



R&R Weekly Column
By Brunello Rosa



Central Banks Start Decelerating Their Pace Of Tightening

The global economy is clearly decelerating, as [certified by the latest IMF forecasts](#), while inflation seems on the verge of peaking as energy prices have fallen in recent months. The world remains gripped by the stagflationary shock that has been caused by the pandemic and then by the war in Ukraine. But the effects of the numerous interest rate increases carried out by several central banks around the world is starting to be felt. Most economies are showing signs of deceleration, and inflation has started to turn in some countries, notably in the US. It seems also to be on the verge of peaking in other economies, such as in the Eurozone and the UK.

Last week, there was a slew of central bank decisions that were made (which we discussed in our [numerous previous and reviews](#)) to take stock of these developments and adjust policy stances accordingly. To focus our discussion on just the major central banks, on Wednesday last week [the Fed increased its Fed funds rate by 50bps](#), thereby reducing the pace of tightening compared to the 75bps rate hikes that had been introduced in previous FOMC meetings. On the other hand, the Fed has also increased its estimate of the terminal Fed funds rate again, something it has repeatedly done in the past. The market was expecting this pivot, but perhaps it was less significant than expected.

On Thursday, the [Bank of England \(BOE\) also delivered a 50bps hike](#), lower than the 75bps hike in November. This also came on the back of a slight deceleration of inflation, but in particular at the beginning of the recession that the BOE estimates to last a couple of years. The MPC was split in the decision, with some members voting for an unchanged rate, and another member voting for a larger rate increase. The BOE decisions are complementing those made by Sunak and Hunt in fiscal policy, which is expected to be highly restrictive in coming months.

Also on Thursday, [the ECB raised its benchmark rates by 50bps](#), again lowering the pace from the previous 75bps. But at the same time it announced the beginning of its QT plan. This has sent shockwaves to the market, leading to a widening of intra-EMU spreads, particularly for Italy. [Norges Bank](#), which in September 2021 was the first G10 central bank to start increasing rates in this policy cycle, increased its policy rate by 25bps, and announced that at least one further hike may be needed in 2023. To finish the day, the [Swiss National Bank](#) also increased its policy rate by 50bps, again lower than the 75bps decided upon in September. For the record, the SNB was the central bank with the lowest policy interest rate in the world (-0.75%) for a number of years, amid the deflationary fears led by the strong franc.

All these actions show that central banks have now made a lot of progress in normalising their policy stances, and are moving into restrictive territory with a more cautious approach. They are doing this to make sure that their policy tightening does not transform what may be a relatively short and shallow recession into a prolonged and deeper contraction.

Our Recent Publications

- 🔗 [Review: Norges Bank and SNB Are Approaching The End of Their Tightening Cycles](#), by Brunello Rosa, 15 December 2022
- 🔗 [Review: ECB Reduces The Pace of Rate Increases, But Announces Early Beginning of QT](#), by Brunello Rosa and Nato Balavadze, 15 December 2022
- 🔗 [Flash Review: The BOE Increase Bank Rate by 50bps, With A Dovish Three-Way MPC Split](#), by Brunello Rosa and Nato Balavadze, 15 December 2022
- 🔗 [Flash Review: Fed Reduces The Pace of Rate Hikes, But Policy Is Yet "Not Restrictive Enough"](#), by Brunello Rosa and Nato Balavadze, 14 December 2022
- 🔗 [Showdown for Central Banks](#), by Filippo Ramigni, 13 December 2022
- 🔗 [Preview: ECB To Complete Policy Normalization and Enter The New Phase of its Tightening Cycle](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 13 December 2022
- 🔗 [Preview: BoE To Continue Increasing Rates In Spite Of The Incipient Recession](#), by Brunello Rosa and Nato Balavadze, 12 December 2022
- 🔗 [Preview: Fed To Slow Down The Pace Of Rate Hikes But To Signal A Higher Peak](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 12 December 2022

Looking Ahead

The Week Ahead: EZ And UK Inflation To Fall; Composite PMIs To Decrease In EZ And UK; CBs To Remain Hawkish

In the US, in Q3, according to final estimate, the economy is expected to advance by 2.9% q-o-q (p : -0.6%). In November, core PCE is expected to ease off 4.6% y-o-y (p : 5.0%). In December, Michigan Consumer Sentiment is expected to increase to 59.1 (p : 56.8).

In the EZ, in December, the consumer confidence flash estimate is expected to recover slightly to -22 (p : -23.9).

In the UK, in Q3, according to the final estimate, GDP growth is expected to shrink by 0.2% q-o-q (p : 0.2%). On a yearly basis, the economy is seen slowing down by 2.4% (p : 4.4%).

