

September 12, 2022

Monday Briefing – 12th September 2022



HIGHLIGHTS

- Equity markets ended a run of three consecutive weekly declines, with bulls gaining the upper hand in what felt like an awakening of animal spirits on the idea that monetary tightening to tackle inflation is getting closer to being priced in.
- The ECB followed the Fed, hiking rates by 75bps, the largest ECB hike since the formation of the single currency. The central bank signalled that further hikes are still to come, with inflation “far away” from appropriate levels for getting inflation back to target. The ECB upgraded its inflation forecasts again, now seeing 2023 inflation at +5.5% (vs. +3.5% in June), and 2024 inflation at +2.3% (vs. +2.1% in June). It also significantly downgraded growth forecasts for 2023, now expecting +0.9% (vs. +2.1% in June), and said it expects the economy “to stagnate later in the year and in the first quarter of 2023.”
- The ECB ruled out providing short-term financing lines to struggling energy firms, saying that’s the job of governments. At the same time, VNG AG, a subsidiary of German utility EnBW AG, submitted an application for stabilization measures (another way to say state bailout) to the German Ministry for Economic Affairs.

- During the week, Brent crude closed beneath \$90/bbl for the first time since early February, a welcome news from an inflation perspective, supporting the idea that central banks maybe don't need to hike rates as aggressively as feared.
- The UK ended the week with a new Prime Minister and a new Monarch. To note, the Bank of England delayed its next interest-rate decision a week to Sept. 22 to allow a period of mourning, while PM Truss confirmed the energy bills freeze for UK households.
- EU energy ministers gave their endorsement to four of the five draft measures unveiled by the European Commission: 1. A wide-plan on electricity savings during peak-hours; 2. A cap on revenues made by non-gas energy (renewable, coal, nuclear); 3. A solidarity mechanism to capture part of excess profits made by fossil fuel companies. 4. A state aid programme to inject extra liquidity into struggling utility businesses bringing electricity to consumers. The fifth proposal, a price cap just on Russian pipeline gas, did not receive enough support to move forward. Instead, most member states came together to push for a wider cap on all gas imports entering the bloc, irrespective of their geographical origin. The Commission is now expected to present concrete legal texts next Tuesday.
- Chinese inflation data that showed a slowing in the rate of both consumer and producer price growth. This reflects weaker domestic consumer demand but also offers the authorities more space to support the economy without sparking further inflation.
- The US CPI report, the last before the Fed's September 21 meeting, will be the key data highlight this week.

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