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Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

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The week at a glance

- **Markets:** The downward trend in global equity markets continued this week.
- **United States:** Solid labor market.
- **Eurozone:** Eurozone headline inflation accelerated from 8.9% to 9.1% year-on-year in August.

KEY FIGURE

315,000

Extra US jobs created in August despite job market’s slowdown

Focus

Interest rate markets continue to register very strong volatility. After a month of July marked by a significant decline in sovereign rates, rates in August posted sharp increases reflecting investors' fears about inflation. The yield on 10-year U.S. Treasury and German bonds reached 3.2% and 1.5% respectively. Indeed, the U.S. Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE) shifted to a much more hawkish stance and reaffirmed their commitment to bringing inflation down. Central banks are still much more concerned about the risk of inflation expectations becoming unanchored than about the downside risks weighing on growth. The longer inflation remains high, the more likely second-round effects will be. Powell recently affirmed that the Fed wanted to take “rapid steps to moderate demand so that it comes into better alignment with supply, and to keep inflation anchored.” He added the Fed will keep at it “until the job is done”. The risk of a sharp slowdown in growth or even a recession seems to be increasingly accepted by the bankers concerned.

KEY DATES

8th September
European Central Bank (ECB) monetary policy meeting

21st September
U.S. Federal Reserve monetary policy meeting

Source: Amundi Research.

Our weekly analysis

Diminished Russian gas supply, severe drought, maintenance on a third of French nuclear reactors, outage in Norway gas production, competition with Asia, and limits to industrial gas switches had coalesced to send EU natural gas prices to record levels. Prices factored-in a high probability of acute power shortages, rationing and production shutdowns.

Since then, gas prices sharply corrected, down -30% this week, reflecting a less gloomy scenario. Rising liquefied natural gas (LNG) imports and greater recourse to other energies helped Europe bring its inventories back to seasonal averages. Moreover, EU gas consumption, which declined about -5% versus average, is starting to respond to high prices across the main types of users. The industrial sector makes up for about 40% of EU natural gas consumption (especially in chemical, metals and mining sectors), business services use 15 to 20%, and 40% is used for residential heating.

Prices also declined after the European Commission announced it is planning to overhaul EU power markets, with a view to decorrelate electricity from gas prices. For now, the last power plant that balances the overall daily demand, sets the price for the whole market. Since gas plants often have the last say, the selling price of cheaper renewable energies aligns with costlier fossil-fuel power prices. Multiple options are being discussed function of uneven countries' power mix. The reform could take months rather than weeks.

Finally, low liquidity in gas markets amid high uncertainty, is exacerbating prices swings.

How far Russia reduces natural gas flows and weather conditions might both cast the decisive vote. In a worst case, a full stop in Russian flows, cold weather and substantial gas rationing would lead to a recession, cutting EU GDP growth to 1% in 2022 and -2% in 2023. TTF natural gas prices could then trade in a €200/MWh-€250/MWh range. In our central case, prices would trade between €150/MWh and €200/MWh.

Indice	Performance			
Equity markets	09/02/22	1 W	1 M	YTD
S&P 500	3967	-2.2%	-3.0%	-16.8%
Eurostoxx 50	3479	-3.5%	-5.6%	-19.1%
CAC 40	6062	-3.4%	-5.4%	-15.3%
Dax 30	12792	-1.4%	-4.9%	-19.5%
Nikkei 225	27651	-3.5%	0.2%	-4.0%
SMI	10720	-2.0%	-3.6%	-16.7%
SPI	13809	-2.1%	-4.2%	-16.0%
MSCI Emerging Markets (close -1D)	976	-3.0%	-0.8%	-20.8%
Commodities - Volatility	09/02/22	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	94	-6.6%	-6.2%	21.3%
Gold ($/ounce)	1707	-1.8%	-3.0%	-6.7%
VIX	25	-0.2	1.4	8.1
FX markets	09/02/22	1 W	1 M	YTD
EUR/USD	1.000	0.4%	-1.6%	-12.0%
USD/JPY	140	1.8%	5.2%	21.7%
EUR/GBP	0.86	1.9%	3.4%	2.7%
EUR/CHF	0.98	1.5%	2.4%	7.4%
USD/CHF	0.98	1.9%	0.8%	-5.5%

