



R&R Weekly Column
By Brunello Rosa



IMF's World Economic Outlook Certifies The Global Stagflationary Shock

The IMF and World Bank held their Spring Meetings last week, once again mostly in virtual format with only a limited number of events held in person, due to the still-ongoing restrictions associated with the Covid pandemic.

As usual, the IMF released its updated forecasts in the World Economic Outlook (WEO). The WEO “certified” the stagflationary shock that hit the global economy as a result of the continuing impact of the pandemic and the simultaneous impact of the war in Ukraine and its related sanctions. Combined, these events represent a double negative supply-side shock, which tends to push inflation up and economic activity down. [The latest issue of the WEO](#), titled “War Sets Back The Global Recovery”, says that “economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation.”

More specifically, the IMF reports how “global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. This is 0.8 and 0.2 percentage points lower for 2022 and 2023 than projected in January. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term.” Regarding inflation, the IMF says that “war-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies—1.8 and 2.8 percentage points higher than projected last January.” In its commentary, the IMF says that “fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest.”

[The meetings schedule](#) also foresees discussions on the legacy of the pandemic on younger generations and on the labour market with two discussion panels titled “The COVID Generation: Offsetting Opportunity Loss for Youth” and “Labor Market Slack in Advanced European Economies & North America.” As [discussed in previous columns](#), the phenomenon of the “great resignation” has led to a significant slack in the labour market, while having a negative long-term impact of the employability of the younger generations.

Given this economic backdrop, policymakers gathered in Washington DC had to figure out a policy response. At the “[G20 Finance Ministers and Central Bank Governors](#)” held in Washington under the rotating Indonesian presidency, G20 “members underlined the crucial role of the G20 as the premier forum for international economic cooperation to deal with the current multifaceted and complex global economic challenges.” In [our recent article](#), we discussed how the ongoing polarisation of the world between US and China is leading to the ineffectiveness of international fora such as the G20 in dealing with ongoing policy challenges. It is good to see that central bank governors and finance ministers at least still believe in a multilateral approach to solving complex policy issues.

Having said this, as the communique says, “G20 members expressed concerns about the wider and persistent inflationary pressures. This condition will push central banks to increase their interest rate policies which in turn will result in faster-than-expected tightening of global liquidity.” So, as we anticipated in [our recent analysis](#), even the G20 forum “sanctioned” that, at this time, central banks should focus on fighting inflation, while governments focus on supporting economic activity.

Our Recent Publications

📄 [Flash Review: ECB Sees Higher Chance of Net Asset Purchases Ending in Q3](#), by Brunello Rosa and Nato Balavadze, 14 April 2022

📄 [Flash Preview: ECB Preparing The Ground For Policy Decisions In June](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 11 April 2022

📄 [Despite the War, Russia Can Still Count on Meaningful Relationships in the Middle East](#), by Giorgio Cafiero, 6 April 2022

📄 **GEOPOLITICAL CORNER:** [Over Ukraine, Global Governance Risks Collapsing](#), by John C. Hulsman, 20 April 2022

Looking Ahead

The Week Ahead: Inflation Is Expected To Remain High in US and EZ, With Still-Good GDP Growth in Q1 2022

In the US, advance data shows that Q1 GDP is expected to slow down to 1.1% (p: 6.9%). In March, the core PCE price index is expected to increase by 5.3% y-o-y (p: 5.4%).

In the EZ, according to advance Q1 GDP estimates the growth is expected to: *i*) be muted at 0.3% q-o-q; and *ii*) grow at 5.1% y-o-y (p: 4.6%). In April, headline inflation is projected to stay at 7.4% y-o-y, while core inflation is seen rising to 3.1% y-o-y (p: 2.9%). In April, consumer confidence is expected to slightly improve to -16.9 (p: -18.7).

The Quarter Ahead: French Elections; EU Adopts New Digital Markets Act; Netflix Plunged; IMF's April WEO Published

In France, incumbent president Emmanuel Macron has won a second term in office after defeating, as in 2017, Marine Le Pen, the candidate of the extreme right movement Rassemblement National.

UN Secretary-General Antonio Guterres will meet with President Putin in Moscow and then with President Zelensky and Foreign Minister Kuleba in Ukraine. Guterres requested separate audiences with the presidents 'to discuss the urgent steps to bring about peace in Ukraine and the future of multilateralism based on the Charter of the United Nations and international law'.

