Trust must be earned
Amundi ASSET MANAGEMENT

Weekly Market Review

The latest news from financial markets

for the exclusive attention of professionals

Edition of September 18, 2023 By Amundi Institute

The week at a glance

• Markets: Positive equity market performance this week, with U.S. stocks outperforming European ones. The ECB hiked 25bps and U.S. rates struggled to correct lower.

• United States: U.S. retail sales accelerated 0.6% month-on-month and U.S. inflation surprised on the upside on both CPI (ex food and energy month-on-month) and PPI.

• Eurozone: The ECB updated its projections and now expects the Eurozone economy to expand by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025.

KEY FIGURE

3.7%

U.S. Headline inflation (seasonally adjusted), up from 3.3%

Focus

U.S. inflation, the Fed and the strict link with the U.S. dollar

Since July, the U.S. economy has been surprising on the upside, in particular when compared to other regions, where, beyond China, it is the weak European economic momentum that is becoming a concern. Oil prices, on the other hand, have continued to rise since July, with an additional increase of +8% since September, which in turn has had an impact on August's U.S. PPI and Consumer Price Index (CPI) inflation, both of which have exceeded expectations. All of these factors indicate the risks of further increases in U.S. yields, thereby affecting the U.S. dollar, given the relevance of the Federal Reserve (Fed) at these levels of valuation. While the short-term outlook may seem uncertain, our expectation of a contraction in U.S. consumption for first half-year 24 leads us to believe that Fed exceptionalism may not last much longer. In our opinion, the upcoming Fed pivot and the structural shift in the global bonds market (where the percentage of negative yielding debt has plummeted) may soon highlight a non-symmetric market behavior, where the sensitivity of foreign exchange (currencies) rates to U.S. news becomes much higher than that of news coming from abroad. Despite the short-term uncertainty, we still see it as a headwind for the U.S. dollar.

Key Dates

20th Sept
U.S. Federal Reserve's monetary policy meeting

21st Sept
Bank of England (BoE) monetary policy meeting

22nd Sept
Bank of Japan (BoJ) monetary policy meeting

18th Oct
China GDP

Source: Amundi Institute

Our weekly analysis

The U.S. economy accelerated again in August, with U.S. retail sales up 0.6% month-on-month and beating expectations across major dimensions. This, coupled with the surge in oil prices that we have witnessed since the end of second quarter, is reflected in both Consumer Price Index (CPI) and Producer Price Index (PPI) inflation, further reinforcing the need to maintain higher interest rates for an extended period. The European Central Bank (ECB) seems to echo this sentiment and has implemented an additional rate hike of 25 basis points, while also leaving room for a potential pause. Equity markets are showing an upward trend compared to last week, and sentiment towards emerging market risk has stabilized at higher levels (with emerging market Latam currencies performing strongly), while there are some tentative signs of improvement in sentiment coming out of China. On the other hand, the U.S. dollar has strengthened against core currencies as the narrative of U.S. exceptionalism returns.

Indice	Performance			
Equity markets	09/15/23	1 W	1 M	YTD
S&P 500	4489	0.7%	1.1%	16.9%
Eurostoxx 50	4310	1.7%	0.5%	13.6%
CAC 40	7407	2.3%	1.9%	14.4%
Dax	15927	1.2%	1.0%	14.4%
Nikkei 225	33533	2.8%	4.0%	28.5%
SMI	11225	2.5%	2.2%	4.6%
SPI	14709	1.9%	1.5%	7.1%
MSCI Emerging Markets (close -1D)	982	0.8%	0.0%	2.7%
Commodities - Volatility	09/15/23	1 W	1 M	YTD
Crude Oil (Brent, $/barrel)	93	2.9%	9.8%	8.5%
Gold ($/ounce)	1924	0.3%	1.2%	5.5%
VIX	13	-0.9	-3.5	-8.7
FX markets	09/15/23	1 W	1 M	YTD
EUR/USD	1.066	-0.4%	-2.3%	-0.4%
USD/JPY	148	0.0%	1.6%	12.8%
EUR/GBP	0.86	0.1%	0.1%	-2.9%
EUR/CHF	0.90	0.4%	2.1%	-3.0%
USD/CHF	0.96	0.1%	-0.2%	-3.4%

Source: Bloomberg, Amundi Institute – September 15, 2023 – 15:00 pm
Past performance is not guarantee of future results.

