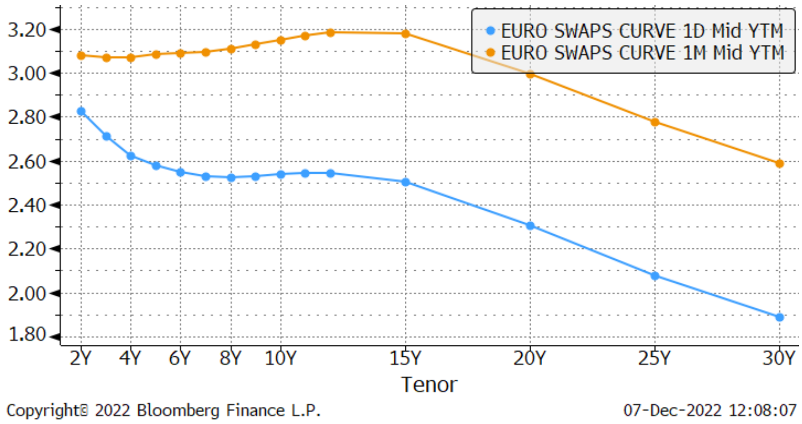
Yields on longer maturities have eased in recent weeks. As we move further into the tightening cycle, markets become increasingly sensitive to (weakening) economic data and start pricing in a slowdown/recession. In addition, they (in our view wrongly) assume that central banks will save the day once again and start anticipating rate cuts already, especially in the US, even as inflation remains sky high.

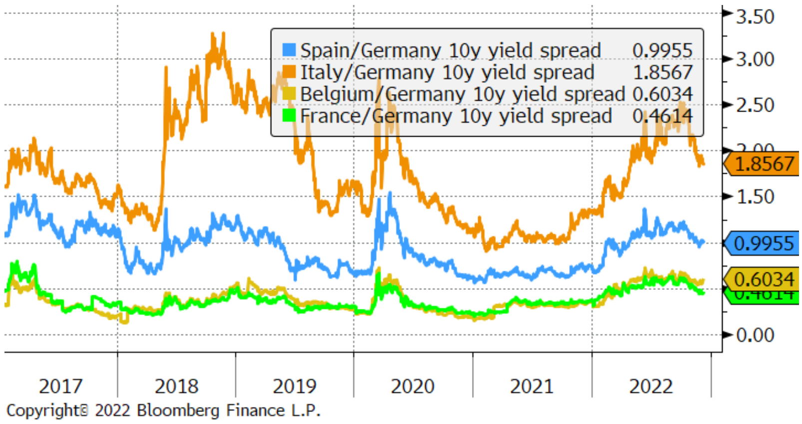
Rates



ECB tightening bets were significantly scaled back amid deteriorating eco data, the first decline in headline inflation in 1,5 years and spill-over effects from similar repositioning happening in the US.

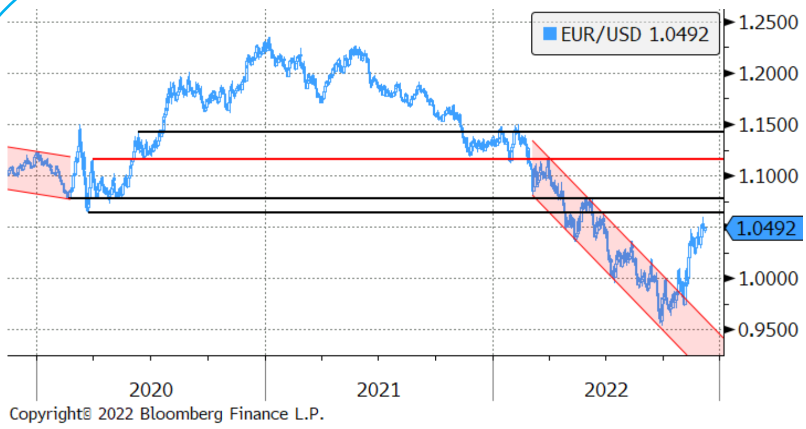


The European yield curve joined the US in becoming inverse in almost every segment. Together with a slowing economy, markets are also anticipating an end to the ECB hiking cycle that is only just underway. Assuming a terminal rate of 3%+ for longer, yields across the curve have no business whatsoever below that level.

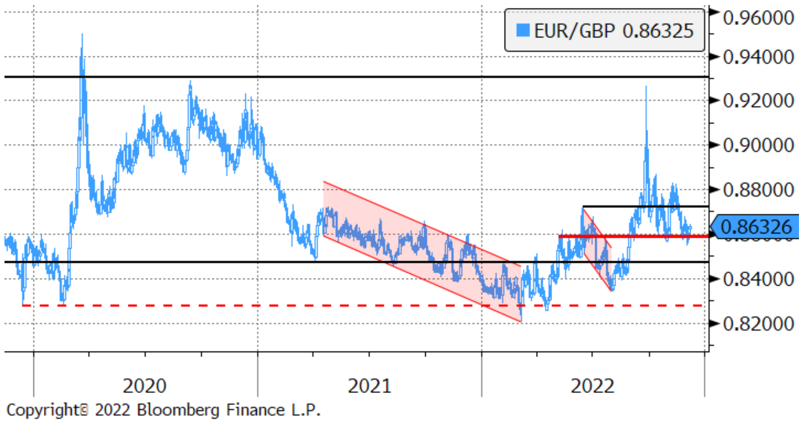


Peripheral yield spreads have declined dramatically lately. Markets have pared ECB tightening bets, bringing relief to core and even more to peripheral bonds. It also suggests that markets see no major issues arising from the central bank moving from QE to QT early next year.

