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BONHÔTE

The monetary screw continues to tighten

Overview

Equity markets last week consolidated as investors fretted about the effects of continuous monetary tightening amid the observed economic slowdown. As expected, the Fed lifted its rate benchmark by 50 basis points (bp) to a range of 4.25-4.50% and forecasts a total 75bp of tightening in 2023. US GDP projections were revised down to growth figures of 0.5% in 2023 and 1.6% on 2024. In the eyes of Chair Powell, any plans for rate cuts are for the time being premature.

Bond yields put in contrastive performances with the US 10-year yield stable at 3.50% while the yield on Germany's Bund edged up to 2.15%.

In the US, economic activity continued contracting. Growth in consumer price inflation (CPI) slowed to 7.1% in November, falling short of the projected 7.3%. Excluding food and energy, inflation clocked in slightly below expectations at 6% in response to less brisk demand trends. In November, retail sales were down 0.6%, which was more than expected, while they had increased by 1.3% in October.

US economic activity continues contracting

Meanwhile, industrial production edged down by 0.2%, following on from a 0.1% dip. The composite PMI for December staged a sharper drop than expected, registering at 44.6 versus the estimated 46.9.

On the jobs front, initial jobless claims slowed to 211,000 compared with 231,000 in the previous week.

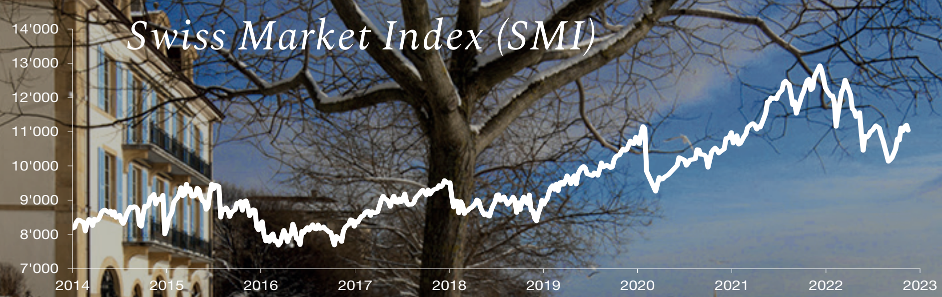
In these conditions, the S&P 500 ended the week 2.08% in the red. Tech-heavy Nasdaq, which is more exposed to rate expectations, was off by 2.72%.

In Europe, the ECB also unveiled a half-point increase in policy rates, which were lifted to 2% (deposit facility) and 2.5% (benchmark refi rate). The economy is slowing up more sharply as testified to by the 2% month-on-month drop in Eurozone industrial production in October, following an increase of 0.8% in September.

Twelve-month inflation slowed in Germany during November to stand at 10% versus 10.4% in October. The Ifo economic research institute expects Germany's GDP to contract by 0.1% in 2023 versus a 0.3% dip previously.

German inflation slowed up in November

Over in China, industrial production advanced by 2.2% year-on-year in November, contrasting with 5% in the previous month, owing to continued pandemic-related restrictions, which hampered business output and dampened demand. Retail sales declined by 5.9% in November – the worst monthly performance since May.



The SMI smashed above 10800 amid high trading volumes. The next support is located at 10650. The configuration remains bearish for the index.

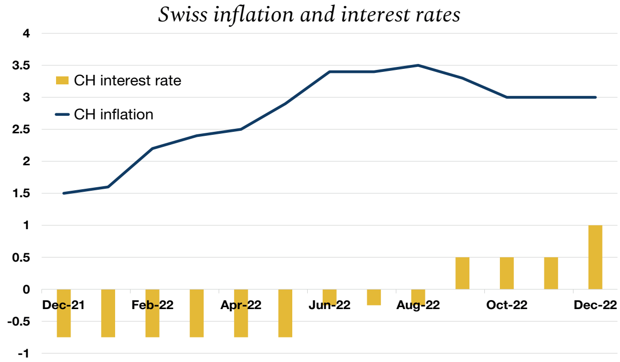
Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.93	0.99	10'770.38	3'804.02	13'893.07	6'452.63	7'332.12	3'852.36	10'705.41	27'527.12	957.30
Trend	➡	➡	⬇	⬇	⬇	⬇	⬇	⬇	⬇	⬇	➡
YTD	2.43%	-4.66%	-16.35%	-11.50%	-12.54%	-9.79%	-0.71%	-19.17%	-31.57%	-4.39%	-22.30%

(values from the Friday preceding publication)

Focus on the Swiss National Bank

Swiss inflation and interest rates



Last week featured a string of tightening moves by several central banks. The Fed, the Bank of England, the European Central Bank and the Swiss National Bank all lifted their benchmark policy rates by 50bp and reiterated their determination to combat inflation.

The Swiss National Bank did not spring any surprises, as it had at its September meeting, and raised its interest rate by 50bp, as was broadly expected. The strength of the Swiss franc continues to keep imported inflation largely at bay, reducing the need for too hawkish a rate move.

However, while inflation of 3% is much less worrying than elsewhere, the strength of the Swiss labour market – with unemployment at only 2% – is starting to put pressure on wages. This could subsequently create a wage-price spiral. In addition, the SNB must avoid excessive yield spreads with other countries, which would otherwise lead to speculation against the Swiss franc and encourage price increases. With this third rate hike, the SNB is sending a clear message about its intention to rein inflation in back to its 2% target.

The benchmark policy rate, which was still negative at the beginning of the year, now stands at 1%. The SNB expects inflation to attain 2.4% in 2023 and plans to continue raising rates, which we expect will peak at 1.75-2% in mid-2023. We also expect the Swiss economy to grow by around 0.7% in 2023 and 1.1% in 2024.

Contact

Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University

Pierre-François Donzé
M. Sc. in Economics

Karine Patron
MScF Université de Neuchâtel

David Zahnd
MScAPEC Université de Neuchâtel

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

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