

## **Weekly Market Review**

The latest news from financial markets

for the exclusive attention of professionals

Edition of September 12, 2022

By Amundi Institute

### The week at a glance

- Markets: German 10-year yields rose 13 basis points after the European Central Bank (ECB) unanimously decided to raise its key rate by 75 basis points.
- **United States:** After some choppiness during the summer months, initial jobless claims declined for the fourth straight week, to their lowest since May.
- Eurozone: As consumer confidence remains very weak, with the final Purchasing Managers' Index (PMI) surveys for August showing still elevated price pressures.



75 bp

Hike announced by European Central Bank (ECB) for key interest rates at its last meeting



Chileans overwhelmingly voted against the newly drafted constitution (K) in a mandatory exit referendum on 4 September, by 62-38% (vs 55-45% expected), with a high 86% voter turnout rate. The process will continue, however, as a great majority of the population sees the current Pinochet-era constitution as outdated. But while keeping uncertainty elevated in the meantime, the new process is likely to yield a better-quality final product – a more moderate and less ambiguous Magna Carta – thanks to Congress's involvement and a more representative assembly.

The vote against the new constitution was, at the same time, a noconfidence vote against the government. Taken immediately on board by the President, Boric reshuffled his cabinet just a couple of days later, naming half a dozen centre-left ministers with longstanding political status. That shifted his administration more towards the political centre and we suspect so will his government' policies in the process.



# KEY DATES

## 13<sup>th</sup> September

U.S. Consumer Price Index (CPI)

#### 14th September

UK Consumer Price Index (CPI)

#### 15<sup>th</sup> September

Bank of England (BoE) Meeting

#### 21<sup>st</sup> September

U.S. Federal Reserve's monetary policy meeting (FOMC meeting)

Source: Amundi Institute.

Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry.



## Our weekly analysis

The Governing Council unanimously decided to raise policy rates by 75 basis points. The European Central Bank (ECB) is determined to "anticipate" rate hikes and quickly "normalize" key rates. Given the very high level of inflation, we expect the ECB to maintain a hawkish stance in the coming months.

- 1. The ECB remains much more concerned about the risk of inflation expectations becoming unanchored than about downside risks weighing on growth. The ECB raised its inflation outlook to above target at 2.3% in 2024 with upside risks to the forecasts. Inflation is now expected to average 8.1 % in 2022, 5.5 % in 2023 and 2.3 % in 2024. Strong inflation is driven by soaring energy and food prices, strong demand in the services sector after the reopening, and supply bottlenecks. Inflation may rise further in the near term as price pressures have continued to strengthen and broaden across the economy. While wage dynamics are still contained overall, resilient labor markets and some catch-up to compensate for higher inflation are likely to support growth in wages.
- 2. The ECB baseline scenario is a stagnation in the last quarter of 2022 and first quarter of 2023 rather than a

Indice	Performance				
Equity markets	09/09/22	1 W	1 M	YTD	
S&P 500	4059	3.4%	-1.5%	-14.8%	
Eurostoxx 50	3570	0.7%	-3.9%	-16.9%	
CAC 40	6218	0.8%	-4.2%	-13.1%	
Dax 30	13082	0.2%	-3.3%	-17.6%	
Nikkei 225	28215	2.0%	0.8%	-2.0%	
SMI	10914	0.2%	-2.0%	-15.2%	
SPI	14004	-0.1%	-2.8%	-14.8%	
MSCI Emerging Markets (close -1D)	957	-1.5%	-4.4%	-22.3%	
Commodities - Volatility	09/09/22	1 W	1 M	YTD	
Crude Oil (Brent, \$/barrel)	92	-1.3%	-4.7%	18.1%	
Gold (\$/ounce)	1716	0.2%	-4.4%	-6.2%	
VIX	23	-2.5	1.2	5.8	
FX markets	09/09/22	1 W	1 M	YTD	
EUR/USD	1.004	0.8%	-1.7%	-11.7%	
USD/JPY	143	1.7%	5.5%	23.9%	
EUR/GBP	0.87	0.2%	2.5%	3.0%	
EUR/CHF	0.96	-2.0%	0.8%	5.4%	
USD/CHF	0.96	-1.2%	-0.9%	-7.0%	

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

- recession. The projections for economic growth have been revised down markedly for the remainder of this year and throughout 2023. The ECB now expect the economy to grow by 3.1 % in 2022, 0.9 % in 2023 and 1.9% in 2024.
- 3. The ECB is determined to "frontload" rate hikes and to "normalize" policy rates rapidly. Little indication on where the neutral rate is "it is far away" and whether the ECB will have to hike rates beyond the neutral level. "We expect to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations". "The further away we are, the larger step we are taking". The ECB will keep a meeting-by-meeting approach and remain data dependent.
- 4. Quantitative tightening is not on the agenda. ECB President Lagarde specified that the quantitative tightening will not be implemented in the short term. Full reinvestments of maturing securities will continue on both the Pandemic emergency purchase program (PEPP) portfolio "until at least the end of 2024" and the asset purchase program (APP) portfolio for "an extended time".