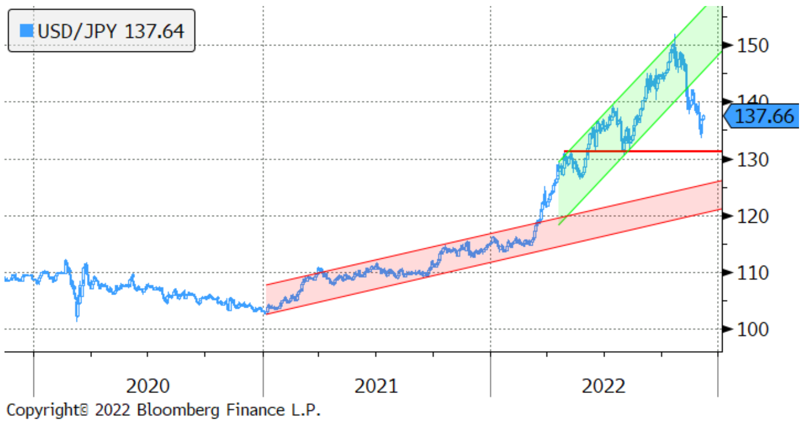
Currencies



A sharp dollar correction kicked in as Fed tightening bets were scaled down and rate cuts are instead priced in (for 2023H2) following a batch of weaker/easing data (CPI in particular). EUR/USD escaped the downward trend channel and went for a test of the 1.0611 resistance (38.2% Fibonacci recovery of the 2021-2022 decline). A break higher probably requires euro strength to take over from dollar weakness.

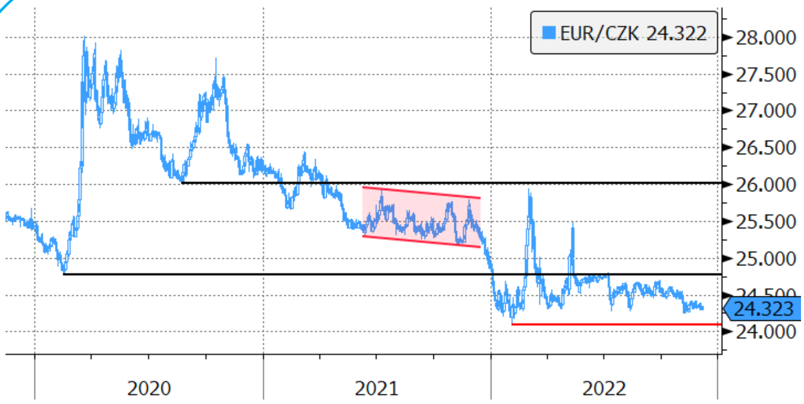


GBP was on sale end of September after the now-previous UK government presented gigantic unfunded fiscal stimulus plans. The new government tossed all that to the bin, bringing back some calm. EUR/GBP tested the 0.857 support area several times. A break seems unlikely given the very poor fiscal (twin deficits) and economic state of affairs in the UK.

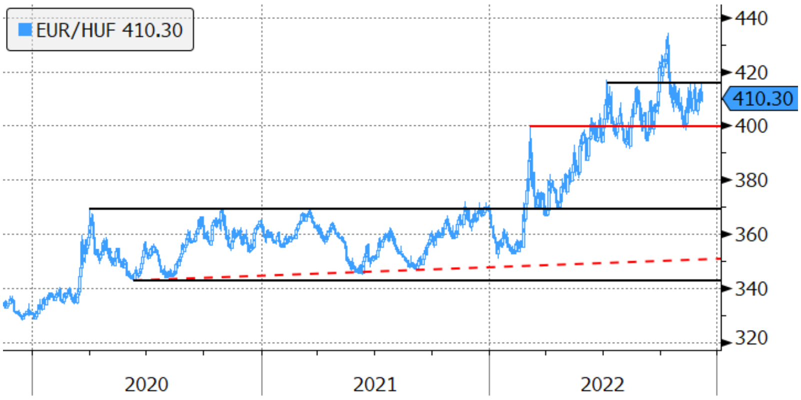


One-way directional trading - despite JPY interventions - in USD/JPY abruptly ended following the broad dollar correction. The pair retreated from multi-decade highs around 150 to 135, where it met resistance from a.o. the 200dMA. Technically the USD/JPY correction has room to around 130. A break lower is unlikely given that the Bank of Japan isn't planning on tightening policy anytime soon. The monetary gap between the US and Japan is and will remain very large.

Currencies



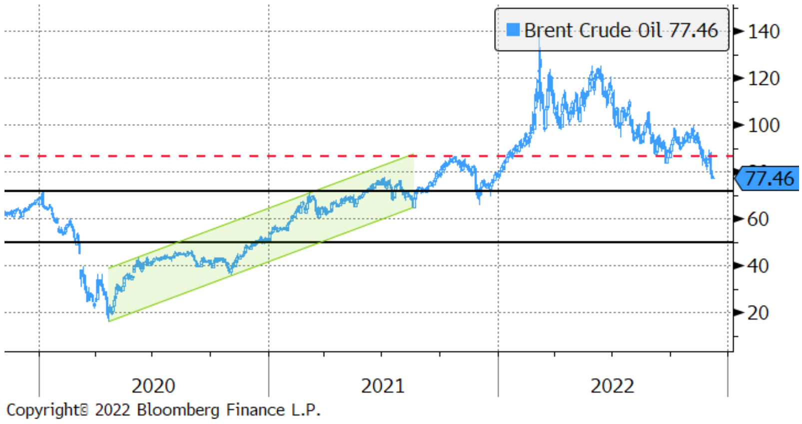
The CNB has kept the policy rate steady at 7% since August and is showing little appetite for further increases. Markets' focus meanwhile shifted to a weakening eco momentum and inflation "easing" to 15.1% - thanks to a statistical quirk. First rate cuts are priced in for 2023H2. The Czech crown meanwhile is still strongly protected to the downside thanks to the CNB's standing FX intervention threat.



