WORLD
MACRO-ECONOMIC SCENARIO 2022-2023

Quarterly – April 2022

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Scenario: rocked by high tensions

The war in Ukraine has upended economic forecasts. Its effects have been immediate and hugely disruptive, through three main channels. First on confidence, by injecting uncertainty; next on supply, by triggering actual or expected shortages; and third on demand by stoking inflation. While countries are set to experience very different spillovers from this latest shock, based on how detached they are from the conflict, how dependent they are on the countries involved and how strong their post-pandemic economies are, none is immune to accelerating inflation, which is already dangerously high. As such, although the Federal Reserve is concerned by domestic inflation, it is unlikely to be very moved by the conflict's threats to growth, which are primarily in other countries.

The war in Ukraine has plunged us in disbelief into an environment that is dramatic and more uncertain than ever. However, outlining economic scenarios requires forward-looking assumptions. And, in concrete terms, with military and diplomatic outcomes looking equally likely, we have to adopt some semblance of **a scenario, not a core scenario that is highly likely to occur, but a median one.** Median in the sense that it is between the two extremes of increased escalation and a rapid return to peace.

The war in Ukraine has upended economic forecasts. Its effects have been immediate and hugely disruptive through three main channels. First on confidence, by injecting uncertainty; next on supply, by triggering actual or expected shortages; and third on demand by stoking inflation.

While countries are set to experience very different spillovers from this latest shock, none is immune to inflation. Inflation is already dangerously high in the wake of the pandemic and is accelerating further on the back of sharp rises in commodity prices (energy, but also industrial commodities and food), further supply chain disruptions and risks of shortages. Our scenario is now pricing in average inflation of 6.8% in the Eurozone and 7.6% in the United States.

Just like when the Covid pandemic broke out, a 'hierarchy' of vulnerability will be established based on several criteria: (1) how far the countries are from the war zone; (2) how much do they trade with Ukraine and Russia (including how dependent they are on grain, natural gas and oil imports, and their energy mix); (3) how sensitive they are to industrial inputs that are likely to be rationed; (4) how strong their post-pandemic economies are; and (5) how easily they can mitigate price increases (particularly through government subsidies) and terms of trade, which are particularly sensitive for emerging countries.

The **US economy** is far away from the epicentre of the conflict; it is largely insulated and still driven by a post-Covid recovery bolstered by overstimulated consumption; it is expected to hold up well in 2022. Thanks to financially-sound households that have accumulated high levels of savings (mainly among high earners) and a tight labour market that has seen wages rise sharply (mainly benefiting low-income households), US growth (projected at 3.3% in 2022) could absorb the soaring inflation and the Fed's more severe monetary policy tightening and come out above potential.

The Eurozone has its own shock absorbers, including the excess savings accumulated by households and the support for investment from the European NGEU funds combined with national resilience and recovery plans. However, despite the additional fiscal support to mitigate the impact of inflation on household income (but also on corporate profitability), the foreseeable decline in their purchasing power coupled with a likely dislocation of supply suggests that growth forecasts will be revised sharply down. Based on inflation revised up from 2.9% to 6.5%, 2022 growth would drop from 4.4% to 2.9% under a 'median' scenario that entails increasing extreme risks (including a reduction or stoppage of Russian energy supply) and brings a form of fragmentation just like the pandemic.

Finally, in **the emerging world**, new fissures are forming. The most impacted and/or vulnerable countries include Central Europe, which is close to the eye of the storm, and low-income countries, especially net importers of food and energy that are suffering from a lack of flexibility when it comes to their budgets and their imports. Oil producers in general (Gulf nations in particular) and South America are in the best positions (at least temporarily) and are benefiting from a potential increase in their net commodity exports, but also (and more importantly) improved trading terms. Generally speaking, Asia is somewhere in the middle. Meanwhile, **China** is simultaneously dealing with the biggest Covid wave since March 2020, the continued contraction of the real estate sector and external demand that is likely to be eroded by the war. Provided that support measures are implemented (and effective), growth is expected to come out at just under 5%. Two factors that provide some hope that the authorities will react are the absence of inflation and the 20th Party Congress at the end of 2022.

On the financial markets, monetary policy tightening was already on the cards, modulated according to the intensity of what has become a global concern – accelerating inflation. And now tightening measures must be bold enough to tackle the potential adverse shocks of the Russia-Ukraine

conflict. The Federal Reserve's determination will continue to contrast with the constrained normalisation policies of the ECB and the Bank of England.

In the **US**, the FOMC's sharp hawkish shift in late 2021 has only been extended over the first three months of 2022. Rhetoric suggests that the Fed will do whatever is needed to control inflation. Our 2022 scenario is less aggressive than the market and forecasts a two-stage tightening – aggressive in H1 (100bp) and measured H2 (50bp), bringing the Fed funds target range to 1.50-1.75% at end-2022.

In the **Eurozone**, inflation is accelerating, but the economic outlook is deteriorating. Although it is generally favourable, there is a risk that it will reveal dangerous divergences between countries. The ECB will have a delicate balancing act. The central bank would be 'happy' if its vigilance in the face of inflation is not synonymous with an overreaction. Purchasing programmes are coming to an end. The exceptional Pandemic Emergency Purchase Programme (PEPP) was halted at the end of March and the classic Asset Purchase Programme (APP) will come to an end in Q3. The end of quantitative easing will not automatically be followed by a rise in interest rates. The pace of tightening remains to be seen. It will depend on the economic data and is expected to initially take the form of a hike in the deposit facility rate late this year. Moreover, in addition to securities purchases and interest rates, starting in the summer, TLTRO III will help to tighten liquidity conditions.

Aggressive or measured, monetary policy tightening is pushing up short-term rates. Structural factors, as well as questions around whether inflation is here to stay and whether the recovery will last, will tend to slow the pace of increases in long-term rates. Our scenario is forecasting US and German 10-year sovereign rates at close to 2.00% and 0.90%, respectively, at the end of 2022. As quantitative tightening, which has been a powerful anchor, starts, non-super core Eurozone sovereign spreads are expected to widen.

Catherine LEBOUGRE

Completed on April, 5 2022

FOCUS Geopolitics – Three space-time contexts

Geopolitics always plays out in several dimensions, each with cross-channel macroeconomic impacts. In the war between Russia and Ukraine, three dimensions of the conflict will combine, each having its own impact on the macroeconomic outlook.

Median scenario

The first dimension is of course the military conflict itself. Paradoxically, though this conflict has a very violent impact on the short- and long-term outlook, by nature it is uncertain. The 'fog of war' is another way of describing the radical uncertainty dear to Keynesians. Concretely, this means that each of the many different military outcomes is as likely as any other. In response, to calculate their forecasts, economists must eschew the traditional central scenario, which would have a higher probability of occurrence, in favour of a median scenario, defined as an intermediate scenario between the most serious escalation in the conflict and a rapid peaceful resolution. Rather than a choice based on pure probability, the median is the middle mark in a given universe assumed to be uncertain.

To date, we could describe this median scenario as a local military situation that, regardless of what that situation is, generates periods of intense market volatility over the next three to six months. The situation then stabilises around a new negotiated political and territorial settlement, but without the hope of peace and with some remaining pockets of conflict settling into a stalemate. These limited conflicts have dramatic consequences for the local populations, but are less significant for the global economic and financial outlook. By definition, the median scenario excludes the worst-case outcome of a direct confrontation between NATO and Russia and builds in the assumption that Europe will gradually scale back purchases of Russian oil and gas.

Contagion: how do the consequences of armed conflict spread?

Supply is the first and most immediate factor influencing the global economy, combined with disruption to production, deliveries and exports from Ukraine. The country is a major exporter of grains and metals, and the war has had an immediate impact on these two sectors; the blockage of the Black Sea has repercussions far beyond the area – on all Russian exports but also on exports from Central Asia.

The second way military conflict can impact the macroeconomy is through 'image war'. Here, the scenario is influenced by both the fear of sanctions and the reputation risk for all companies operating in Russia. The longer and more brutal the conflict, the greater this impact. As the force of public opinion grows, secondary operators, governments and companies are gradually forced to take sides and abandon their 'neutral' stance. But this channel is clearly highly asymmetrical since public opinion differs around the world.

That said, this war will go down in the annals of military strategy as the one in which reputation risk, stoked by social media, emerged as a powerful geopolitical force. Companies' rush for the exit in the wake of Russia's assault is not driven by fear of sanctions, but rather by fear of Western public opinion, a form of self-sanctioning that has even paralysed rail transport along the Silk Road linking Chongqing to Duisburg through Russia as European customers pull out. As an unexpected side effect of the conflict, we learn that Beijing's massive infrastructure programme, the Silk Railroad, needs peace to operate.

Finally, military conflict has another powerful and long-term consequence: the mere existence of armed conflict fundamentally alters all forecasts – by governments, companies or individuals. The outbreak of war in Europe changes everything.

Lasting impact of a perceived long economic war on expectations and prices

The second geopolitical dimension with consequences for macroeconomic forecasts is the spectre of an economic war playing out alongside the military conflict but stretching on for far longer. In our opinion, this is the most likely scenario. The perception of a lengthy economic war is already skewing expectations and raising prices on all major Russian exports.

Of course, the detail of how an economic war would play out has yet to come into focus, but it is highly likely that the 'new normal' for industries in which Russia has been a big player will involve keeping existing sanctions on Moscow, or adding more punitive measures. The economic war introduces a structural factor to price determinants. It also spurs other more strategic considerations on reallocating production, direct investments and the shape of value chains. And again, this contagion channel is a powerful one, as the war in Ukraine is another jolt accelerating the shift towards deglobalisation.

