

## MAKING SENSE OF *THIS* WORLD

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**R&R Weekly Column**  
**By Brunello Rosa**



### Central Banks Suggest There Will Be More Rate Hikes To Come Before This Tightening Cycle Ends

Three major central banks held their policy meetings last week. The FOMC of the Federal Reserve met on Tuesday, and on Wednesday it revealed the decision (which had [largely been anticipated by the market](#)) to “skip” the June meeting as part of its tightening cycle. During the press conference, Chairman Powell said he did not want to elaborate on the difference between a “skip” (which could be considered a one-off event) and a “pause” (which could be a prelude to a more prolonged period of no action).

But with some key inflation indicators, such as the PCE and core PCE indices which are the Fed’s preferred gauges of inflation, having recently risen, it is hard for the FOMC to declare victory, so long as inflation remains more than double the target level. For this reason, [the Fed has indicated, in its quarterly projections, that the FOMC expects two more 25bps increases](#) to be deliberated in H2 2023. That will begin in July, which will be a “live” meeting, suggesting that a rate increase is more likely than not.

The Governing Council of the ECB meanwhile met on Thursday and announced, through its President Madame Lagarde, [an increase in all its policy rates by 25bps](#). More importantly the ECB announced during the press conference that it is very likely that rates will be increased further in July, and possibly in coming months, as there is still “ground to cover,” given that inflation remains persistently high. The ECB is doubling its tightening efforts by completely stopping reinvesting the proceeds of its maturing bonds under the APP facility.

The day after the ECB came the BoJ’s turn. The BoJ has been the outlier of this tightening cycle, [having maintained its policy rates – and all the other elements of its policy stance – at an unchanged level throughout this period](#). It did so in spite of headline and core inflation now being above the bank’s 2% target, for the first time in a very long time. Clearly, Kazuo Ueda, the new governor of the central bank, has not been able to form a majority within the MPC to change the BoJ’s stance.

This week, [it will be the Bank of England that has to decide whether or not to raise rates](#). The MPC will meet on Wednesday, and on Thursday it will likely deliver yet another 25bps increase, which will bring Bank Rate to 4.75%, a level not seen since prior the global financial crisis. More than the decision, which is widely expected, the market will focus on the language accompanying it, to see how many rate increases are still in the pipeline.

All of the above suggests that rate increases are likely not over yet in many jurisdictions. Inflation proves to be stickier than initially anticipated. And inflation is more persistent than had been anticipated because of the various structural factors that we have been discussing [in several pieces of analysis](#).

#### Our Recent Publications

🌀 [Review: ECB Increases Rates in June, And Hints At July’s, And Possibly Further, Hikes](#), by Brunello Rosa and Nato Balavadze, 15 June 2023

🌀 [Fed “Skips” June, But Signals Two More Hikes To Come in 2023, With July Becoming a “Live” Meeting](#), by Brunello Rosa and Nato Balavadze, 14 June 2023

🌀 [Will Central Bankers Also Use Artificial Intelligence? by Filippo Ramigni](#), 13 June 2023

🌀 [Preview: ECB To Slot In Another 25bps Hike In June, Opening The Discussion on July](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 12 June 2023

🌀 [Preview: Fed To Deliver a Hawkish Pause in June](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 12 June 2023

🌀 [Spanish Elections: Uncertainty and Polarization - Analysing Spanish Politics After The Regional And Local Elections](#), by London Política, 7 June 2023



Looking Ahead

The Week Ahead: EZ And US Headline And Core Inflation To Decrease; BOE To Increase Rates

**In the US**, in June, S&P Global Manufacturing and Services PMIs are likely to fall to 48 (p: 48.4) and 53.7 (p: 54.9) respectively.

**In the EZ**, in June, consumer confidence is seen rising to -17 (p: -17.4). In June, HCOB Manufacturing and Services PMIs are likely to fall to 44.5 (p: 44.8) and 54.5 (p: 55.1) respectively. Composite PMI is seen decreasing to 52.5 (p: 52.8).