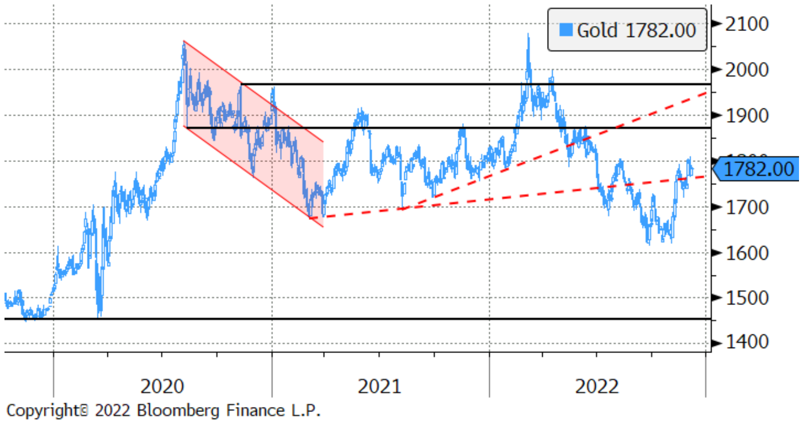
The forint weakened dramatically in the wake of the central bank's (MNB) decision to stop tightening prematurely. After hitting a record low of EUR/HUF 430, the MNB introduced an emergency policy rate of 18%, to remain in place until the forint is durably stronger. Ongoing uncertainty about some €13bn of European funds (rule of law dispute) is only one factor thwarting this hoped-for forint rebound.

The National Bank of Poland's tightening pause (at 6.75%) since October probably turned into a full stop. The NBP became more growth-sensitive while inflation in November was lower than expected. Meanwhile the zloty held relatively stable (a.o. thanks to behind-the-scenes liquidity tightening measures). EUR/PLN 4.63 serves as first important support level.

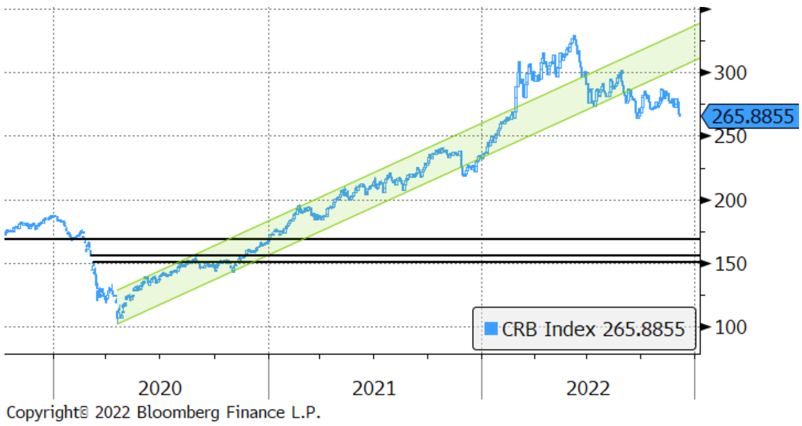
Others



OPEC announced a 2 million b/d output cut and Europe stopped importing Russian oil. But these supply curbing events were outweighed by demand expectations. Concerns about a global growth deceleration and/or recession kept oil prices under downward pressure.

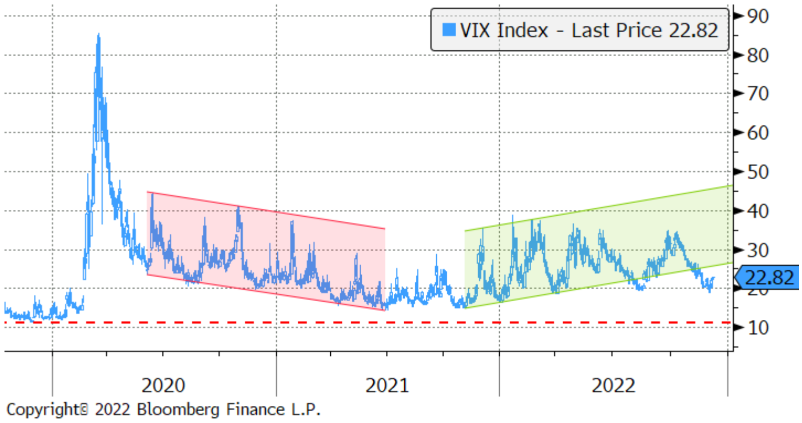


The sharp repositioning in (especially long-term) core bond yields caused gold to rally in recent weeks. $1800 serves as an important resistance level.

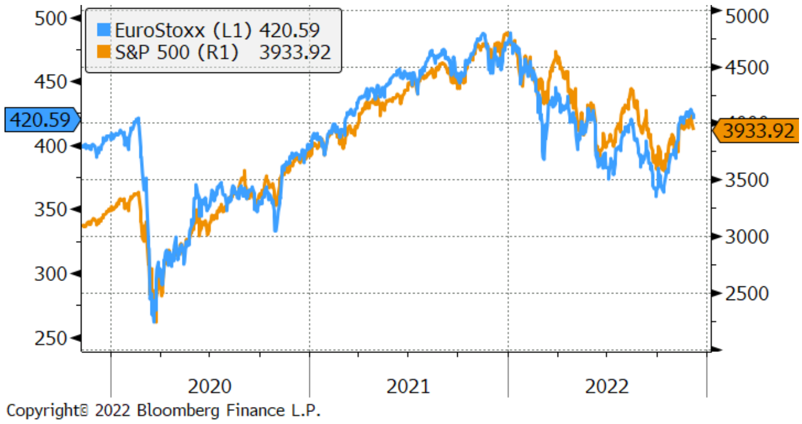


While oil prices experienced a sharp correction lower, the broader commodity market turned out to be more resilient. Especially metal prices have rebounded, anticipating a Chinese revival after the government is preparing an exit from zero-Covid and announced measures to support the property sector.