Indice	Performance			
Credit markets	09/15/23	1 W	1 M	YTD
Itraxx Main	+69 bp	-2 bp	-4 bp	-22 bp
Itraxx Crossover	+386 bp	-14 bp	-23 bp	-87 bp
Itraxx Financials Senior	+79 bp	-3 bp	-4 bp	-20 bp
Fixed Income markets	09/15/23	1 W	1 M	YTD
ESTER OIS	100.81	+7 bp	+32 bp	+208 bp
EONIA	3.65	-	--	+176 bp
Euribor 3M	3.88	+8 bp	+9 bp	+175 bp
Libor USD 3M	5.67	--	+3 bp	+90 bp
2Y yield (Germany)	3.22	+14 bp	+11 bp	+45 bp
10Y yield (Germany)	2.67	+6 bp	--	+10 bp
2Y yield (US)	5.04	+5 bp	+8 bp	+61 bp
10Y yield (US)	4.33	+6 bp	+12 bp	+45 bp
Eurozone Sovereigns 10Y spreads vs Germany	09/15/23	1 W	1 M	YTD
France	+54 bp	+1 bp	-	--
Austria	+60 bp	+2 bp	--	-3 bp
Netherlands	+34 bp	-	-	+1 bp
Finland	+56 bp	+1 bp	-2 bp	-1 bp
Belgium	+64 bp	-	-2 bp	-1 bp
Ireland	+41 bp	+1 bp	--	-15 bp
Portugal	+73 bp	--	+1 bp	-28 bp
Spain	+107 bp	+3 bp	+3 bp	-3 bp
Italy	+178 bp	+4 bp	+10 bp	-36 bp

Asset Class

	MARKET	AMUNDI ANALYSIS
Equity	The global equity market was on the rise this week, with investors confident in the evolution of central bank monetary policy. The European market slightly underperformed its U.S. counterpart. MSCI emerging markets posted positive performances this week, despite the poor performance of the Chinese equity market.	The ECB's hint of an end to rate hikes and U.S. economic data supporting the Fed's pause bet pushed global equities higher this week. U.S. Treasury yields rose, but did not affect the performance of IT stocks, which are usually subject to interest rate volatility. The earnings season has been supportive for U.S. and European equities (-2.9% and -5% year-on-year earnings per share growth). Although they delivered negative growth, earnings has been better than initial analyst's estimates.
Fixed Income	Strong U.S. retail sales data boosted hopes the Fed can engineer a soft economic landing. U.S. yields ended the week 5 basis points higher at 5% for the 2y and 4.3% for the 10y, at previous highs. The German 2y yield rose in anticipation of a rate hike by the European Central Bank (ECB).	ECB raises deposit rate by 25bps to 4% as inflation expected to remain "too high for too long". The rate decision was accompanied by ECB macroeconomic projections which indicate a stagflationary situation for 2023 and 2024. Projections for inflation are revised upwards to 5.6% in 2023 and 3.2% in 2024, and growth economic growth lowered to 0.7% in 2023 and 1% in 2024. The ECB reported that "the ECB's key interest rates have reached levels which, maintained for a sufficiently long period, will make a substantial contribution to the timely return of inflation towards the target", which means the likely end of the ECB's cycle of rate hikes.
Credit	Credit markets remained resilient despite the deterioration in the economic outlook prospects in the Eurozone and hawkish European Central Bank (ECB). Lower quality segments outperformed.	The economic outlook for the Eurozone is deteriorating rapidly. However, company fundamentals are generally solid. After a decade of ultra-accommodative monetary policy, companies have a low average cost of financing and have extended the average maturity of their debt. It will take some time before the increase in rates being reflected in the average cost of corporate debt. Additionally, the returns are attractive for investors.
Foreign Exchange	U.S. PPI et Consumer Price Index (CPI) inflation came out higher than expected this week reinforcing the "higher-for-longer" narrative. The ECB delivered an additional hike, but the weak economic momentum in the region prevented to have a positive pass-through on its currency. The U.S. dollar is up vs most G10 currencies, but for Australian dollar, Canadian dollar and New Zealand dollar. In emerging market Latam currencies are outperforming EMEA currencies.	The reacceleration of the U.S. economy and the surge in oil prices are putting the disinflationary trend we saw in the first quarters of 2022 at risk. The narrative of U.S. exceptionalism is back on track, but we anticipate a correction in U.S. consumption during the first half of next year, which suggests that it cannot last indefinitely. Despite the uncertainty, we still consider it a challenging situation for the U.S. dollar at its current valuation levels.
Commodities	Commodities were up +1.3% (excluding agricultural and livestock) this week. Base metals and energy prices both ended the week higher, boosted by new Chinese stimulus, healthy U.S. economic releases and a lower dollar. Momentum forces also supported energy prices, amid multiplying signs of market tightness. In contrast, Gold weakened along with receding recession prospects and rates staying high for longer.	Energy prices usually pass through to final inflation in about a month, through consumed energy goods (gasoline or heat fuel) as well as through intermediary goods and services (when energy is a components of goods and/or a combustible needed to produce goods or to transport them). Energy prices may have broader implications when a supply shock is at play, such as the EU energy crisis. In normal conditions, a +10% surge in raw energy prices tends to boost headline CPI by +0.5%, with a benign impact on core CPI. Temporary spikes of energy prices tend to vanish within 3 months, unsettling month-on-month CPI but with limited impact on year-on-year CPI. Continued rise in energy price are more problematic for central banks, as they may spiral and get stickier in core CPI. We do not expect energy prices to overshoot, but they add uncertainty, which might give central bankers another argument to keep rate higher for longer.