Indice	Performance				
Credit markets	09/09/22	1 W	1 M	YTD	
Itraxx Main	+108 bp	-7 bp	+5 bp	+60 bp	
Itraxx Crossover	+525 bp	-35 bp	+8 bp	+283 bp	
Itraxx Financials Senior	+117 bp	-9 bp	+7 bp	+62 bp	
Fixed Income markets	09/09/22	1 W	1 M	YTD	
ESTER OIS	98.40		-1 bp	-34 bp	
EONIA	-0.51	-	-	-	
Euribor 3M	0.93	+17 bp	+61 bp	+151 bp	
Libor USD 3M	3.24	+8 bp	+31 bp	+303 bp	
2Y yield (Germany)	1.32	+22 bp	+72 bp	+194 bp	
10Y yield (Germany)	1.70	+18 bp	+78 bp	+188 bp	
2Y yield (US)	3.52	+13 bp	+25 bp	+279 bp	
10Y yield (US)	3.29	+10 bp	+51 bp	+178 bp	
Eurozone Sovereigns 10Y spreads vs Germany	09/09/22	1 W	1 M	YTD	
France	+57 bp	-5 bp	+2 bp	+20 bp	
Austria	+62 bp	-3 bp	+7 bp	+35 bp	
Netherlands	+30 bp	-3 bp		+15 bp	
Finland	+57 bp	-1 bp	+5 bp	+30 bp	
Belgium	+65 bp	-1 bp	+6 bp	+29 bp	
Ireland	+60 bp	-5 bp	+1 bp	+18 bp	
Portugal	+105 bp	-3 bp	+3 bp	+41 bp	
Spain	+116 bp	-3 bp	+5 bp	+41 bp	
Italy	+231 bp		+17 bp	+96 bp	





#### MARKET

#### **AMUNDI ANALYSIS**

#### **Equity**



A quite hawkish speech by Powell at the Cato Institute during the week didn't affect the U.S. stock market too much, and it performed positively. The same happened in Europe, during the week of the well-expected 75 basis points European Central Bank (ECB) rate hike. Less positive was the performance of emerging markets, penalised by China, which is still struggling with lockdowns due to its zero-Covid policy.

We are sticking to our preference for the U.S. versus Economic and Monetary Union (EMU). We remain cautious on emerging markets overall, which are perceived as more risky by the market on the back of the Chinese slowdown. We prefer to remain selective in the region, playing commodity exporters far from the region of the Ukraine-Russia conflict, like Latin America, South Africa and Indonesia.

#### **Fixed Income**



German 10-year yields rose 13bp after the ECB unanimously decided to raise its key rate by 75bp. The German 2-year yield jumped 19 basis points after the decision. The U.S. 10-year yield also rose during the week after Institute for Supply Management (ISM) services topped estimates and U.S. Federal Reserve (U.S. Fed) members reiterated they were ready to deliver another 75 basis point rate hike at their October meeting if the inflation outlook warrants it.

Christine Lagarde underlined that key interest rates remain "well below" the levels that guarantee the return of inflation to 2% and that further increases during the next meetings will probably be appropriate. The inflation picture has deteriorated further and inflation is expected to rise further in the coming months (we expect inflation to peak in December, close to 10%). In this context, we expect a rapid tightening in the next meetings. We expect the Governing Council to deliver an additional 75 basis points at the October meeting.

#### Credit



Credit markets outperformed throughout the week. After widening at the end of last week, spreads tightened this week on the U.S. and Euro market (euro investment grade: -3bp, euro high yield: -24bp, U.S. investment grade: -1bp, U.S. high yield: -26bp) . Activity on the Euro investment grade primary market was relatively buoyant in August. We anticipate a rally in the primary market in September. Activity on the high yield primary market remained very weak during the summer.

During its committee on Thursday, the ECB announced a 75 basis point increase in these interest rates. It also announced that there will be no tightening of its balance sheet for the time being. 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. The credit market did not react to the ECB's hawkish message by posting good performances.