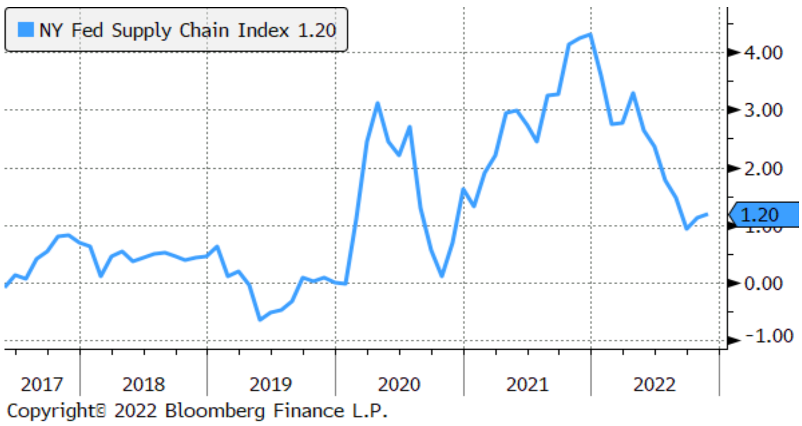
Others



Given to the plethora of risks, economically, geopolitically and monetary, the VIX volatility index sticks around relatively low levels.



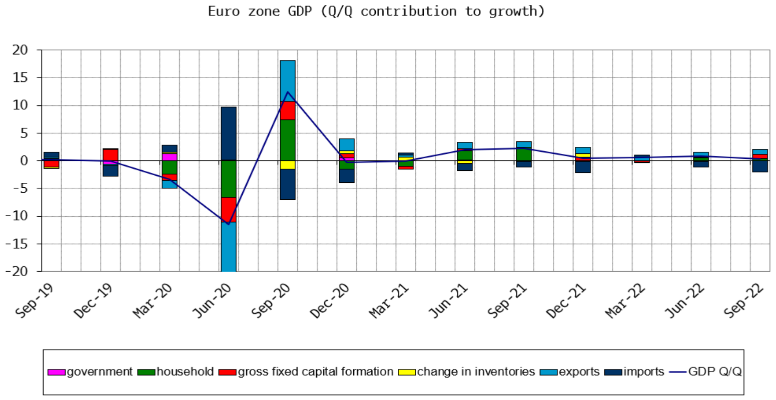
It's summer all over again in the winter. Easing (real) core bond yields lifted equities over the past weeks. Tentative signs of topping out emerge however as markets increasingly ponder the risks for a recession.



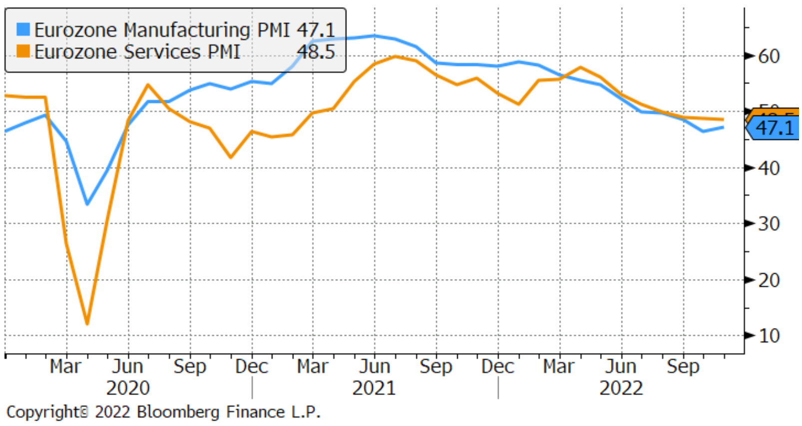
The New York Fed's supply chain index (0 = historical average) confirms recent ISM/PMI survey findings. Supply-side bottlenecks have dramatically eased in recent months, helping to restore the supply/demand balance .

Economic Overview

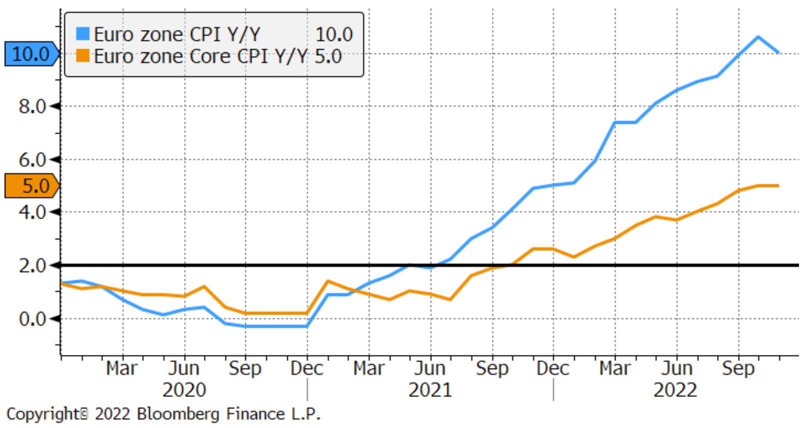
Eurozone



The euro area economy was again stronger than expected, growing 0.3% q/q (2.3% y/y) in Q3. Imports (-2 ppts) acted as a huge drag as energy prices soared. For the same reason, a recession is expected from the current quarter on though European resilience suggests it may be a mild one.