Economic Indicators

	MARKET	AMUNDI ANALYSIS
United States	The August inflation report was somewhat mixed. Headline inflation was up to 3.7% (seasonally adjusted) from 3.3%, due to a significant increase in the energy component, which ended up being less of a drag than in previous months, while core inflation moved down year-on-year, from 4.7% to 4.4%, as core goods further decelerated in year-on-year from 0.6% to 0.1%, while core services moved from 6.1% to 5.9%.	Looking at the 3-month annualised rate, the good news is that while the jump in headline inflation was due to the surge in energy prices, core inflation dynamics are now slowly moving into the 2.5% range, with commodities in deflationary territory and core services around 4% (down from 7% in February). So, while indeed still elevated vs the target, momentum in inflation keeps moving in the right direction, particularly at the core level. The Fed's target has still not been reached, but progress is visible. As monthly dynamics keep normalising, our focus should also be on Compensation/ULC/productivity dynamics, with key indicators helping to define where inflation would land in the medium term.
Eurozone	The European Central Bank (ECB) cuts its growth outlook through 2025: updating its projections for the Eurozone economy to expand by 0.7% in 2023, 1.0% in 2024 and 1.5% in 2025. It expects headline inflation to fall from 5.6% this year to 3.2% in 2024 and to 2.1% in 2025, reaching the target only at the end of the forecast horizon.	Growth is expected to remain sluggish for the rest of the current year, due to tighter financing conditions and still-high inflation (dampening domestic activity and demand) on top of weak external demand. As Purchasing Managers' Index (PMI) data highlighted, resilience in the services sector is fading. Momentum in employment growth is slowing. The service sector is creating fewer jobs. On the inflation side, as cost pressures ease, inflation should gradually decelerate, but the recent surge in oil prices may pose some near-term risk.
Japan	The Governor of the Bank of Japan, Ueda, said in an interview on September 9 that the Bank is likely to have enough information and data by the end of this year to decide whether its price target can be achieved. He also suggested that an end to the negative interest rate policy is probable.	His remarks led to an increase in the 10-year JGB yield from 0.65% to 0.7%, and the 10-year swap rate from 0.82% to 0.88%. However, the Japanese yen ended the week weaker. We interpret this interview as the strongest indication so far this year of a complete withdrawal of yield curve control and an end to NIRP.
Emerging Market	In China, the Public Bank of China (PBoC) cut the Required Reserve ratio (RRR) by 25bp, reducing the effective average RRR to 7.4%. This is largely in line with our expectation of a 30bp cut, but it happened earlier than the market expected. The earlier timing is mainly due to the large demand for liquidity resulting from high government bond issuance.	We do not anticipate any immediate additional monetary policy easing. Instead, we expect to see more follow-up measures in a month from the housing/fiscal side to maximize the easing effects. These could include more cities completely removing purchase restrictions and frontloading the 2024 local government bond quota.