Source: Bloomberg, Amundi Institute – 09/02/2022 – 15:00 pm

Indice	Performance			
Credit markets	09/02/22	1 W	1 M	YTD
Itraxx Main	+118 bp	+6 bp	+14 bp	+70 bp
Itraxx Crossover	+577 bp	+22 bp	+50 bp	+335 bp
Itraxx Financials Senior	+130 bp	+9 bp	+16 bp	+75 bp
Fixed Income markets	09/02/22	1 W	1 M	YTD
ESTER OIS	98.40	--	-1 bp	-33 bp
EONIA	-0.51	-	-	-
Euribor 3M	0.76	+22 bp	+50 bp	+134 bp
Libor USD 3M	3.10	+3 bp	+29 bp	+289 bp
2Y yield (Germany)	1.19	+21 bp	+87 bp	+181 bp
10Y yield (Germany)	1.60	+21 bp	+78 bp	+178 bp
2Y yield (US)	3.50	+10 bp	+45 bp	+277 bp
10Y yield (US)	3.26	+22 bp	+51 bp	+175 bp
Eurozone Sovereigns 10Y spreads vs Germany	09/02/22	1 W	1 M	YTD
France	+62 bp	-1 bp	+3 bp	+24 bp
Austria	+64 bp	-	+7 bp	+37 bp
Netherlands	+33 bp	-1 bp	+3 bp	+18 bp
Finland	+58 bp	-	+5 bp	+31 bp
Belgium	+66 bp	+1 bp	+3 bp	+29 bp
Ireland	+63 bp	--	--	+21 bp
Portugal	+109 bp	-1 bp	+2 bp	+45 bp
Spain	+120 bp	-1 bp	+5 bp	+46 bp
Italy	+236 bp	+5 bp	+11 bp	+102 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	The downward trend in global equity markets continued this week as concerns about economic growth ramped up. The MSCI World Index fell by more than -2.5% over the week. The U.S. market was down but outperformed its European peer. The Eurostoxx 50 slid by more than -2%, triggered by stronger than consensus core inflation levels for August. Emerging markets followed the trend, ending the week at -1.5%. Although the Chinese equity market has been more resilient, it also return to negative territory this week.	The bear market rally that started since the beginning of July has faded in recent weeks. Although analyst earnings revisions remain positive in Europe and only seen a modest negative turn in the U.S., others investors' concerns continue to send global equities lower. Hawkish policy measures by Centrals Banks continue to weight on risky assets as the prospect of a U.S. Federal Reserve (U.S. Federal Reserve (U.S. Fed)) pivot reduced and the risk of recession increased.
Fixed Income	The 10-year U.S. Treasury yield stood at 3.26%, up 22 basis points on the week. The 2-year U.S. Treasury yield climbed to 3.5%, the highest level since 2007 as the hawkish tone of the Jackson Hole symposium continues to reverberate through markets. German 2-year and 10-year yields rose nearly 20 basis points to 1.17 and 1.6% respectively.	The U.S. Federal Reserve (Fed) has sent a clear message to Jackson Hole, saying it is committed to getting inflation back to target, that means higher rates for a longer period, even though it will likely hurt the economy. In our scenario, the Fed will stop raising rates at 4% in early 2023. There are plenty of buffers in the U.S. economy to absorb the rapid rise in fed funds rates. The European Central Bank (ECB) also surprised the market with a hawkish message arguing for a "strong reaction to current inflation despite the risks in the real economy".
Credit	After reaching a low point in mid-August, spreads have widened again in recent days. The most risky segments of the corporate debt market have under-performed.	Investors are worried about a sharp slowdown in the global economy. Central bankers want to slow demand. The message is firm: the fight against inflation remains a priority. The sharp rise in energy prices remains a major risk for Europe.
Foreign Exchange	Stronger than expected U.S. economic data and uncertainty around labour market data kept the U.S. dollar strong this week. Across G10 and emerging market currencies, DKK, euro and EMEA currencies were the relative winners. Commodity-driven currencies all trended lower vs last week. BRL, South African rand and South Korean Won were the losers in Emerging markets, while Norwegian krone, Japanese yen and Australian dollar were the losers within G10 currencies.	The market is waiting for progress in the U.S. labour market to remove some uncertainty over the U.S. Federal Reserve (Fed) and take profits on some U.S. dollar exposure. Whist we see a Fed dovish turn as a necessary condition to stop the recent trend in the U.S. dollar, we think it may happen early in the short term. The U.S. economy is in better shape than the Eurozone's, and the market's expectations for the European Central Bank (ECB) seem too high, given the fundamentals.