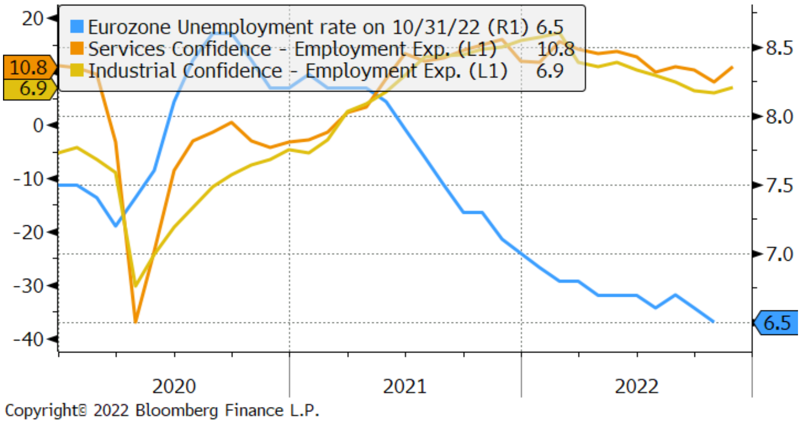


Output levels across the euro area and across sectors shrank again in November, though the rate of contraction eased for the first time in five months. Demand was subdued while the energy crisis dampened output at some companies. While still at historically elevated levels, input costs and output charges rose at slower levels than before. PMI owner S&P Global estimates the GDP contraction at 0.2% in Q4.

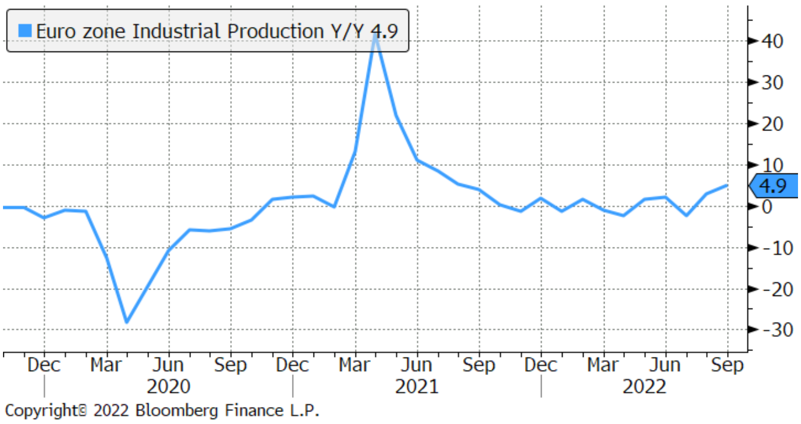


Headline inflation in November eased for the first time in 1.5 years. The underlying gauge stabilized at 5%, confirming broad and persistent price pressures that may take a long time to ebb. ECB Chief economist Lane warned second round effects will be an important driver for inflation in 2023 and 2024.

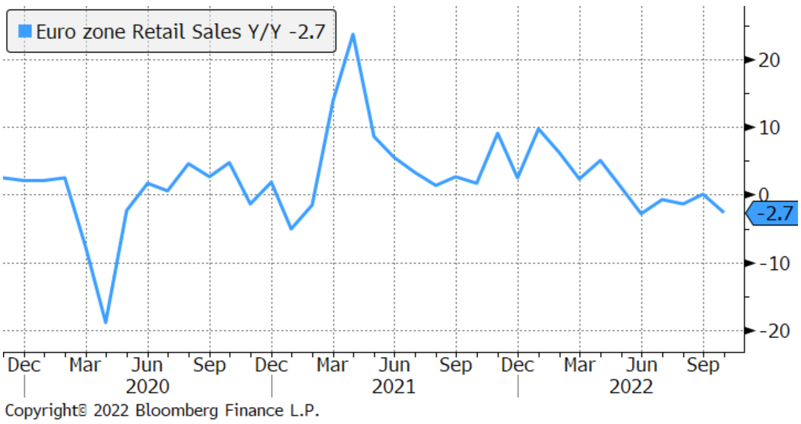
Eurozone



The euro zone unemployment rate fell to a new series low of 6.5% in October. The labour market remains the economy's stronghold. To that end, the tentative bottoming out in hiring intentions (orange and yellow curves) is an encouraging sign.