**In the UK**, in May, headline inflation is expected to ease off to 8.5% y-o-y (p: 8.7%), while core inflation is likely to stay the same at 6.8% y-o-y. Still in May, retail sales are seen contracting by 2.3% y-o-y (p: -3.0%) and 0.2% m-o-m (p: -3.0%). June's consumer confidence is expected to rise to -25 (p: -27). S&P Global/CIPS Manufacturing and Services PMIs are likely to fall to 46.8 (p: 47.1) and 54.8 (p: 55.2) respectively. Composite PMI is seen decreasing to 53.7 (p: 54).

**CBs are expected to remain hawkish**. In the UK, the BoE is expected to increase its Bank Rate by 25 bps to 4.75%.

The Quarter Ahead: Binance Encounters Serious Setbacks; War In Ukraine; Blinken's Long-Anticipated China Visit Is Confirmed

**Binance faces various setbacks**. Binance, the biggest cryptocurrency exchange, is currently being preliminarily investigated in France for engaging in illegal client solicitation and serious money-laundering activities. The investigation follows various setbacks for Binance, including the SEC's decision to charge the company with evading securities laws. Binance disputes the SEC charges. In the meanwhile, Binance exits the Netherlands after failing to obtain regulatory approval.

**War in Ukraine**. Lawmakers from both the Republican and Democratic parties in Congress introduced legislation that would facilitate Ukraine's ability to finance its defence through the utilization of seized and frozen Russian assets. In the interim, African leaders begin 'peace mission' hoping to mediate between Ukraine and Russia.

**Blinken's visit seeks to ease the fraught US relationship with China**. The meeting was delayed by more than four months. Before the meeting, President Xi Jinping met with Bill Gates and discussed the cooperation in a way that would benefit both China and the US.

Last Week's Review

Real Economy: EZ And US Headline And Core Inflation Decreased; UK Unemployment Rate Fell; CBs Remained Hawkish

**In the US**, in May, headline and core inflation fell to 4.0% y-o-y (c: 4.1%; p: 4.9%) and 5.3% y-o-y (c: 5.3%; p: 5.5%). In May, retail sales rose by 1.6% y-o-y (p: 1.2%).

**In the EZ**, in May, headline inflation eased off to 6.1% y-o-y (c: 6.1%; p: 7.0%). Core inflation fell to 5.3% y-o-y (c: 5.3%; p: 5.6%). April's IP increased by 0.2% y-o-y (c: 0.8%; p: -1.4%). In June, ZEW economic sentiment index shrank by 10.0 (c: -11.9; p: -9.4)

**In the UK**, in April, the unemployment rate edged down to 3.8% (c: 4.0%; p: 3.9%). IP shrank by 1.9% y-o-y (c: -1.7%; p: -2.0%).

**CBs remained hawkish**. In the US, the Fed maintained its target Fed funds range at 5.0% - 5.25%, delivering a "hawkish pause". In the EZ, ECB raised its main policy rates by 25 bps, with the deposit rate reaching 3.50%.

Financial Markets: Stock Prices And Bond Yields Increased; Dollar Index Fell; Oil Prices Increased, While Gold Prices Decreased

**Market Drivers**: The US consumer inflation measure is at its lowest level since late 2021. Positive indicators of inflation and economic expansion seemed to contribute to the ongoing surge in stock prices. In Europe, government bonds edged up after the ECB raised interest rates and signalled that more tightening was likely.

**Global Equities**: Increased w-o-w (MSCI ACWI, +2.7%, to 684.89). The US S&P 500 index edged up (+2.6% w-o-w, to 4,409.59). In the EZ, share prices were up (Eurostoxx 50, +2.4% w-o-w, to 4,394.82). In EMs, equity prices moved up (MSCI EMs, +2.8%, to 1030.03). Volatility declined to 14.34 (VIX S&P 500, 52w avg.: 24.6; 10y avg.: 18.5).

**Fixed Income**: w-o-w, the 10-year US treasury yields were up (+2 bps to 3.77%). The 2-year US Treasury yields also increased (+12 bps to 4.72%). The German 10-year bund yield edged up (+7 bps to 2.45%).

**FX**: w-o-w, the US Dollar Index fell (DXY, -1.6%, to 101.86; EUR/USD +1.8%, to 1.09). In EMs, currencies increased (MSCI EM Currency Index, +0.6% w-o-w, to 1,698.83).

**Commodities**: w-o-w, oil prices increased (Brent, +2.0% to 76.26 USD/b). Gold prices fell w-o-w (-0.3% to 1,970.45 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                                       |



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