The war marks a shift in the global geopolitical order

The third dimension – and one of the most significant and long-lasting geopolitical consequences of the Russia-Ukraine war – is only just beginning to unfold: this conflict is but one manifestation of the shift to a new world order, and one that is far from complete. Why talk about a new world order? Because no hegemonic power is currently capable of guaranteeing the security and equilibrium of the global system of international relations. Not the US and not its main rival, China. Conflicts are bound to erupt, either on the periphery of countries with imperial ambitions or around frozen conflicts, many of which will surely flare up again. The war in Ukraine is one tragic example. The Karabakh conflict is another. And more will surely follow. But the system had already started to break down a few years ago.

For now, it is too early to tell what the new world order will look like in the long term. There is no shortage of theories, from a Cold War between West and East, to a more fragmented world of increasingly self-sufficient economic and political islands. The only clear trend to emerge is that this new order will be based on alliances between countries, the scope of which is difficult to predict, rather than pure hegemony. The issue of human rights could play a role in the shape of these alliances, but it is also possible that environmental imperatives could lead to negotiations with a more global dimension. In any case, the new geopolitical map should take shape according to how countries position themselves with respect to Russia to show us the real geopolitical impact of the West's economic war on Moscow. Some countries, like India, are clearly finding workarounds. But how China positions itself will be the game changer.

Tania SOLLOGOUB

DEVELOPED COUNTRIES
Inflation, inflation, inflation

USA – Inflation poses key risk to above-trend forecast for 2022 growth

Eurozone – Three shocks

United Kingdom – Higher inflation, lower growth

Japan – Yet another economic package before the July upper house election

Focus – Inflation: not for the faint-hearted

Inflation, inflation, inflation

The war in Ukraine has upended economic forecasts. Its effects are immediate and hugely disruptive through three main channels. First on confidence, by injecting uncertainty; next on supply, by triggering actual or expected shortages; and third on demand by stoking inflation. While developed countries are set to experience very different spillovers from this latest shock reverberating across the world, none is immune to accelerating inflation.

USA: INFLATION POSES KEY RISK TO ABOVE-TREND FORECAST FOR 2022 GROWTH

We expect the US economy to remain relatively resilient in 2022 and still project above-trend growth despite increasing headwinds from elevated inflation and faster Fed tightening. While these factors have led us to revise down our 2022 GDP expectations to 3.3% from 3.8%, we see a couple of key pillars of support as helping to sustain an above-trend pace even in the face of elevated inflation: (1) healthy household balance sheets including a substantial pile of accumulated savings and (2) a very tight labour market with accelerating wage gains. Further down the line, as these factors fade somewhat, we look for additional deceleration to a more trend-like pace of 2.1% in 2023, with risks of a sharper slowdown having increased.

Despite our overall expectations for a resilient economy, the pace may be somewhat choppy from quarter to quarter. Growth in Q1 is likely to slow to a pace a bit below 2% given a weak hand-off from Q421 due to the omicron variant, but we expect a rebound to just below 3.5% in Q2 before the economy begins to decelerate back towards the 2% range in H222.

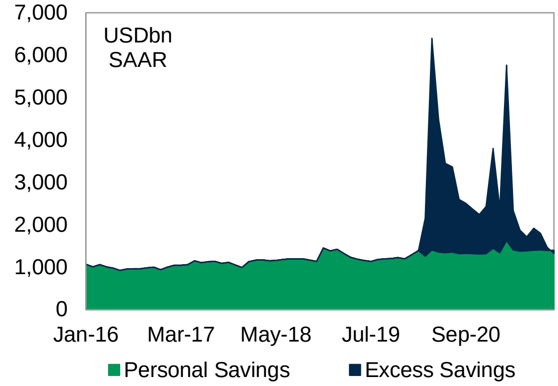
As we have been highlighting, we see elevated inflation as the key risk to our relatively positive outlook, and this risk has only grown since the beginning of the year. Inflation readings have already reached levels not seen since the early 1980s, with price pressures broadening to a wider variety of categories, and the Ukraine conflict has only added further impetus. As a result, we have further increased our inflation forecast, with headline CPI reaching as high as 8.6% and core as high as 6.7% in March before only gradually declining past this peak to result in headline CPI averaging 7.6% and core around 5.8-5.9% for the year as a whole.

While this trend will likely begin to cut into consumer purchasing power more than it has so far, driving the downward revision to our forecast, we still do not see consumer spending falling off a cliff despite a sharp decline in consumer sentiment. Though a repeat of last year's extremely strong 7.9% consumption growth would have been unlikely even if inflation had remained near target, we believe that factors identified above, namely healthy household balance sheets and a strong labour market, will result in a consumption print with a 3-handle as opposed to a slowdown severe enough to approach a contraction. That said, if we revise our inflation forecasts higher once again, we will likely revise down growth forecasts further as a result.

Annual change	2021	2022
GDP	5.7%	3.3%
Inflation	4.7%	7.6%

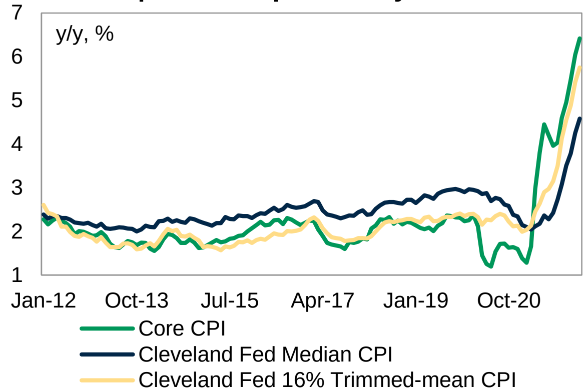
In terms of household balance sheets, overall household net worth increased by roughly USD27trn between the last pre-pandemic reading in Q419 and Q321, the latest available data at the time of writing. This increase includes a significant pile of accumulated savings worth around USD2.5trn driven by generous support from Covid relief packages, which consumers have yet to really dip into as the savings

USA: accumulated savings to support consumption



Sources: BEA, Bloomberg, CA CIB

USA: broadening inflation pressures pose a key risk



Sources: BLS, Cleveland Fed, Bloomberg, CA CIB rate has only just returned to pre-pandemic levels. These gains have not been evenly distributed, as higher-income households have seen the lions' share, though on aggregate they should provide substantial support.

On top of this, a very tight labour market should augment the support from household balance sheets and provides a nice complement as low-income households – who have seen the least support from household balance sheets – have seen the most support from the labour market. Job gains have been maintained at a robust pace overall as the unemployment rate has declined to 3.8% through February, and we look for these trends to continue given very strong labour demand, as evidenced by near-record job openings. The pace of improvement in the unemployment rate may slow as participation picks up, however, and we expect the rate to finish the year at 3.5%.

This labour market tightness has driven accelerating wage gains, with the Atlanta Fed's wage growth tracker reaching levels not seen in decades. Even though there are tentative signs indicating that a peak may be near, the level of wage growth should remain strong, which at the very least will help to offset rising prices. Furthermore, wage gains have been strongest for low-income households, with first quartile wage growth having skyrocketed to 5.9% on a 12-month moving average basis in February compared to just 4.0% at the beginning of 2021, helping to support those households that would otherwise be most vulnerable to elevated inflation.

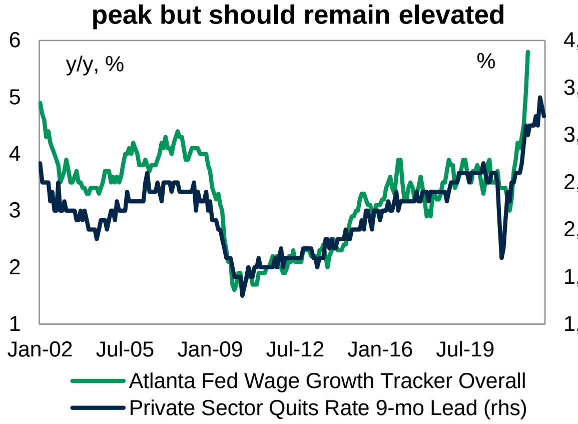
In addition to consumption, we remain fairly bullish in terms of investment as well. Recent surveys indicate that businesses are still optimistic despite ongoing issues with supply chain disruptions and labour shortages. In fact, both ISMs have been maintained in the high 50s in recent months, pointing to strong economic activity, with core capital goods orders also signalling solid investment. Additionally, as businesses face rising costs, they may embark on investments aimed at enhancing productivity.

To add to the outlook for further fixed investment, businesses will also likely be looking to rebuild inventories after a significant drawdown in recent quarters. This pattern started to reverse in Q421 as inventories provided a strong positive contribution to growth, though inventory levels remain low given the drawdown earlier in 2021 so inventories are set to add to growth as they continue to be replenished.

After unprecedented policy support to counter the worst of the Covid impacts, both monetary and fiscal accommodation will be on the wane. The Fed will continue to normalise policy (see Fed section for more details), while Covid relief packages are likely a thing of the past and President Joe Biden's Build Back Better plan looks to be dead in the water given opposition from Senator Joe Manchin. **Still, the lingering impacts of past fiscal packages and a more gradual removal of accommodation from the Fed than markets expect should allow for a gradual slowdown as opposed to a sharp cliff as growth transitions back towards a trend-like pace.**

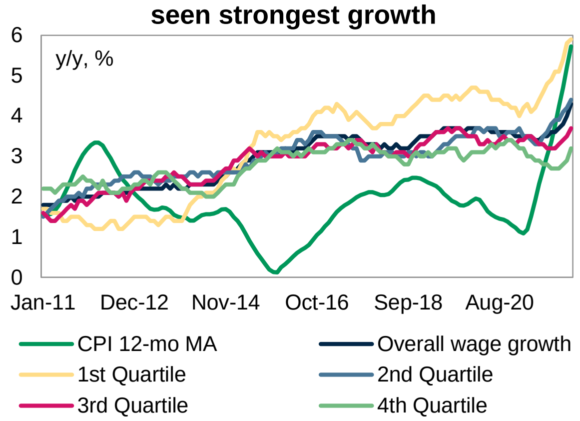
Nicholas VAN NESS

USA: wage growth may be near peak but should remain elevated



Sources: Atlanta Fed, BLS, Bloomberg, CA CIB

USA: low-income wages have seen strongest growth



Sources: Atlanta Fed, BLS, Bloomberg, CA CIB

EUROZONE: THREE SHOCKS

The Eurozone is coming off a year of sustained growth in 2021 (+5.3%), resilient to the omicron wave and supply constraints caused by the Covid crisis.

