Liquidity letter

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Towards a slowdown in global activity

US inflation still at its highest level

Data released by the Bureau of Labor Statistics shows that the U.S. added 428,000 jobs in April. The unemployment rate remained steady at 3.6 percent, similar to the February 2020 level before the Covid pandemic.

However, the Federal Reserve is concerned about the persistence of a tight labor market and high inflation. Indeed, the inflation rate in the US is at its highest level in 40 years. **In April, it stood at 8.3% over one year, compared to 8.5% in March**.

Although the consumer price index rose moderately for the first time in 8 months (+0.3% month-on-month, compared to 1.2% in March), inflation was slightly above economists' expectations of an 8.1% increase.

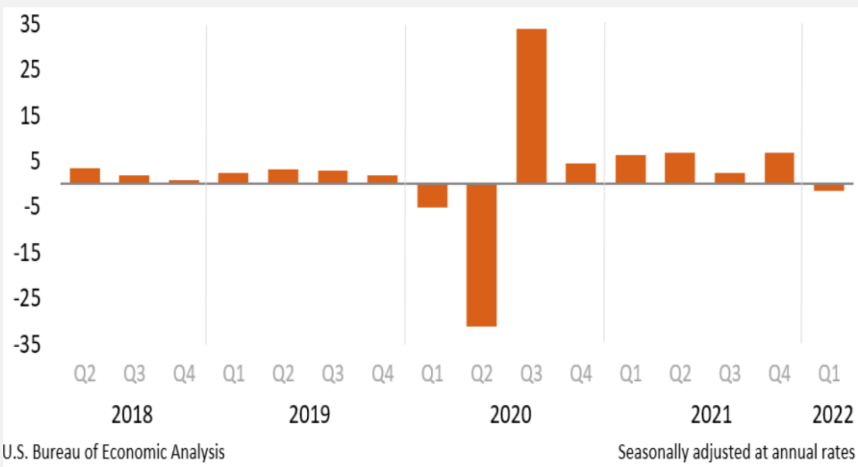
Moreover, core inflation (excluding energy and food) continued to accelerate to +0.6% over 1 month (+6.2% over 1 year).

Number of the week

3,6%

World growth rate expected in 2022 by the IMF, compared to 6.1% in 2021

Evolution of the US GDP



Annualized GDP declined by 1.4% in the first quarter of 2022, following a 6.9% increase in the fourth quarter of 2021.

Source : Bureau of Economic Analysis

The Fed considers that the 1.4% drop in GDP in the first quarter does not reflect a recessionary situation, since consumption and investment grew by +3.1%. The drop in GDP is due to weak exports.

Supply constraints are stronger, caused in particular by the war in Ukraine and the health situation in Asia, leading to supply disruptions.

Faced with inflationary pressures, **the Fed should bring Fed Funds back to "neutral" more quickly, which is around 2.25%-2.50%.**

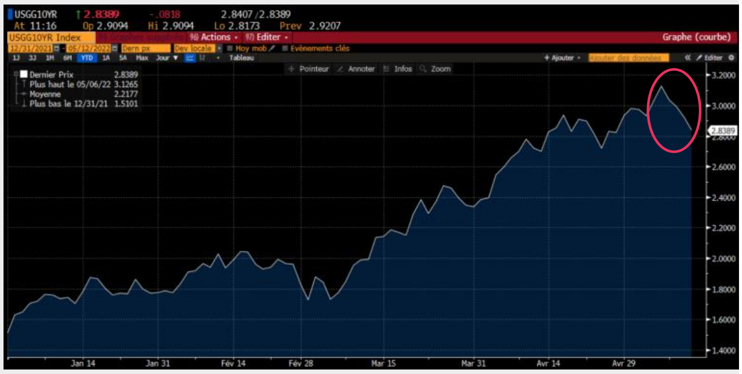
The situation of the job market still under pressure, coupled with high inflation, complicate the task of the Fed, which is trying not to "break" growth

The Fed under pressure

The 10-year rate soared to a peak of 3.12% before the FOMC meeting and then fell to 2.83%. This high volatility reflects the stress of the markets, caused by the surrounding uncertainties.

With the war in Ukraine having exacerbated the level of inflation, the Fed is faced with a dilemma: the fight against rising prices with the risk of slowing economic growth. By the end of 2022, the Fed is expected to raise its key rate to around 2.50%.