Russia revealed that the main aim is to control Southern Ukraine and Donbas to establish a land corridor through Ukrainian territory connecting Russia to Crimea. Meanwhile, Zelensky warns Ukraine's invasion is only 'a beginning'. Worries deepen as hundreds of civilians are hiding in the Azovstal steel factory in Mariupol. Russian Defence Minister said it would allow civilians to evacuate, whereas Ukraine reports that Russian forces are still dropping bombs, sharing a satellite photo demonstrating what it said was a mass grave.

EU agreed on the landmark law – the Digital Services Act - intended to tackle social media's societal harms. The law would force Facebook, YouTube, Google and others to combat misinformation and limit how digital giants target users with online ads. The failure to comply with the law may result in fines of up to 6% of firms' global annual revenues.

Netflix's share price decreased by more than 35% on Wednesday, its worst day since 2004, following the company's loss of over 200K subscribers. The company expects to lose 2 ml more in the current quarter. Surging inflation weighs on consumers' discretionary spending. Netflix and Facebook are down by 68% and 45% since the Nasdaq peak on November 19, 2021.

IMF revised its World Economic Outlook, pointing to a slowdown in global growth to 3.6% in 2022 and 2023 from an estimated 6.1% in 2021. UK growth estimated at 1.2% is expected to be the worst in G7 in 2023. As a result of war-induced commodity price increases and broadening price pressures, 2022 inflation projections rise to 5.7% in advanced economies and 8.7% in emerging markets.

Last Week's Review

Real Economy: PMI Flash Estimates Rises More Than Expected In EZ, While UK And US Economic Activity Grows Less Than Expected

In the EZ, In March, inflation and core inflation rose by 7.4% y-o-y (c: 7.5%; p: 5.9%) and 2.9% y-o-y (c: 3.0%; p: 2.7%) respectively. Preliminary data for April's PMIs showed that: *i*) manufacturing PMI rose less than expected to 55.3 (c: 54.7; p: 56.5); *ii*) services PMI increased to 57.7 (c: 55; p: 55.6), the largest expansion since August; as a result composite PMI rose to 55.8 (c: 53.9; p: 54.9).

In the UK, preliminary data for April's PMI showed that: *i*) manufacturing PMI decreased to 55.3 (c: 54; p: 55.2); *ii*) services PMI was down to 58.3 (c: 60; p: 62.6); and *iii*) composite PMI also decreased to 57.6 (c: 59; p: 60.9).

In the US, preliminary data for April's PMI showed that: services and composite PMIs fell to 54.7 (c: 58; p: 58) and 55.1 (p: 57.7) each.

Financial Markets: Shares Decrease, While Yields Rise As The Fed Makes A Hawkish Pivot; USD Rises; Oil And Gold Are Down

Market drivers: Markets reacted dramatically to the possibility of a larger-than-usual rate hike next month as Chairman Powell stated that the Fed hike of 50bp 'will be on the table for the May meeting'. Yields rose and shares fell amid increasing hawkishness among CB policymakers. Euro falls as ECB President Lagarde provided some dovish signals, whereas VP Luis de Guindos, previously seen as a dove, put forward that a possible rate increase could occur as early as July.

Global Equities decreased w-o-w (MSCI ACWI, -2.70%, to 672). The US S&P 500 index dropped (-2.75% w-o-w, to 4,272). In the EZ, shares were down (Eurostoxx 50, -0.23% w-o-w, to 3,840) too. In EMs, equities declined (MSCI EMs, -3.35%, to 1,076). Volatility rose considerably to 28.25 (VIX S&P 500, 52w avg.: 21.3; 10y avg.: 17.9).

Fixed Income: w-o-w, 10-year US treasury yields rose (+8 bps to 2.91%), with the 2-year US treasury yields increasing also (+22 bps to 2.68%). German 10-year yield was up compared to the last week (+13 bps, to 0.97%).

FX: w-o-w, the US Dollar Index rose (DXY, +0.80%, to 101.1; EUR/USD -0.11%, to 1.0794) as a result of the Fed's hawkish tone to tame high inflation over the short and medium term. In EMs, currencies were down (MSCI EM Currency Index, -1.2% w-o-w, to 1,714).

Commodities: w-o-w, oil prices were down (Brent, -4.92% to 106.20 USD/b), over a bearish sentiment. W-o-w, gold prices also decreased (-2.15% to 1,932.5 USD/Oz), on a possible faster than expected Fed's normalization process.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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