The war in Ukraine has now added to these factors and is generating three shocks: (1) a confidence shock linked to growing uncertainty; (2) a demand shock resulting from the negative impact of rising prices on household purchasing power and business costs; and (3) a supply shock linked to the shortage of inputs leading to production interruptions.

The impact of these shocks needs to be assessed against a unique backdrop where purchasing power can be sustained by significant excess savings and where the investment dynamic is being driven by European NGEU funds and national stimulus plans. Additional fiscal responses are being organised to limit the impact of rising prices on household income and corporate profitability. The result of the interaction of these factors is a downward **revision of our GDP growth forecast from 4.4% to 2.9% in 2022, based on an upward revision of inflation from 2.6% to 6.8%**.

Post-omicron rebound avoids a technical recession

Growth slowed down sharply at the end of 2021 due to restrictions to curb the spread of the omicron variant. These restrictions varied greatly from country to country and were the most marked in Germany. Q421 nevertheless left a 1.9% overhang in annual growth for 2022, a starting point on which to build a very weak growth trend in H122 (0.3% on average per quarter). Survey indicators at the beginning of the year confirm continued growth in the early months of 2022. The rebound linked to the reopening of the economies is expected to be very strong in Q2 in Germany, preventing a recessionary trend for the zone as a whole from taking shape. On the other hand, Italy is in a technical recession while sluggish growth is expected in France and Spain.

Despite excess savings, purchasing power is affected

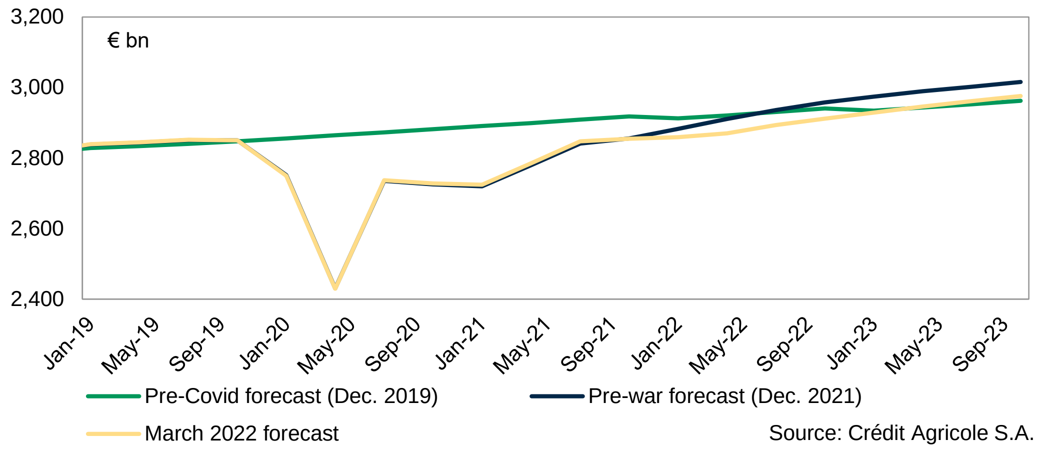
The standard impact of a one-point increase in inflation is estimated to be a loss of half a point of GDP growth. The main transmission channel is the decline in household purchasing power. The sharp rise in inflation could reduce purchasing power growth by 2.5ppt, despite being partially offset by income support policies. Despite the strong rebound in consumption in the summer of 2021, Eurozone countries still had a savings surplus of 2.5ppt on average. However, these savings are concentrated among consumers with a lower propensity to consume; they will only be partially used to cushion the erosion of purchasing power. The downward revision of household consumption is the most powerful factor in reducing our growth forecast. Because of the different ways in which electricity prices are formed, inflation will be higher in Italy and Spain, two countries that also have weaker household income dynamics and, as a result, a greater decline in private consumption.

An uneven dislocation of production

The potential for supply dislocation due to the unavailability of raw materials and intermediate goods is already visible; it is particularly visible in automotive, food and non-metallic mineral output. This risk obviously affects countries differently: Germany is particularly exposed because of the significant share of the automotive industry in its value added, followed by Italy because of its share of agri-food and non-metallic minerals, and finally Spain, but to a lesser extent.

Annual change	2021	2022
GDP	5.3%	2.9%
Inflation	2.6%	6.8%

Eurozone: GDP growth delayed



Source: Crédit Agricole S.A.

A fiscal response that is national for now

In the run-up to the war, support for the economy was announced to be declining in Eurozone countries, resulting in a negative fiscal impulse. We anticipate new support measures for households and businesses, as well as price smoothing measures amounting to 0.9ppt of GDP on average. However, the fiscal cost is lower because it is partially financed by the redistribution of profits from non-gas power producers. The European NGEU funds (0.6ppt of GDP) are also a factor, and thus almost entirely offset the restrictive orientation of fiscal policy.

Divergent rebounds

Shocks affect countries differently according to their dependence on Russian imports & exports, their energy production & consumption mix, their industrial specialisations and their ability to mobilise public funds to counter the impact of shocks. Thus, while Germany was expected to return to its pre-Covid GDP level in Q122 in our forecast last December, it is now only likely reach it in Q3. For Italy, the date has been moved from Q222 to Q123 and for Spain from Q123 to Q223.

More tail risks skewed to the downside

The reduction or even cessation of Russian energy supply is the riskiest scenario, but the risk of Eurozone fragmentation is also high due to the asymmetric effects of shocks and the inability to provide a common response at the EU level. An additional risk would come from the resurgence of Covid in Asia and longer and more restrictive Chinese restrictions affecting supply chains. Finally, risks of a more aggressive Fed, but also of more unfavourable geopolitical scenarios still loom.

Paola MONPERRUS-VERONI

Exposure to shocks

	France	Germany	Italy	Spain
Shock:				
Demand-purchasing power-prices	-	-	---	--
Supply-production dislocation	-	---	--	--
Confidence	-	--	--	-
Stabilisers:				
Surplus savings-disposable income	+++	++	+	+
Policy response	++	+	+	+

UNITED KINGDOM: HIGHER INFLATION, LOWER GROWTH

Russia's invasion of Ukraine has intensified uncertainty over the economic outlook. We have bumped up our inflation forecast, cut projected growth and topped up our unemployment figures. Britain's economy is expected to experience a marked slowdown starting in Q2 (near-zero anticipated growth on average in Q2 and Q3), with a further sharp acceleration of inflation.

A fairly solid start to the year

Business indicators suggest that growth was relatively strong in Q1, driven by the easing of Covid-related restrictions. GDP rose by a higher-than-expected 0.8% MoM in January, and the PMI surveys as of March signalled that activity and employment were accelerating. We anticipate 1.2% QoQ growth in Q122 after 1.3% QoQ in Q421 (figure revised upwards from 1% QoQ in the preliminary estimate).

The main impact of the Russian invasion will be a substantial jump in the cost of living.

On the other hand, Russia's invasion of Ukraine has shattered optimism in the private sector. According to the composite PMI, business optimism, which was already fragile due to inflationary tensions and global production chain issues for the past year, hit its lowest point since October 2020.

Projected inflation adjusted sharply upward

Russia's invasion of Ukraine and the related developments will have a strong impact on inflation via energy and commodity prices and the aggravation of tensions along global production chains. Add to this an inflationary domestic environment, caused by tensions on the labour market, where nominal wages are expected to rise nearly 5% this year. After hitting 6.2% in February, CPI inflation should crest to 8% in Q2 and Q3 – a revision of nearly 2ppt compared to our January forecast. Next October will bring us another jump in inflation, when Ofgem raises its price caps once again according to how natural gas futures are trending on the financial markets. There are significant risks around these forecasts, and they seem to be on the rise.

Expecting a historical decline in purchasing power

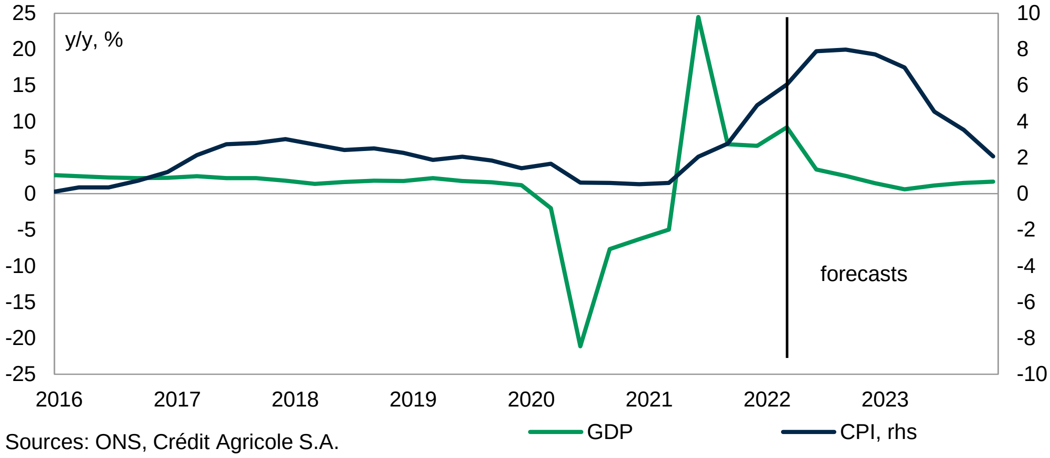
The rising cost of living will be the main impact of the Russian invasion of Ukraine on the British economy. Consumer confidence is down to its lowest point since November 2020, according to the Gfk index, in response to the loss in real disposable income. Projected at an average of -2% in 2022 before Russia invaded Ukraine, the drop in real household income could be as much as -4% at the end of this year.