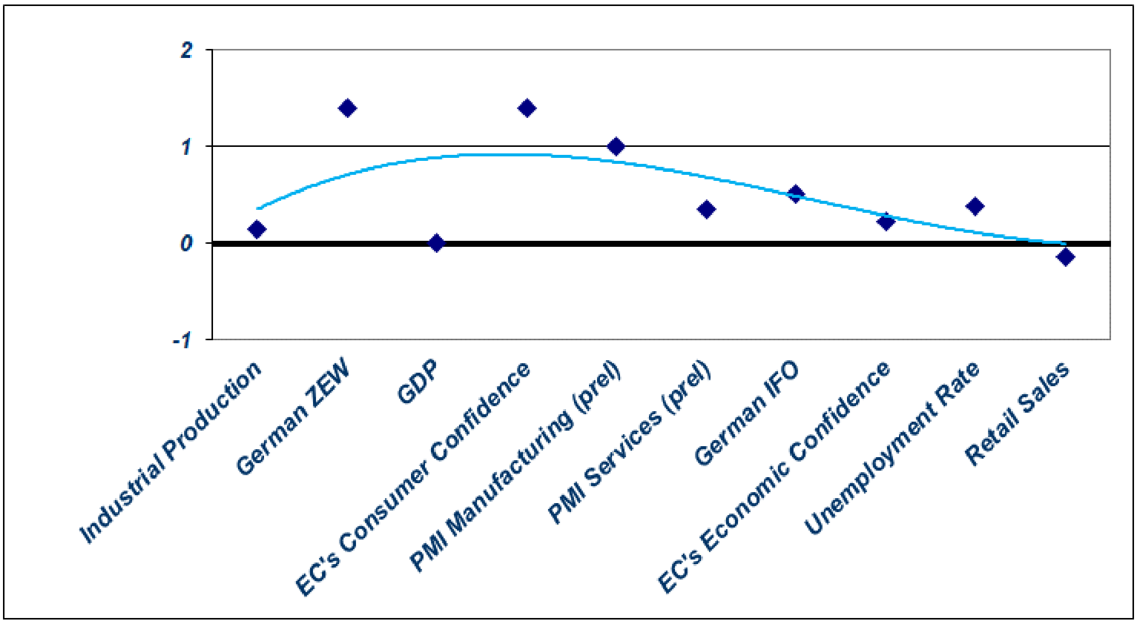


Euro area industrial production rebounded more than expected in September by 0.9% m/m to be 4.9% higher than one year ago. The drag in energy (-1.1% m/m) was more than compensated by non-durables (+3.6% m/m).



Retail sales displayed a broad-based drop in October, falling 1.8% m/m as European consumers experience a large purchasing power squeeze amid negative real income growth. Among the biggest countries, France and Germany recorded drops of almost 3%.

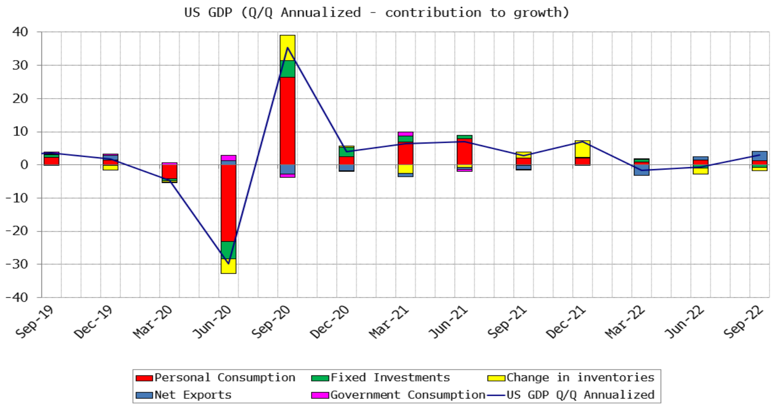
Eurozone



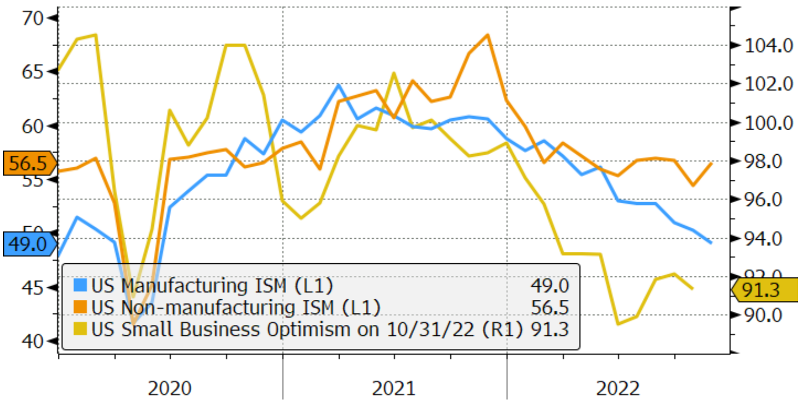
Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data. Data variables are time ordered with oldest release to the left, most recent to the right.

	PMI manuf.	PMI services	Cons. conf. (EC)	IFO expect.	BD France sentiment	Unempl. rate	Car registr.	Retail sales	IP (% y/y)
Dec-20	55.2	46.4	-12.2	94.2	100.12	8.2	-3.3	1.8	2
Jan-21	54.8	45.4	-14	92.2	99.64	8.3	-24	-5	2.2
Feb-21	57.9	45.7	-13.3	94.8	99.3	8.2	-19.3	-1.5	-0.3
Mar-21	62.5	49.6	-9.6	100.3	101.1	8.2	87.3	13.9	13.2
Apr-21	62.9	50.5	-9.7	99	101.41	8.2	218.6	23.7	41.6
May-21	63.1	55.2	-5.4	102.3	102.27	8.1	53.4	8.6	21.9
Jun-21	63.4	58.3	-1.9	102.9	103.08	7.9	10.4	5.6	11.1
Jul-21	62.8	59.8	-3.5	100.9	102.78	7.7	-23.2	3.3	8.3
Aug-21	61.4	59	-5.2	97.7	103.21	7.5	-19.1	1.3	5.3
Sep-21	58.6	56.4	-3.6	97.7	99.98	7.3	-23.1	2.6	4
Oct-21	58.3	54.6	-5.1	95.9	102.5	7.3	-30.3	1.7	0.1
Nov-21	58.4	55.9	-8.2	94.3	104.54	7.1	-20.5	9	-1.3
Dec-21	58	53.1	-9.4	92.7	105.64	7	-22.8	2.5	1.9
Jan-22	58.7	51.1	-9.7	95.6	104.84	6.9	-6	9.7	-1.3
Feb-22	58.2	55.5	-9.7	98.6	105.26	6.8	-6.7	6.2	1.6
Mar-22	56.5	55.6	-21.7	84.6	101.48	6.8	-20.5	2.3	-1
Apr-22	55.5	57.7	-22.1	86.8	101.03	6.7	-20.6	5.1	-2.5
May-22	54.6	56.1	-21.2	87.1	102.01	6.7	-11.2	1.1	1.6
Jun-22	52.1	53	-23.7	85.6	99.59	6.7	-15.4	-2.9	2.1
Jul-22	49.8	51.2	-27	80.4	98.12	6.6	-10.4	-0.8	-2.5
Aug-22	49.6	49.8	-24.9	80.5	99.35	6.7	4.4	-1.4	2.8
Sep-22	48.4	48.8	-28.7	75.2	97.66	6.6	9.6	0	4.9
Oct-22	46.4	48.6	-27.5	75.9	98.16	6.5	12.2	-2.7	
Nov-22	47.1	48.5	-23.9	80					

