May 10, 2022

Monday Briefing – 9th May 2022

HIGHLIGHTS

- Last week's daily stock market swings included both the largest daily gain and daily decline of the year, with investors frightened that inflation will spiral out of hand even with central banks raising policy rates and signaling more hikes.
- Fed policymakers announced a 50bp increase in the federal funds target rate, the largest since 2000, to a range of 0.75% to 1.00%. Officials also announced that the Fed would begin allowing its holdings of Treasuries and agency mortgage-backed securities to decline in June at an initial combined monthly pace of USD 47.5 billion, stepping up over three months to USD 95 billion.
- Even as Powell mentioned that 50bp increases should be on the table for the next two meetings, he quashed fears of more aggressive action in the Q&A session by saying that 75bp increases are not something the Fed is actively considering.
- The additional headwind for financial markets came from the BoE and the perspective that the Fed might be going down the same path but just a few steps behind. The BoE raised its key interest rate 25bp to 1.0% but also highlighted the potential of the UK slipping into a recession by year-end and warned that inflation could exceed 10% in the

fourth quarter.

- In essence, the BoE warned bleakly that it is "unable to prevent" a fall in profit margins and in household incomes due to the huge rise in energy prices. But it conceded it had to add to the pain with higher rates to stop a destructive wage-price spiral from forming.
- 10-year Treasury yields finally pushed above 3% while the dollar powered ahead as the haven of choice.
- As earnings season winds down, 80% of companies were able to beat expectations. Most disappointments outside of the Growth sector tended to come from continued supply chain difficulties and higher costs tied to labour.
- Next week, US CPI (Wednesday) and PPI (Thursday) for April will be the key data points to watch. Fed speakers will be back with a busy schedule. Both will be top of mind for markets to gauge monetary policy and the macro outlook after last week's roller-coaster moves.

ECONOMIC CALENDAR

Monday – China Trade Balance (April). France Balance of Trade (March). US Consumer Inflation Expectations (April), Wholesale Inventories (March).

Tuesday – Italy Industrial Production (March). Eurozone ZEW Economic Sentiment Indicator (May).

Wednesday – China Inflation and PPI (April). Japan Leading Economic Index (Preliminary, March). Germany Inflation (Final, April). US Inflation (April). Bank of Japan Summary of Opinions.

Thursday – Japan Eco Watchers Survey (April). UK GDP Growth (Preliminary Q1). US PPI (April), Weekly Jobless Claims. China Vehicle Sales, M2 Money Supply, Total Social Financing (April). OPEC Monthly Report. Russia Balance of Trade.

Friday – France and Spain Inflation (Final, April). Eurozone Industrial Production (March). US Michigan Consumer Sentiment (Preliminary, May).