Annual change	2021	2022
GDP	7,4%	4,0%
Inflation	2,6%	7,4%

Along with lower purchasing power comes the dreaded impact on the economy of uncertainty over how the private sector is saving and investing. Households – in aggregate, and for those who can – will be forced to dip into the savings they have built up during the pandemic to support their consumption. No doubt companies will have to put off their investment plans until the picture clears. We anticipate a distinct slowdown in activity starting in Q2.

Slavena NAZAROVA

UK: GDP growth and inflation



Sources: ONS, Crédit Agricole S.A.

JAPAN: YET ANOTHER ECONOMIC PACKAGE BEFORE THE JULY UPPER HOUSE ELECTION

Q1 real GDP to contract in a one-off manner

As the Russia/Ukraine conflict intensifies, Japan's Q1 real GDP, the first estimation of which is to be released on 18 May, seems to have fallen into QoQ negative territory, in part due to containment measures against Covid-19. We now expect Q1 real GDP to shrink 3.5% QoQ saar, dragged down mainly by private consumption, housing investment and net exports.

This QoQ contraction, however, will be one-off, in our view, partly due to a possible introduction of another economic package before the July upper house election. Fumio Kishida's cabinet has started discussions with the ruling coalition of the LDP and Komeito to support those who are suffering from a loss of purchasing power under the worsening terms of trade induced by a surge in energy and food import prices as well as a weaker JPY.

Shunto wage hikes to be in line with 2% inflation? No

Under these circumstances, PM Fumio Kishida explicitly said he would expect companies to agree on a 3% increase in the spring wage negotiations, or *shunto*, which are still under way. The tentative results of shunto as of March suggest such a wage increase will be around 2.14%, falling short of Kishida's expectation.

Based on the past relationship between CPI inflation and shunto wage hikes, a 5% shunto wage hike would be in line with 2% inflation. Why as high as 5%? Because roughly 70-80% of shunto wage hikes are attributed to seniority-based wage rises, ie, wage rises due simply to an employee increasing his/her duration of employment by a year. The residual part (ie, shunto wage hikes minus seniority-based wage rises) reflects a 'true' rise in base salaries, which is what matters for sustainable 2% inflation.

Increasing pressure on fiscal policy in the run-up to the upper house election

This year's shunto wage hikes will in no way reach a threshold of 5%, which in turn should give rise to economic and political pressure on Kishida to form another economic package before the July upper house election.

Annual change	2021	2022
GDP	1.7%	0.7%
Inflation	-0.2%	1.3%

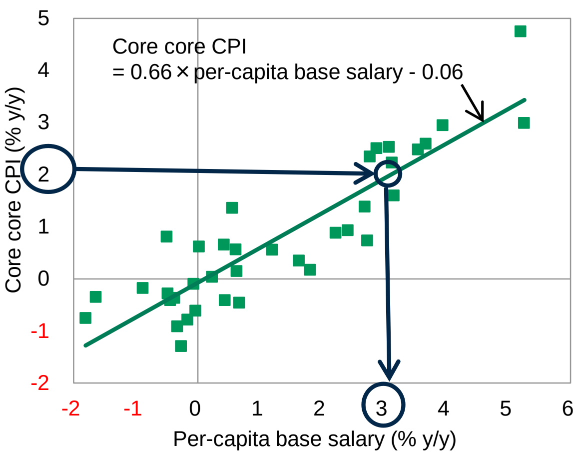
One concern to the market is whether such an economic package will come with a significant increase in new JGB issuance. We doubt it. We expect the government to use the reserve funds in the FY22 initial budget, for which no new JGBs need to be issued, rather than form a supplementary budget, which would require new JGB issuance.

If PM Kishida wants to form a supplementary budget, the current Diet session scheduled to close on 15 June will need to be extended, which would not be accepted by the ruling LDP as it reduces the campaign period for the July upper house election. We expect a relatively small economic package with no or little issuance of JGBs.

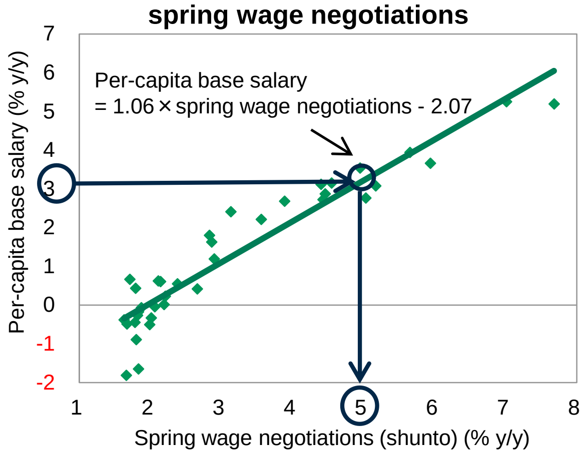
Kyohei MORITA

2% inflation is only in line with 5% shunto wage hikes...

Correlation between CPI and wages



Correlation between wages and spring wage negotiations



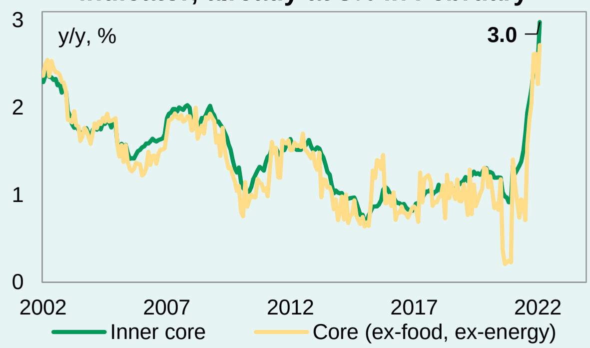
Notes: 1. Figures are based on yearly data since 1980 – 2. The core core CPI excludes perishables and energy – 3. Spring wage negotiations include a seniority-based wage increase
Sources: MIC, MHLW, Crédit Agricole CIB

FOCUS – Inflation: not for the faint-hearted

The inflationary trend in the **US and Europe** was already ramping up before war broke out in Ukraine. In Europe, annualised "inner-core" inflation (our measure of inflation beyond the noise) was already around 3% and on a steep upward trend. We were clearly in the midst of second-round effects. In other words, the prices of consumer goods and services were rising on the back of the increased costs of raw materials and logistics that were a feature of 2021. In the US, the inflationary situation was exacerbated by the payroll trend, with wages and real estate prices rising by an annualised 5% and 15% respectively, both of which had a direct impact on the US CPI index. The general situation was already a major concern.

The war in Ukraine has clearly added another inflationary factor, with commodity prices soaring and further disruptions to supply chains and risks of shortages. In more structural terms, this episode also corroborates a degree of deglobalisation (which clearly drives inflation because it hampers trade flows optimisation) and non-productive, but necessary, dependencies (sharp rebound in military spending). Second-round effects associated with commodities are expected to last at least three years – unless prices fall back just as sharply – which means that, beyond the surge in 2022, inflation will be unusually high until 2024 or even longer, especially in the US. By then, the inflation peak will have lasted for four years (from 2021 to 2024), rendering the term "transitory inflation" irrelevant.

Eurozone: our inner-core inflation indicator, already at 3% in February

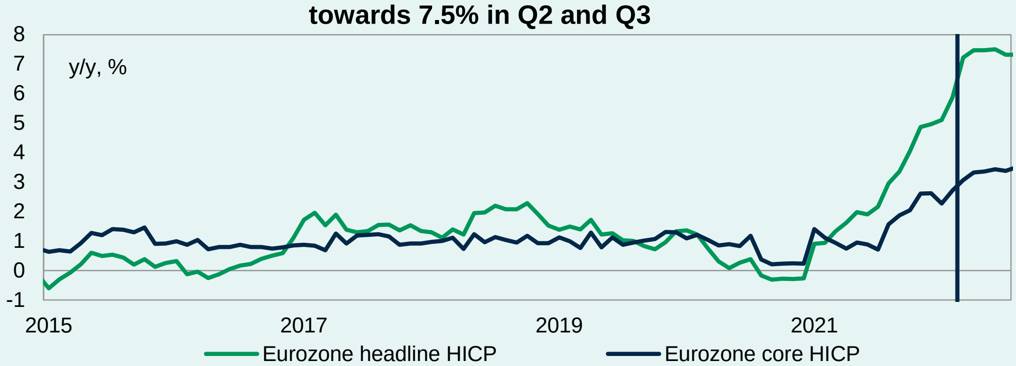


Sources: Eurostat, Crédit Agricole CIB

In 2022, economic agents and central bankers are going to have to contend with extremely high inflation. We are now projecting that inflation will average 6.8% in the Eurozone and 7.6% in the US – on top of the concerning inflation 'history' (*see above*). Inflation will continue to cause concern.

Jean-François PERRIN

Forecasts at 28 March: Eurozone inflation towards 7.5% in Q2 and Q3



Sources : Eurostat, Crédit Agricole CIB

EMERGING COUNTRIES
From one shock to another

Emerging countries – From one shock to another

The war in Ukraine is weighing on EMs' post-Covid recovery. More than US monetary tightening, the main challenges for EMs are geopolitical contagion, rising commodity prices and supply chain disruptions. Central European economies are the most vulnerable.