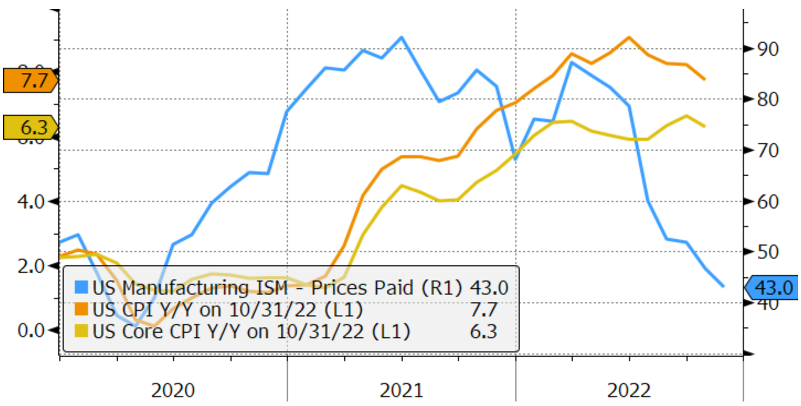
United States



US growth picked up again after the economy entered a recession in all but name. The 2.9% q/q (annualized) expansion was supported by personal consumption (1.2 ppts) and especially net exports (2.9 ppts). Private investments (-1.7 ppts) were the main drag on growth in Q3.

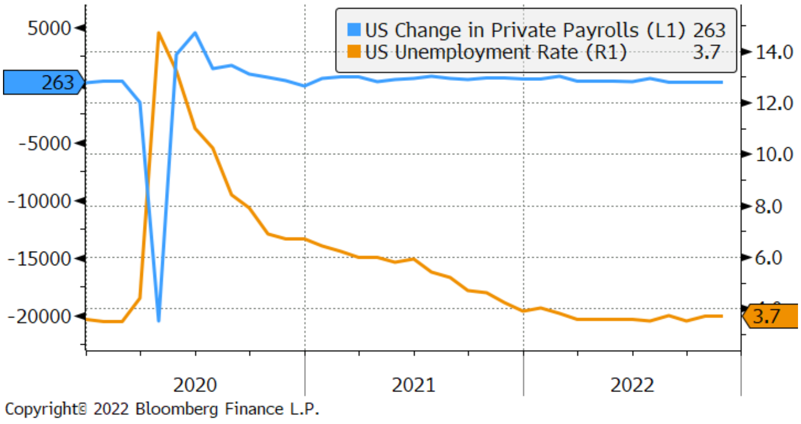


The manufacturing sector in the US is slowing and even contracted for the first time since May 2020. Production lives off backlogs amid subdued demand. The more important services sector however is holding up very well for now. Activity surged in the November holiday season.

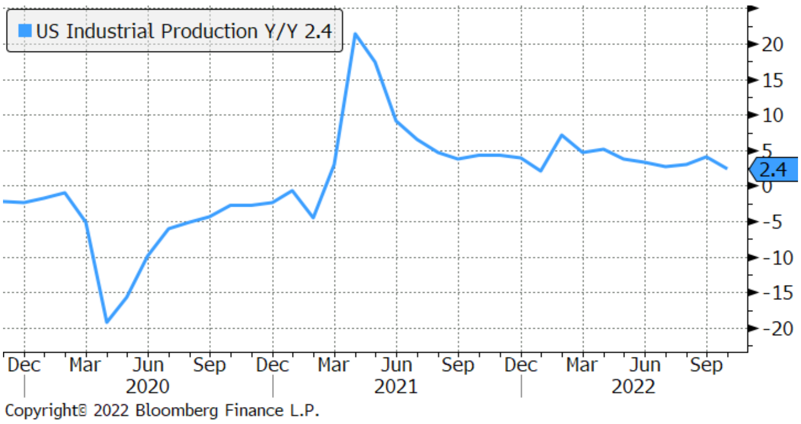


US inflation eased slightly more than expected in October. This was the cue markets have been waiting for so long. The Fed however warns against reading too much in one monthly figure. It remains to be seen how quickly inflation declines further out …

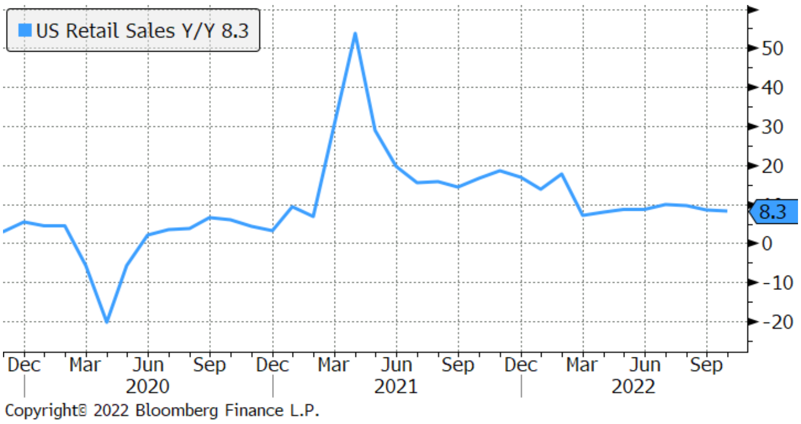
United States



… especially with the US labour market still in a very strong position. Fed chair Powell labeled the tight labour market and consistently strong wage growth – an important element in the dominant services ex housing market - as the crucial piece in the inflation puzzle.