The Quarter Ahead: US Regulators Concerned About Crypto Markets; Kyiv Under Missile Attack; Central Banks Remain Hawkish

The top US financial regulators express concerns about rampant fraud in crypto markets. Treasury's Financial Stability Oversight Committee released a report, in which they warn about regulatory grey areas. In the meantime, Binance's BNB dropped to the lowest level since July. Concerns arise about withdrawal as Binance was the first outside investor in FTX.

Water supply and metro services have been restored in Kyiv. However, following Friday's massive strikes using 76 missiles, heating systems are out of control. Zelensky warns Russia has enough missiles to carry out more heavy strikes targeting civilian infrastructure. The US is considering expanding its support for Kyiv, as it finalizes plans to send the Patriot missile defence system to Ukraine.

Central Banks around the world gave a clear message that they will remain on the tightening course, albeit sometimes at a slower pace. The Fed increased its target Fed funds range by 50 bps to 4.25% - 4.5% and announced that its policy stance will continue to tighten until it will be 'sufficiently restrictive'. The BoE also increased its Bank Rate by 50bps to 3.5%. The ECB increased all its three main policy rates by 50 bps and announced the beginning of QT. Norges bank delivered 25 bps hike to 2.75%. SNB also hiked by 50 bps to 1.0%.

Last Week's Review

Real Economy: US, EZ And UK Inflation Fell; Composite PMIs Decreased In the EZ And UK, Whereas Rose In US

In the US, in November, headline and core inflation cooled off to 7.1% y-o-y (c : 7.3%; p : 7.7%) and 6.0% y-o-y (c : 6.1%; p : 6.3%). In December, S&P global manufacturing and services dropped to 46.2 (c : 47.7; p : 47.7) and 44.4 (c : 46.8; p : 46.2). Composite PMI also fell to 44.6 (p : 46.4).

In the EZ, in November, CPI inflation eased off to 10.01 y-o-y (c : 10.0%; p : 10.6%) and core inflation stayed unchanged at 5.0% y-o-y. October's IP decelerated to 3.4% y-o-y (c : 3.4%; p : 5.1%). In December, S&P global manufacturing and services PMIs rose to 47.8 (c : 47.1; p : 47.1) and to 49.1 (c : 48.5; p : 48.5) respectively. Composite PMI also rose to 48.8 (c : 48; p : 47.8).

In the UK, in October, the unemployment rate edged up to 3.7% (p : 3.6%) as expected. In November, headline and core inflation fell to 10.7% (c : 10.9%; p : 11.1%) and 6.3% y-o-y (c : 6.5%; p : 6.5%) respectively. October's IP recovered slightly by -2.4% y-o-y (c : -2.8%; p : -3.1%). In December, S&P global manufacturing and services PMIs fell to 44.7 (c : 46.3; p : 46.5) and 50 (c : 48.5; p : 48.8) respectively. Composite PMI increased to 49 (c : 48; p : 48.2). November's retail sales stood unchanged at -5.9% y-o-y.

Financial Markets: Stocks Slide; Yields Were Down; Dollar Is Down. While Oil Prices Are Up; Gold Prices Decreased

Market Drivers: Investors focused on inflation and interest rates last week. Major stocks dropped as further interest rate hikes could tip the economy into a recession in addition to a worse-than-expected U.S. retail sales report.

Global Equities: Decreased w-o-w (MSCI ACWI, -2.1%, to 606.13). The US S&P 500 index fell (-2.1% w-o-w, to 3,852.36). In the EZ, share prices were down (Eurostoxx 50, -3.5% w-o-w, to 3,804.02). In EMs, equity prices moved down (MSCI EMs, -2.1%, to 957.30). Volatility rose to 22.6 (VIX S&P 500, 52w avg.: 25.5; 10y avg.: 18.2).

Fixed Income: w-o-w, the 10-year US treasury yields decreased (-10 bps to 3.49%). The 2-year US Treasury yields fell (-16 bps to 4.19%). The German 10-year bund yield rose (+23 bps to 2.15%). The BTP-Bund spread rose as a result of the ECB's decision to begin QT.

FX: w-o-w, the US Dollar Index was down (DXY, -0.3%, to 104.5; EUR/USD -0.0%, to 1.05). In EMs, currencies decreased (MSCI EM Currency Index, -0.3% w-o-w, to 1,644.80).

Commodities: w-o-w, oil prices rose (Brent, +4/2% to 79.26 USD/b). Gold prices decreased w-o-w (-0.4% to 1,803.0 USD/Oz).



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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