From one shock to another: EMs have shifted from the promises of a gradual post-Covid recovery to the necessity to cope with two major uncertainties: the consequence of the war in Ukraine and the sustained hawkishness of DM central banks.

Key numbers Annual change	2021	2022
GDP	6.7%	4.3%
Inflation	5.4%	5.5%

Three channels

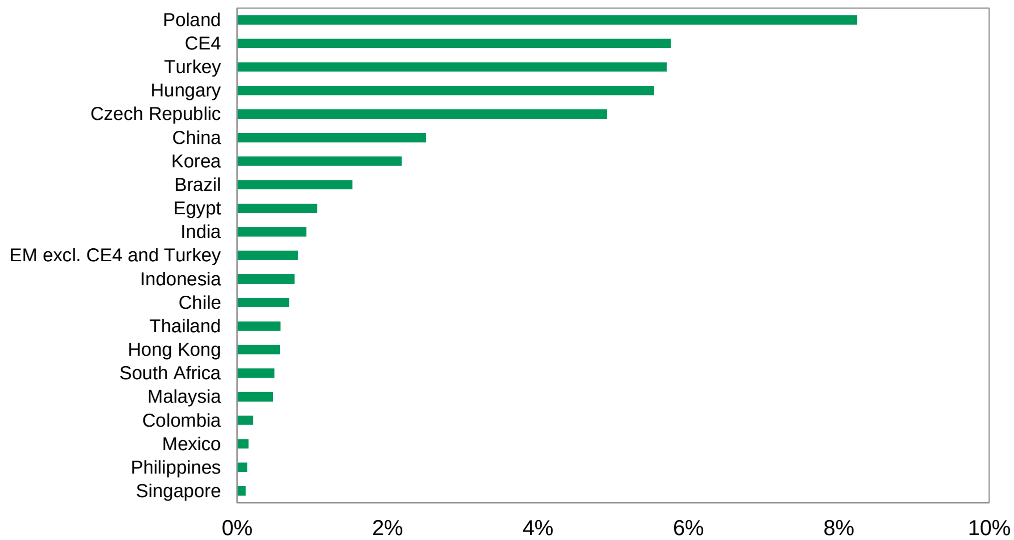
The negative consequences of the war in Ukraine could pass through three main channels. First, in a period of rising geopolitical tensions (with a global reach), one would expect the risk-off mood to grow, with possible financial contagion, and the markets that are the most dependent on external financing to suffer. However, such contagion has been limited so far. The currencies of high-yielders, or currencies of current account-deficit countries, have not depreciated much more than the rest of EM currencies. This may reflect expectations that the war may remain located in Ukraine and may not morph into a direct Russia-NATO confrontation.

Second channel: the degree of integration with Russia and Ukraine. From that point of view, Eastern European markets are the most impacted. CE4 and Turkey send almost 6% of their exports to Russia or Ukraine, on average, compared with less than 1% for the rest of EMs (China is above, at 2.5%). On top of that, they have to manage huge flows of refugees, which can potentially have a significant impact on budget balances, job markets and inflation. Finally, geopolitical worries also impact Central Europe much more than other EM regions.

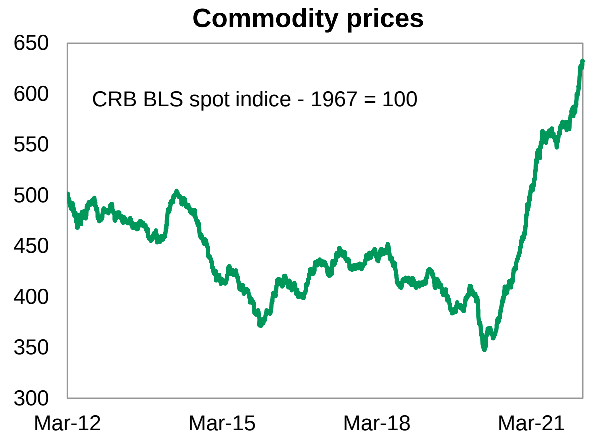
Third channel: commodity prices. Taken together, Russia and Ukraine actually play a significant role as commodity exporters at the global level. It is primarily about Russian oil and gas, but not only. Russia is also a key exporter of wheat, fertilisers and some metals intensively used in various industrial sectors (including aluminium, nickel and palladium). Ukraine is a major exporter of wheat and oilseeds, and it is a significant exporter of some products that are critical for the semiconductor industry (such as neon gas).

Commodity prices have jumped 10% YTD. Oil and gas prices have increased more than the rest, but food and metals have also gone up (by almost one-third YoY). Higher commodity prices impact EMs through inflation and balance of payments. The inflation impact is rather straightforward and suggests the inflation risk, which was already intense before the war, has intensified further, quite across the board among EMs. The balance of payment impact is more of a differentiation factor: being a drag on net importers in Asia and Eastern Europe but a buffer for net exporters.

Share of exports to Russia and Ukraine in total exports (2020-21)



Source: Crédit Agricole CIB



Sources: Bloomberg, Crédit Agricole CIB

Hawks on the move

Both the Fed and the ECB have confirmed they will stick to their tightening plans despite the war-related uncertainty. On the paper, higher US rates in particular would tend to pressure EMs, especially those that are more reliant on external financing. This time, there is an additional risk coming from the stagflation risk. EMs may end up facing less global demand, more inflation and higher global rates, and EM central banks may themselves have to tighten monetary policy more actively, to fight inflation or FX depreciation in some cases. Indeed, like their counterparts in DMs, most EM central banks have struggled in the past few quarters to figure out exactly how temporary the inflation shock was. In Latin America and Europe, most of them have actively increased interest rates, but many of them have restrained themselves, given the partly temporary character of the inflation shock. As a consequence, most EMs also run negative real interest rates. Some of them may have to reconsider their stance and hike further given the inflationary impact of the war.

Interestingly, the Fed's commitment to inflation fighting, combined with medium-term growth uncertainty (related to the Fed's stance and to the flurry of uncertainty factors that have recently piled up) could tend to cap US long-term yields. Our rate strategists expect the US yield curve to flatten. This would mean that, in a median scenario, EMs may be partly buffered from the effect of DMs' monetary tightening. Still, 10Y yields have significantly increased over the past year, and the risk that this could continue, should the inflation outlook continue to be reassessed in the coming months, has to be taken into account.

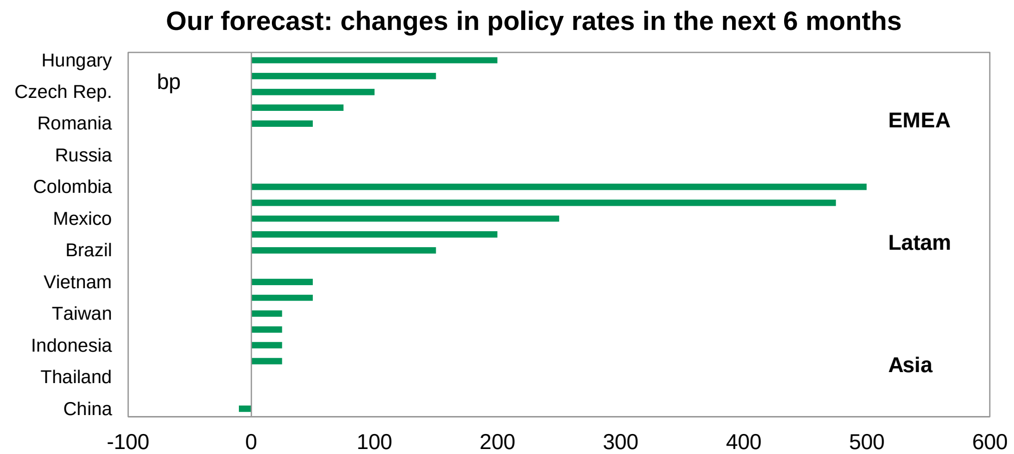
Bold fat tails

Likely more than at any point in time in recent years, the current macro and market environment is one with particularly fat tails. One can formulate a median scenario, but there are many factors that could drive the scenario toward different paths. The range of possible scenarios has grown considerably wider since the onset of the Covid pandemic and even more since the start of the war in Ukraine.

Strong regional differentiation

From a regional point of view, two groups of countries should be more challenged than others in the current backdrop. First, central European countries are among the most exposed markets. They are close to the eye of the geopolitical storm. They are net commodity importers (fuel in particular). They are challenged by additional supply chain difficulties generated by the war, in the auto sector in particular. On top of that, their economies have to absorb the largest numbers of refugees.

Second, low income countries, particularly if they are net food and energy importers and if they suffer from a lack of fiscal or external flexibility, may come under pressure. The sharp depreciation of the EGP in March is a good illustration of such pressure (Egypt is a major net food importer, including of Russian and Ukrainian wheat). Many of these countries are not the most central on the global financial investment map, and as a consequence their difficulties may stay partly unchecked for the financial community. However, these difficulties will be real. And they may actually lead to more visible social and political tremors as time goes by. As a reminder, in the early 2010s, the Arab Spring was partly the result of people's perception that their



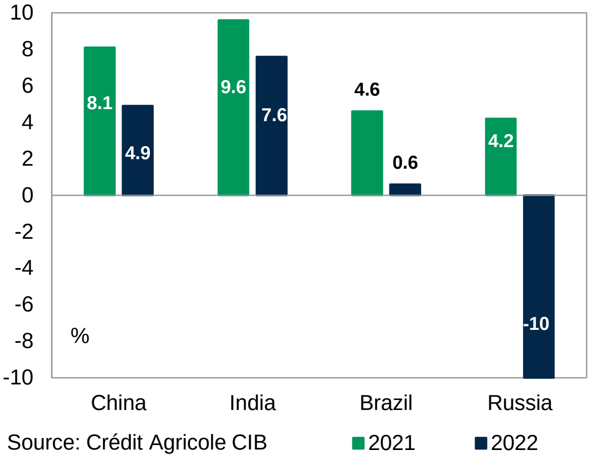
Source: Crédit Agricole CIB

purchasing power was being eroded and that inequalities were increasing.