## Foreign Exchange



Most G10 central banks are turning hawkish relative to expectations, thus removing most of the U.S. short-term rates advantage. The ECB hiked by additional 75 basis points and pushed some relief rally in the euro/U.S. dollar on Friday. Within the G10, Japanese yen was the only currency in the red with respect to the previous week, whilst Swiss Franc, Swedish krona and Norwegian krone led the rebound. In Emerging Markets the picture was more mixed. Eastern Europe currencies and Columbian peso were the winners on the week, whilst ARS, South Korean Won, TWD and BRL lagged behind.

With most central banks delivering jumbo hikes (Bank of China and ECB just lately), the U.S. is losing most of its front-end rates advantage. Whilst we see the move as consistent with lower demand for USDs in the medium term, we still see recession worries and a hawkish Fed as a bad mix for most G10 currencies. The U.S. economy seems better insulated from exogenous shocks (energy and productivity), and we see no imminent reasons for the Fed to pivot in the short term.

#### **Commodities**



Commodities were down modestly by 1% this week, though unevenly. Energy futures ignored the (symbolic) Organization of Petroleum Exporting Countries (OPEC)+ output cut, while remaining concerned by the Chinese Covid lockdown and higher U.S. inventory numbers. In contrast, imminent mining strikes in Chile boosted base metals and there was a mild improvement in Chinese housing. A weakening dollar supported precious metals.

The underwhelming Chinese economic recovery, cooling oil demand, resilient Russian crude exports and prospects of a nuclear deal with Iran are still weighing on oil prices. Broader OPEC+ production cuts are getting more likely, with Brent prices flirting with \$90/bbl., which might set a floor. EU gas prices remain highly volatile, as Europe discusses pricecaps, demand cuts and subsidies. Prices are projected to soften modestly in our base case. Despite attractive valuations, Chinese real estate issues and Covid lockdowns are expected to keep base metals on a leash for now, before they stage a comeback later. Precious metals are waiting for a peak in the dollar and rates.





#### **Economic Indicators**

#### **MARKET**

#### **AMUNDI ANALYSIS**

## **United States**



Initial jobless claims decreased by 6k from a downwardly revised level to 222k in the week ended September 3. The four-week moving average of initial claims decreased by 8k to 233k, their lowest since early July. Continuing claims increased by 36k to 1,473k.

After some choppiness during the summer months, initial claims declined for the fourth straight week, to their lowest since May. Suggesting that the labour market remains tight and demand for workers, healthy, as openings remain near a record, indicating a strong appetite for hiring, despite an uncertain economic outlook.

#### Eurozone



The small rise in July Eurozone retail sales (+0.3% month-on-month) partly reversed the previous month's big fall, which was also revised slightly higher and showed a smaller, albeit still notable, monthly fall of -1.0% (-1.2% prior). The breakdown shows that sales of non-food products fell for the second consecutive month, food and drink sales posted a small increase, and automotive fuel sales a slightly bigger rise.

As consumer confidence remains very weak, with the final Purchasing Managers' Index (PMI) surveys for August showing still elevated price pressures, renewed declines in retail sales seem likely in the coming months, as sales data suggest that consumers were already cutting back on non-essential items at the start of the summer. August Purchasing Managers' Index (PMI) data also highlighted that the Eurozone economy is on the verge of recession, as a tough winter lies ahead.

#### **Japan**



U.S. dollar/Japanese yen briefly broke through 144 on Thursday, its weakest point in 24 years. This resulted in increased verbal warnings from policymakers. Prime Minister Kishida called a meeting with Bank of Japan (BoJ) Governor Kuroda on Friday. After the meeting, Kuroda said a rapid movement in the yen, by 2 to 3 yen per day, is undesirable.

In the past week, Japanese authorities have voiced strong opposition to yen depreciation. Ministry of Finance officials expressed their grave concerns on heightened volatility, which they believe was not justified by fundamentals. As indicated by Finance Minister Suzuki, the Ministry of Finance is ready to take measures beyond verbal warnings.

## Emerging Market



Days after a market-friendly referendum outcome, in which Chileans overwhelmingly rejected the new constitution, Central Bank of Chile (BCCh) hiked rates by a bigger than expected 100bp to 10.75% via a split decision (1-3-1 for 75/100/125bps hike). The committee also signaled that the hike would be its last, according to the central scenario and removed from the communique wording suggesting that further hikes are needed.

But just one day later, that central scenario may have been invalidated, as August inflation surprised on the upside once again, rising to 14.1% year-on-year. Accordingly, we are inclined to revise our terminal rate 50bps higher (to 11.50%), about 50bps below the upper end of the interest rates corridor.







#### **DISCLAIMER Completed on September 9, 2022**

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