Commodities	Commodities suffered this week, falling by -6%, dragged down by base metals and energy futures. Brent returned to the bottom of its trading range. Precious metals and agriculture futures were more resilient, but suffered from the post-Jackson Hole rise in the dollar.	The underwhelming Chinese economic recovery, cooling oil demand, more resilient Russian crude exports, and prospects of a nuclear deal with Iran are all capping oil prices. Downside risks look limited, though, given structurally tight supply and geopolitical tensions. EU natural gas prices mean-reverted, emphasising a less pessimistic scenario amid improving storage levels and a pledged overhaul of EU gas markets. Chinese real estate issues and a renewed lockdown in Chengdu suggest base metals' purgatory is not over yet. A hawkish Fed is keeping precious metals under pressure for now.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	Job openings in July ticked up by +199k month-on-month with total private job openings up by +100k. The biggest increases were in trade, transportation and utilities (+171k MoM). Meanwhile, the quit rate remained relatively high.	Data on job openings and labour turnover are telling us that at the moment labour remains tight, with demand for workers substantially exceeding available supply. The U.S. Federal Reserve's (Fed's) much-desired adjustment in the labour market is not yet taking place, at least not at the desired speed and will take time to unfold, leaving wage inflation sticky in the near term.
Eurozone	Eurozone headline inflation accelerated from 8.9% to 9.1% year-on-year in August, driven by food and core inflation, which climbed to 4.3% year-on-year. But the peak is still ahead of us.	This week's readings confirm our view that inflationary pressures are still strong and evident in core inflation strength. Keep an eye on energy price developments, in relation to gas supply uncertainty and the introduction of potential energy market interventions and new government policy shielding measures.
Japan	PM Kishida on Wednesday announced a further relaxation of Japan's border restrictions for 7 September. First, the daily cap of visitors will be lifted from current 20K a day. Second, visitors are no longer required to have organised, guided tours. Third, a PCR test is not needed if requirements are met.	The gradual relaxation of restrictions could help attract some travellers back, along with an ultra-weak yen. However, mainland China, Taiwan and Hong Kong accounted for over 50% of Japan's visitors before the pandemic. All three regions still have quarantine requirements domestically, which discourages travelling abroad.
Emerging Market	The central bank of Hungary (NBH) raised its key rate by 100bps to 11.75% and announced three new measures to reduce liquidity: i) increase in the reserve requirement ratio, ii) introduction of a longer-term deposit and iii) announce and hold discount bill auctions regularly.	As inflation continues to rise and is expected to flirt with 20% shortly and risks are still on the upside due to the energy crisis and downside pressures on the currency, the NBH is strengthening the tightening of its monetary policy. Despite the slowing economy, the NBH is expected to continue its policy over the next few months although it may lower the magnitude of future rate hikes.