Two groups of countries may be seen as benefiting, at least for some time. Oil producers in general and GCC countries in particular, will likely benefit from the rising demand for the commodities they export, against the backdrop of the sanctions against Russia. They may also benefit from larger geopolitical leeway, as a direct by-product of their hydrocarbon resources. Latin America may also benefit to some extent, as the region is a net exporter of commodities (food, metals, and fuel to a lesser extent). Still, it should not be forgotten that many countries in the region suffer from deteriorated fiscal flexibility and sometimes political uncertainty. The risk would be that a temporary improvement in terms of trade could mask these challenges or create disincentives to fix them, with a macro cost to be paid at the end of the day. Brazil's general election is due to be held six months from now.

Asia stands in between. The region should be impacted mostly via supply chain difficulties and inflation. Not only are many Asian countries significant net fuel importers, but some of them are also reliant on products used as inputs by the tech industry, and which are imported from Ukraine. From that point of view, the risk is more that Asian central banks, which have lagged other EM central banks, partly frontload rate hikes, or that supply chain difficulties fuel tensions on equity markets, which would tighten financial conditions further. By contrast, the direct impact of higher wheat and corn prices may be less marked than in other regions, as the share of food in CPI baskets is lower on average, and as many Asian countries' food consumption relies on rice, whose prices have been more stable.

BRIC: GDP growth forecasts



Source: Crédit Agricole CIB

Sébastien BARBÉ

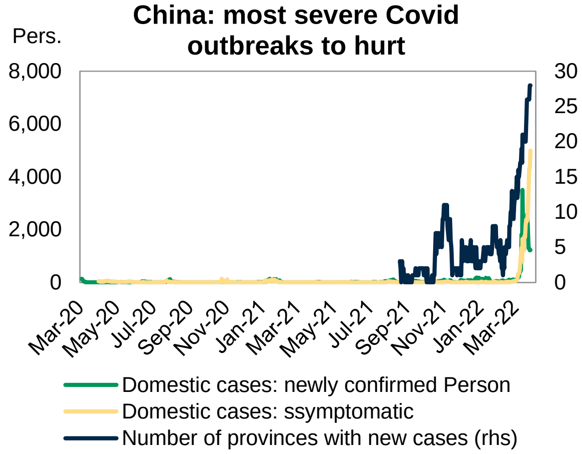
CHINA: CONCRETE POLICY ACTIONS NEEDED FOR RECOVERY

China's growth outlook remains challenging in the near term. We maintain our GDP growth forecast of 4.9% in 2022, but still see a high level of uncertainty around both domestic and external demand which could pose some downside risks to our below-consensus estimates, despite the better-than-expected real economic data in the first two months of the year. If Chinese policymakers further step up their policy easing actions as pledged, China's economic growth could bottom out in Q2, and return to above 5% growth in H2.

China is currently battling the most severe Covid outbreak since March 2020, which could hit GDP growth by about 0.8-1ppt in March and April, if it does not further escalate to a mass nationwide lockdown. Meanwhile, the property sector has continued its contraction, remaining a major drag on growth. Rising global stagflation risks amid the Russia-Ukraine crisis could add challenges to China's external demand, especially if European growth is hit hard.

China's inflationary outlook will likely remain relatively mild, on the back of weak domestic demand, leaving room for further policy easing, even though there would be higher price pressures for food and energy products as a result of the Russia and Ukraine crisis. We recently revised up our CPI and PPI inflation to 2.1% and 4.5% respectively in 2022, from 1.9% and 4.0% previously. This is compared to the government's target of 3% for CPI inflation (non-binding) in 2022.

China: most severe Covid outbreaks to hurt



Sources: CEIC, Crédit Agricole CIB

Awaiting real actions after strong policy pledges s

China has set an ambitious GDP growth target at "around 5.5%" in 2022, showing its determination for growth and social stability ahead of the important 20th Party Congress in late 2022. After the recent plunge in risk assets, China's top policymakers sent a strong policy signal vowing stability of economic growth and financial markets. While words are easier said than done and given that there have been disappointments after repeated policy pledges since late 2021, we think this time around, we will likely see more concrete policy actions to follow soon.

On the monetary policy front, we maintain our view that there will likely be a 10bp policy rate cut and at least one 50bp RRR cut in H1, and those actions should come sooner rather than later, to stabilise growth and market sentiment.

Fiscal spending growth will likely accelerate notably in 2022 from 2021, featuring both front-loaded infrastructure investment and larger tax and fee cuts. Despite a 40bp reduction in headline general fiscal deficit ratio to 2.8% of GDP in 2022, the combined fiscal budget deficit ratio for the general public and government-managed fund accounts is expected to rise to 7.8% GDP in 2022 from 5.2% in 2021, as the government mobilises various sources for funding.

There will be further property easing measures to boost real home purchase demand and support property investment growth, as well as to loosen credit conditions and prevent a liquidity squeeze of the property sector. In our view, China will still likely stick to its zero Covid strategy before the 20th Party Congress in late 2022, though it also looks to adopt a more scientific and realistic approach and make the pandemic control measures less disruptive. Regarding industry regulatory measures, we expect a more coordinated approach in terms of regulatory measures for internet platform companies, which should help reduce excessive market volatility in the near term.

Annual change	2021	2022
GDP	8.1%	4.9%
Inflation	0.9%	2.1%

Favour receiving rates and a modest CNY depreciation

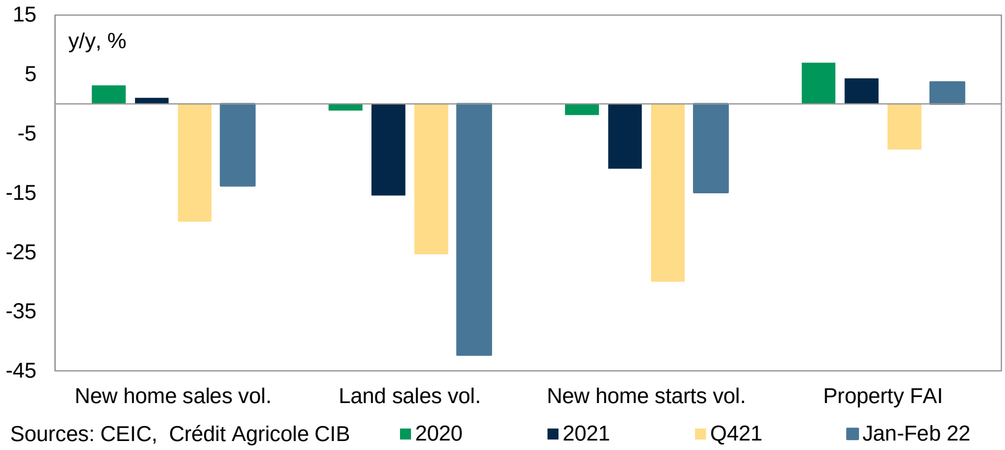
In terms of market implication, we have not seen strong catalysts to drive China rates one-way for now, and expect CGB yields to stay in the range of 2.70-2.85% in the coming two quarters. We expect moderate CNY depreciation, with a climb in USD/CNY to above 6.45 in H1, as FX policy aligns to the growth stance while US-China policy divergence continues.

Risks to watch: Covid, property credit, geopolitical tensions

In the near term, investors could still stay cautious and continue watching for risks related to Covid, property credit defaults and possible sanctions on Chinese

Xiaojia ZHI

China: demand stayed sluggish in property sector



Sources: CEIC, Crédit Agricole CIB

BRAZIL: OUT OF THE EYE OF THE STORM (FOR ONCE)

The war in Ukraine is not a threat to growth in volume terms, but it is acting as a brake by accelerating already steep inflation in the country.

The warring nations are of marginal importance, since they account for less than 1% of Brazil's exports. While the region plays only a minor role in Brazil's total imports (2.1%), 25% of imports are fertilisers, accounting for 30% of Brazil's fertiliser imports, which could herald shortages. What is more, Brazil will not gain from opportunities created by defaulting suppliers; therefore the volume effects will be marginal. The impact will be on prices: (1) **terms of trade will improve**, as a result of higher prices on products for which Brazil is a net exporter (grains, iron, steel, minerals and oil); and **(2) inflation – already dangerously high – will speed up**, triggered by soaring prices for key goods and services (transport, housing and food).

What can even the most forceful monetary tightening do in the face of inflation – essentially stoked by supply-side shocks?

Growth prospects have dimmed after the rebound in 2021. With the exception of the services sector (buoyed by a brighter outlook after the omicron wave), all confidence indices have fallen back as uncertainty, inflation and interest rates are all rising. The labour market continued to improve – but without a surge in nominal wages. Employment has been boosted by micro-enterprise creation signalling a slow recovery in formal employment. The jobless rate fell to 11.2% in January 2022 (from 12.1% in October 2021 and a peak of 14.9% in March 2021). **Inflation is high and extends across the economy.** Initially fuelled by a weakened exchange rate, rising energy prices, Brazil's geographical remoteness and supply chain bottlenecks, inflation was running at an annual rate of 10.5% in February, far above the upper bound of the target (5.25%).

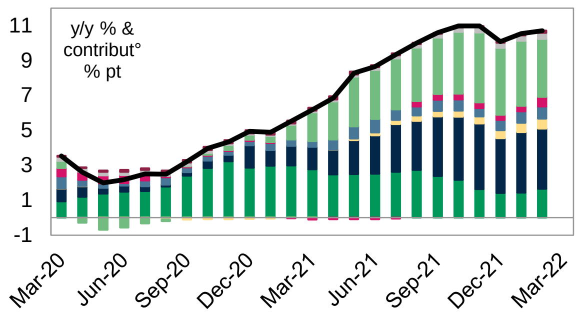
The government recently took steps to tackle inflation[1] and announced a bold "Income and Opportunity" (*Renda e Oportunidade)*[2] economic stimulus plan. While the effect of the inflation-taming measures is set to be limited, the stimulus plan, potentially worth BRL160bn or 1.8% of GDP, could have a substantial impact.