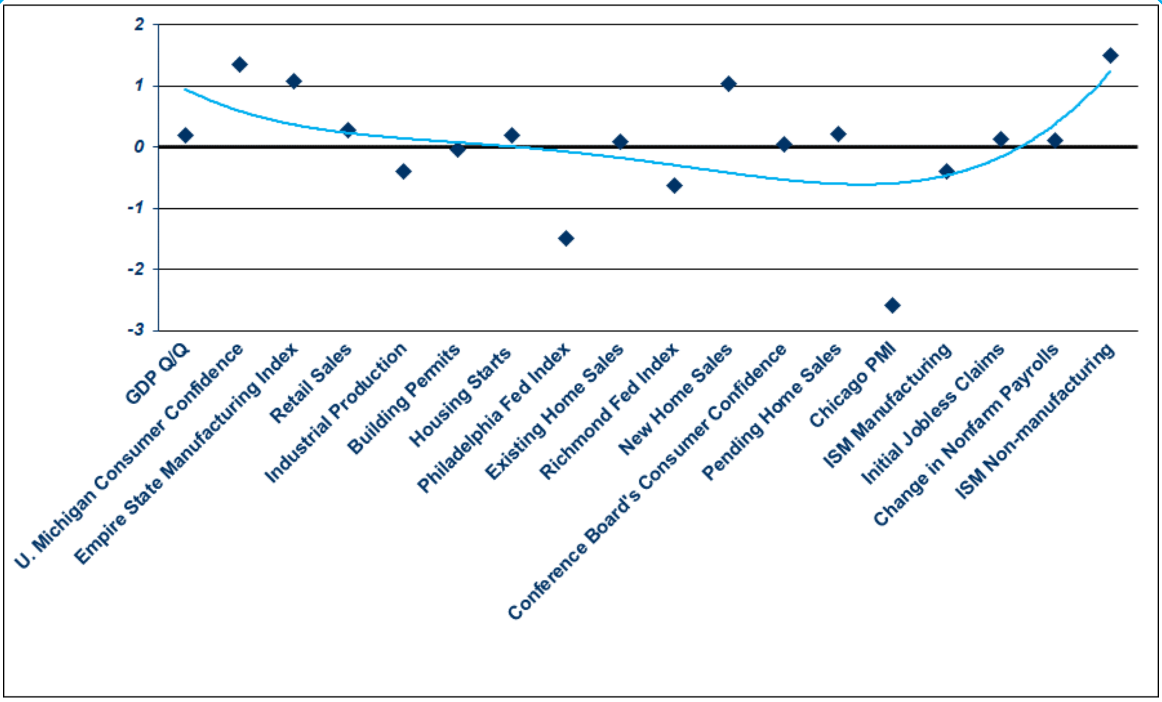


Industrial output rose a mere 0.1% m/m in October, to be up 2.4% y/y. Factory output has been tepid in recent months, in line with falling momentum in the manufacturing ISM. The meagre rise was supported by motor vehicles and electrical equipment. Excluding the former, output stagnated. Easing supply constraints are a positive but rising interest rates will weigh on demand and slow activity further going forward.



US consumers have started the final quarter on solid footing. Real (inflation-adjusted) personal consumption continues to advance and retail sales rose 1.3%. A core gauge acting as a proxy for GDP's personal consumption coming in at 0.7%.

United States



Surprise index: measures the difference (in standard deviations) between the (median) Bloomberg consensus and the actual outcome of EMU economic data. Data variables are time ordered with oldest release to the left, most recent to the right.

	ISM manuf.	ISM services	NFIB	Cons. conf. (U. of	NAHB	Non-farm	Housing Starts	IP (% y/y)	Retail sales
Dec-20	60.5	57.8	95.9	80.7	86	-115	1651	-3.56	3.2
Jan-21	59.4	58.5	95	79	83	520	1602	-2.01	9.3
Feb-21	60.9	55.9	95.8	76.8	84	710	1430	-5.39	6.9
Mar-21	63.7	62.2	98.2	84.9	82	704	1711	1.01	30.3
Apr-21	60.6	62.7	99.8	88.3	83	263	1505	16.56	53.7
May-21	61.6	63.2	99.6	82.9	83	447	1605	15.57	29
Jun-21	60.9	60.7	102.5	85.5	81	557	1664	9.2	19.8
Jul-21	59.9	64.1	99.7	81.2	80	689	1573	5.91	15.5
Aug-21	59.7	62.2	100.1	70.3	75	517	1576	4.91	15.7
Sep-21	60.5	62.6	99.1	72.8	76	424	1559	3.93	14.4
Oct-21	60.8	66.7	98.2	71.7	80	677	1563	4.68	16.6
Nov-21	60.6	68.4	98.4	67.4	83	647	1706	4.99	18.6
Dec-21	58.8	62.3	98.9	70.6	84	588	1768	3.69	16.8
Jan-22	57.6	59.9	97.1	67.2	83	504	1666	2.9	13.7
Feb-22	58.6	56.5	95.7	62.8	81	714	1777	6.94	17.7
Mar-22	57.1	58.3	93.2	59.4	79	398	1716	4.76	7.1
Apr-22	55.4	57.1	93.2	65.2	77	368	1805	5.3	7.8
May-22	56.1	55.9	93.1	58.4	69	386	1562	4.4	8.7
Jun-22	53	55.3	89.5	50	67	293	1575	3.88	8.8
Jul-22	52.8	56.7	89.9	51.5	55	537	1377	3.85	10
Aug-22	52.8	56.9	91.8	58.2	49	292	1508	3.79	9.7
Sep-22	50.9	56.7	92.1	58.6	46	269	1488	4.96	8.6
Oct-22	50.2	54.4	91.3	59.9	38	284	1425	3.28	8.3
Nov-22	49	56.5		56.8	33	263			

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