Evolution of US 2 year rate



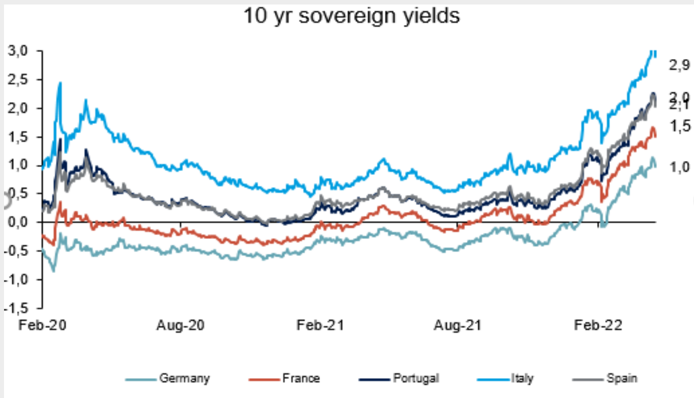
> A sharp rise in interest rates could lead to increased volatility, stress on market liquidity and a significant correction in risky asset prices.
>
> *Jerome Powell, President of the Fed*

Eurozone economic situation

In Germany, GDP grew by 0.2% in the first three months of the year, more favorably than expected thanks to investments.

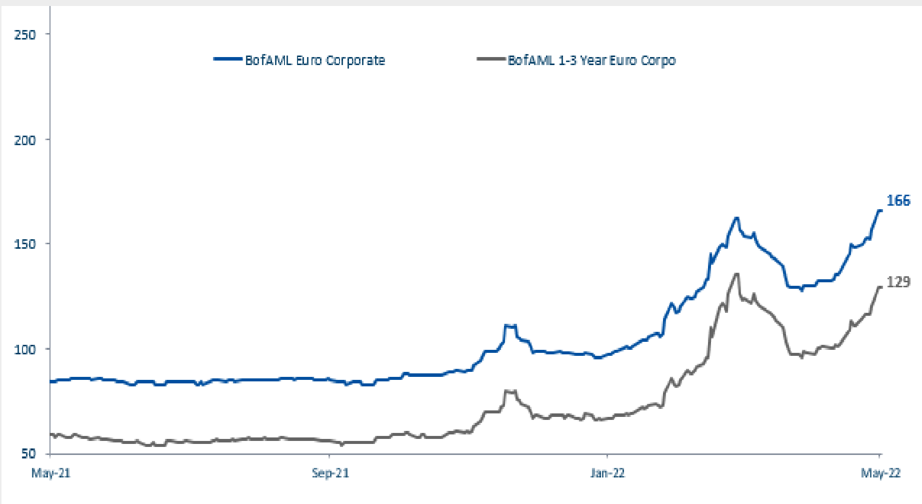
France experienced modest growth of 0% in the first quarter according to INSEE.

The German 10-year rate followed its American counterpart by reaching its highest level of the year at 1%, only to fall back to 0.90% today.



Source : Bloomberg

Evolution of spreads Euro IG vs Gov (bp)



Uncertainty about the growth outlook has led to a rapid widening of credit spreads.

The spread of the ICE BofA Corporate 1-3 Year Index vs. Gov is now close to the level reached just after Russia's invasion of Ukraine (129 bps vs. 135 at the end of February).

Source : Bloomberg

Christine Lagarde considers a rate hike possible as early as July

In a speech in Slovenia on Wednesday, the ECB president said she expects the bank to stop expanding its balance sheet through bond purchases "early in the third quarter" and may raise rates "some time" after that, which "would mean a period of only a few weeks."

The announcement highlights that Ms. Lagarde now supports the growing number of board members who favor a 25 bp increase in the policy rate at the July 21 meeting.

ECB officials are concerned that the consequences of a protracted war in Ukraine could keep inflation high in the euro zone, due in part to soaring energy prices and supply difficulties.

Evolution of Swap €STR 1 year and Swap €STR 6 month

Source : Bloomberg

News

Italy | Mario Draghi considers the creation of a "cartel" of oil consumers

Finland & Sweden | Request for NATO membership

Agenda

May 17th | Publication unemployment rate in France

May 18th | Publication of April CPI in the euro zone

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