Annual change	2021	2022
GDP	4.6%	0.6%
Inflation	10.1%	6.5%

Brazil's central bank (BCB) has raised its benchmark Selic rate from 2.00% to 11.75% in a series of rate hikes since March 2021. In essence, while inflation in upstream prices reflects supply-side shocks (in the plural!), the **BCB is intent on keeping to its mid-term inflation target** by anchoring inflation expectations near target and acting boldly enough to head off any further depreciation in the currency. With these challenging and persistent inflation dynamics, we expect the BCB to raise the Selic again to a peak of 13.25% in December 2022, with a lower probability of a rapid reduction in the benchmark. The resilience of the exchange rate is down to a comfortable yield differential and improved terms of trade. These factors are reason to hope that Brazil will not be pushed prematurely into the eye of the financial storm, despite the highly polarised elections[3] coming up in October.

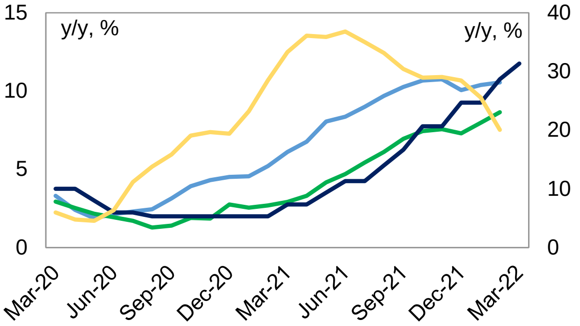
Catherine LEBOUGRE

Brazil: sources of inflation



Sources: BCB, Crédit Agricole S.A.

Inflation and Central Bank rate



Sources: BCB, Crédit Agricole S.A.

[1] Cuts to the tax on industrial products (IPI), federal and state fuel taxes, customs duties on a range of imports (ethanol and six basic food products) up to the end of 2022, and indefinitely on capital goods and information technologies.

[2] Brazil's public finances have improved (January 2022: primary surplus, total deficit and gross public debt at 1.2%, -3.6% and 79.6% of GDP, respectively, over 12 months), but there is little wiggle room. This means that the stimulus is not based directly on the budget. The "Income and Opportunity Program" includes a measure allowing workers to withdraw some cash from a severance fund known as FGTS (*Fundo de Garantia do Tempo de Serviço),* capped at BRL1,000 per worker. The government is also bringing forward the 13th month's public pension payment and simplifying micro-loans to people on low incomes and SMEs.

[3] Presidential and parliamentary elections (the entire lower house and one-third of the seats in the Senate).

RUSSIA: INTO THE UNKNOWN

The outlook for Russia is obviously marked by a high level of uncertainty. Not only is it difficult to precisely assess the impact of the sanctions that have been announced already, and the decline in investment flows coming from Russia's sudden isolation, but there could be further sanctions to come. A big unknown is at what pace Europe will reduce its fuel imports from Russia. We assume no U-turn is possible anyway and that Europe will significantly reduce its dependency on Russian energy in the coming quarters, however the situation in Ukraine evolves.

We expect a sharp contraction in private consumption in the coming quarters, coming from the inflation-related erosion in the population's purchasing power, from reduced banking system support, but also from supply disruptions, as well as a higher propensity to save due to precautionary behaviour. The contraction of investment should be even stronger, as the economic horizon of the Russian corporate sector has been brutally shortened. The sharp rise in interest rates implemented at the end of February (+1,050bp to 20%) will hurt both consumption and investment. We see inflation possibly accelerating to a peak of c.35% in Q3, and then receding step by step, under the assumption that the RUB does not shift to free-fall mode.

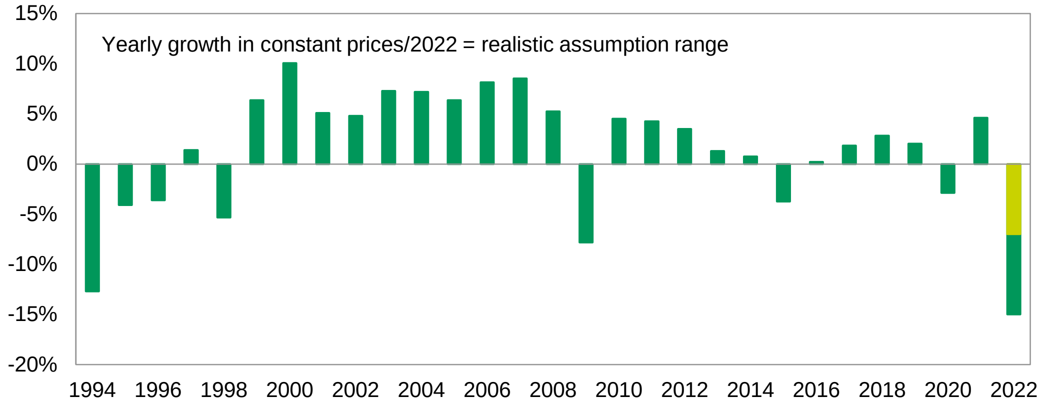
Some buffer should come from the external position. Given the increase in global oil and gas prices, even if Russian energy prices are discounted, large flows of export receipts are still irrigating the Russian economy and the Russian budget, and supporting the current account. Russia will likely be able to redirect part of its oil exports to countries that are not implementing sanctions against Russia. China and India are among world's largest net importers of fuel. However, export proceeds should be reduced significantly, assuming Europe cuts its energy dependency on Russia

Annual change	2021	2022
GDP	4.7%	-9.0%
Inflation	6.7%	27.0%

For the sake of setting a median scenario for the Russian economy, we assume that GDP could contract by 9% in 2022 (and in a range of 7-15% depending on military developments and further sanctions). Inflation could reach 27% on average in 2002. The current account will likely continue to post a significant surplus (on the back of a collapse in domestic demand, combined with a reduction in the USD measure of Russian GDP, together with higher oil and gas prices).

Sébastien BARBÉ

Russia: GDP growth



Source: Crédit Agricole CIB

INDIA: HOW LONG CAN THE RBI HOLD ON?

While India is gradually moving past Covid-19 and was able to achieve 9% growth in 2021, the outbreak of the Russia-Ukraine conflict may weaken the country's economy due to inflation.

Review of the past year

After a chaotic 2020, the Indian economy posted record growth of 9% in 2021. This recovery was initially driven by investment before rebalancing in H2 as private consumption picked up. This is not the case nationwide though, as we are still observing major discrepancies between urban centres, which rebounded more quickly, and rural areas (which account for half of India's population), which also had to accommodate an influx of migrant workers who left the cities during the lockdowns in 2020.

While the current account has rebalanced, external pressures will restrict monetary policy a little more.

The workforce participation rate among women, which had fallen to 16% in Q220, also remains very low, a sign that chronic underemployment is far from being resolved. However, the biggest short-term risk is undoubtedly inflation.

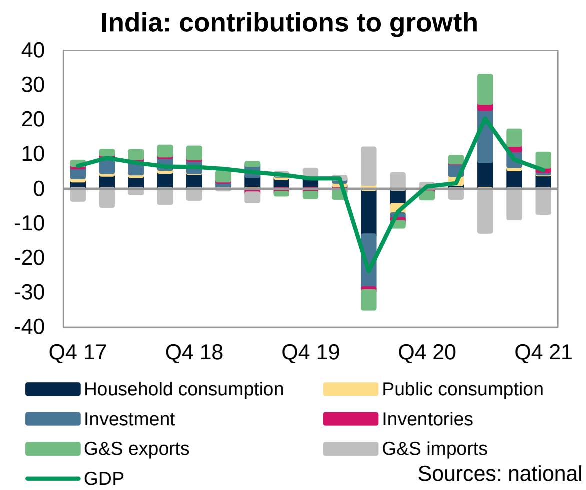
The Reserve Bank of India's dilemma

India is particularly exposed to inflationary pressures for several reasons. Firstly, it is highly energy dependent: oil accounts for around 30% of India's total imports. As such, rising energy prices will drive up the current account deficit, which is expected to reach 2.5% of GDP. The second reason is food prices. Food accounts for almost half of the aggregate consumer price index, and even more in rural areas. And, although India has the advantage of being self-sufficient in terms of food, imports of products used in farming (fertilisers) or agro-food (vegetable oils), which have already increased in price due to the war, account for just over 5% of total imports. Thirdly and finally, the price of gold – the safe haven asset of choice – has risen by 10% since the war broke out; it plays an important role in Indian culture. Authorities have unsuccessfully attempted to cool the national appetite for gold which, combined with diamonds and other precious metals, accounts for up to 15% of imports and puts a major strain on the current account balance, especially during periods when the INR is depreciating.

