

June 20, 2022

Monday Briefing – 20th June 2022



HIGHLIGHTS

- It was another wild week on financial markets, with global equities falling sharply on recession fears and the decisions by the Fed, Swiss National Bank (SNB) and the Bank of England (BoE) adding to the hawkish drumbeat that much higher rates are in the offing whilst weak US housing data served to aggravate those fears.
- The Fed raised rates by 75 basis points, the largest increase since 1994, and signalled willingness to accept a recession and rise in unemployment in its resolve to contain elevated inflation.
- Rate hikes aren't unique to just the US, central banks everywhere are getting more aggressive. The SNB unexpectedly announced its first-rate hike in 15 years (combined with a change in FX policy), responding to a pickup in inflation that officials worry could get out of hand. It raised its policy rate by 50 basis points to -0.25%, a dramatic move that sent the franc surging around 2% against the euro, bringing parity between the two currencies into view.
- The BoE announced its fifth-straight rate hike with its statement sending a stronger signal on inflation, saying that the Committee would be "particularly alert to indications

of more persistent inflationary pressures, and will, if necessary, act forcefully in response.” The BoE revised its inflation outlook higher, projecting that the year-over-year change in consumer prices would be slightly above 11% in October.

- Continuing its divergence from global peers, the Bank of Japan maintained its ultralow interest rates. The yen continued to hover around a 24-year low but strengthened modestly over the week.
- The ECB held an unscheduled monetary policy meeting where it reiterated its pledge to act against fragmentation risks. The statement said that it “will apply flexibility in reinvesting redemptions coming due in the PEPP portfolio”, and that it would “accelerate the completion of the design of a new anti-fragmentation instrument”. Although a formal tool wasn’t announced, it’s clear that this is on the ECB’s mind, and has helped reassure investors whose concern has grown about Europe’s debt sustainability over recent days.
- Inflation and rate fears pushed the yield on the benchmark 10-year Treasury note to 3.49% briefly on Tuesday, its highest level in more than a decade. A relief rally later in the week subsequently sent it down to 3.24%. Crude oil prices were sharply lower, and gold traded to the downside.
- Russia further squeezed gas supplies to Europe via the Nord Stream pipeline, with a cap in supplies to 67m cubic metres per day. During that time, Freeport LNG, one of the largest US operators of liquefied natural gas export terminals, said damage from last week’s fire at its Texas plant would keep it fully offline until September with only partial operation through year end. The facility accounts for about 20% of US LNG exports and has been a major supplier to European buyers seeking alternatives to Russian gas since its invasion of Ukraine.
- This week, Fed talk will be in focus as a host of Fed officials are set to speak, headlined by the two-day semi-annual Congressional testimony from Chairman Jerome Powell.

ECONOMIC CALENDAR

Monday – China Loan Prime Rate. Germany PPI.

Tuesday – US Existing Home Sales.

Wednesday – UK Inflation data and PPI. Eurozone Consumer Confidence (Flash).

Thursday – US, Eurozone, France, Germany, UK Composite PMI (Flash). US Weekly Jobless Claims and Fed Bank Stress Test Results. European Council Meeting.

Friday – UK Gfk Consumer Confidence and Retail Sales. Japan Inflation data. Germany IFO Business Climate. Spain GDP Growth (Q1, Final). Italy Business and Consumer Confidence. China Current Account (Final, Q1). France Unemployment data. US New Home Sales, Michigan Consumer Sentiment (Final). European Council Meeting.

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