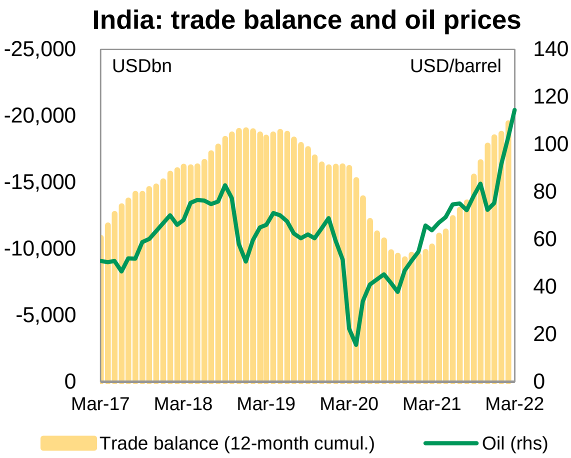
 Annual change	2021	2022
GDP	9,6%	7,4%
Inflation	5,1%	6,3%

While the current account rebalanced in 2020, before returning to a moderate deficit (1% of GDP) in 2021, giving the central bank some respite, external pressures will restrict its monetary policy a little more. In order to not suffocate the recovery and support activity a little longer, the RBI will have to postpone raising rates until the beginning of H222, at the risk of putting more pressure on the INR. In that case, it could draw on some of its reserves – which hit an all-time high of USD578bn in November 2021 – to defend its currency.

Sophie WIEVIORKA



Sources: national



Source: Ministry of Commerce and Industry

SECTORS

Oil – Apocalypse Now?

Mines & metals – Price volatility and metal supply tensions

Shipping – The shockwave of war sends a new wave of tension crashing over ports

Food prices – Inflation is back

Oil – Apocalypse Now?

The oil market did not need an armed conflict involving Russia, the world's third-largest oil producer and the largest supplier of oil to the EU. Efforts by several economic actors to replace Russian oil are expected to continue in 2022, which will help keep North Sea oil prices at levels close to those the global economy is dealing with today.

Russia's invasion of Ukraine will not improve the situation on the oil market, which was already suffering from a lack of supply. Indeed, the recovery in consumption of oil products was particularly robust in H221. Mobility indices suggest high levels of car usage by individuals. Oil supply is increasing more slowly than demand, which is causing a shortfall on the market. Between August and February, OPEC+ production only increased by 350k bpd on average each month, compared the bloc's commitment of 400k bpd. OPEC+ did not meet its target because certain African countries are having difficulties increasing or maintaining production. While they were very active in 2017-18, independent US producers also seem to be in less of a hurry to increase their drilling and production activities and are clearly more concerned about their profitability than their growth.

Against this backdrop, **the threat of an embargo on Russian oil increases the risks of shortages on the oil market**. Although there are no sanctions or embargoes on Russian oil and oil products and no interruption in supply, the market is dealing with soaring prices of certain crude oils. This increase is particularly impacting North Sea and African crude oil. The price spread between these oils and Russian oils is currently between USD35-40/bl. Although they are not obliged to, many oil traders are moving away from Russian oil in favour of other crude. With very little supply elasticity, these players are obliged to purchase and divert these oils at a high premium.

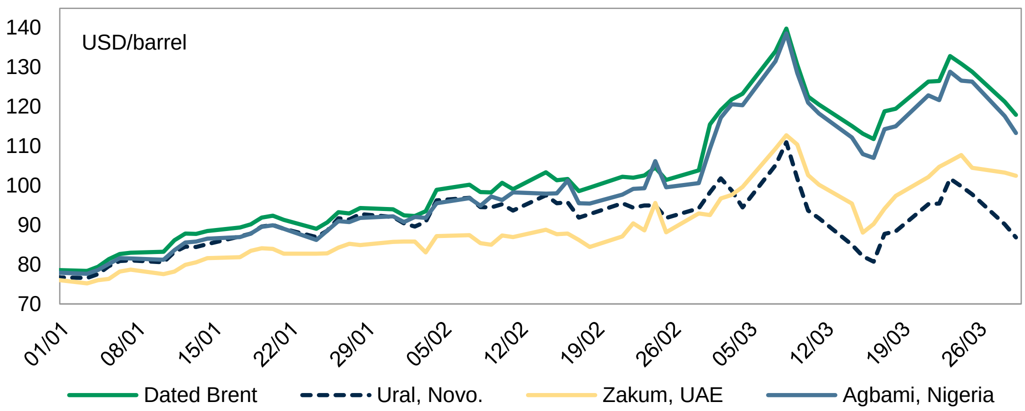
Our scenario is based on European and especially African oils continuing to displace Russian oil. With no sanctions on trading of Russian hydrocarbons, most of the Russian oil that would normally be exported to Europe will be diverted to Asia. However, we do not believe that Russia will be able to divert all of its production to Asia. Russia will suffer from a decline in oil production of 1m bpd. This drop in Russian production will be offset by a modest increase in US production and a slight rise in OPEC production.

	Oil: average price per barrel
2022	106 dollars
2023	103 dollars

Given that there is no consensus among the UN Security Council on Iran's nuclear programme, a complete lifting of US sanctions on Iranian oil is not being considered. However, for pragmatic reasons, we expect that the US government will authorise a partial return of Iranian oil in the form of waivers. Our scenario is also pricing in a slight increase in Venezuelan production in the wake of a reversal of US policy towards the country, which is also under sanctions. As such, the oil market will be delicately balanced with no major surplus to rebuild inventories. Under these conditions, North Sea oil prices will remain high. We are forecasting averages of USD106/bl and USD103/bl respectively in 2022 and 2023.

Stéphane FERDRIN

Oil prices in 2022



Sources: Refinitiv, Crédit Agricole S.A.

Mines & metals – Price volatility and metal supply tensions

Against a backdrop of weaker demand growth compared to 2021 (Russia-Ukraine conflict, slowdown in China's economy exposed to a new Covid wave) and uncertainty about the duration of the conflict, metal prices will continue to experience high volatility in 2022, with major disruptions in global supply chains.

The Russia-Ukraine conflict is exacerbating the tensions and imbalances created post-Covid on the mining & metals markets. It is also revealing how dependent the West (especially Europe) is on Russian base metals (aluminium, nickel and copper) and steel, even though Russia only produces 4-6% of global supply. Dependence on palladium, which is used heavily in the automotive industry (44%) and titanium (50% of aeronautics supply) is even higher. Russia and Ukraine's roles are just as big in Europe's imports of steel and iron ore imports, at 35% and 24%, respectively.

As the conflict intensifies and the West imposes sanctions[4], supply chain disruptions and looming shortages are increasing, especially with inventories bottoming out and global demand creeping steadily upward. In the steel industry, several groups have shut down operations in Ukraine and Russia. As a result, metal prices shot up to record highs between 23 February, the eve of the invasion, and early April (+4% for aluminium, +43% for steel and +5% for copper). Meanwhile, nickel's listing on the LME was stopped for a week after speculative movements drove its price up above USD100k/t vs USD20k/t in early 2022. Prices have eased slightly since then (nickel USD32k/t), except for steel.

While these high prices are good for operators, energy prices are hurting the most energy-intensive consumers (European aluminium and steel producers) and forcing them to cut back production. At the same time, end-users' sectors are forced to diversify their supply sources – importing nickel from Indonesia or the Philippines, or steel from India – provided the cost of shipping from those locations is not prohibitive.

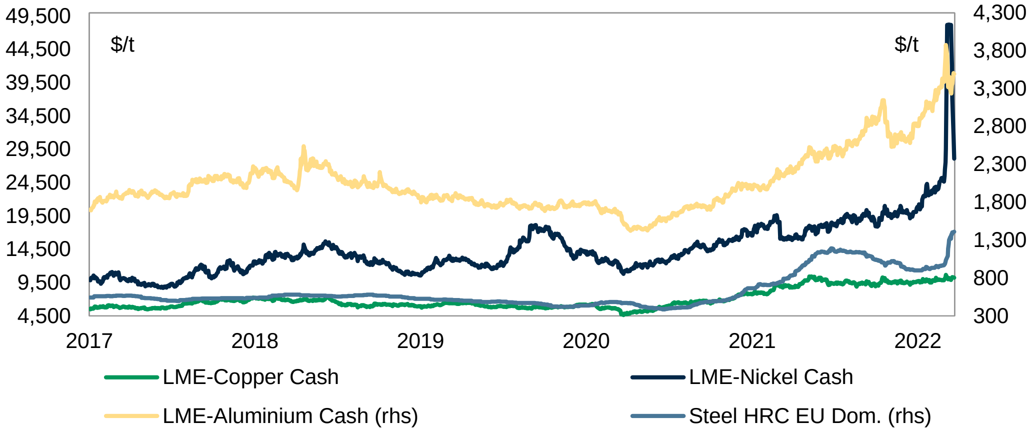
Europe – Imports of steel and iron ore	
Russia	35%
Ukraine	24%

The automotive sector, already hobbled by the semiconductor shortage, is one of the hardest hit: (1) prices have jumped for aluminium (used to manufacture auto bodies), palladium (used in catalytic converters) and nickel (used in electric vehicle batteries); and (2) there has been difficulty getting wiring harnesses from Ukraine. All these factors are driving production rates down.

If the conflict drags on, it will stir up volatility and cause further supply chain disruptions, potentially slowing down the energy transition momentum, which requires huge volumes of base metals at affordable prices.

Pascale MÉGARDON-AUZÉPY

Prices of base metals and rolled steel



Sources: CA S.A./ECO, Thomson Reuters Eikon

[4] In mid-March, the European Commission was setting up a fourth round of sanctions including a ban on imports of Russian steel. In addition, Australia was stopping its exports of bauxite and alumina, both crucial to producing aluminium.

Shipping – The shockwave of war sends a new wave of tension crashing over ports

It did not take long for the invasion of Ukraine to catch up with shipping, with Ukraine's ports closing and Black Sea traffic foundering. Complex sanctions are piling up, fostering a climate of uncertainty that is extending their reach and reconfiguring a portion of global maritime trade.

At the war's one-month mark, the aggressor's isolation is evident in the drop in calls in Russian ports. Without acting a ban on Russian ships as the UK has done, the European Parliament voted for a non-binding resolution calling for the continent's ports to close to any vessels under Russian control or scheduled for a Russian stopover. The threat is dissuading some shipowners and gradually pushing Russian ships off to more remote destinations.

Liquid and dry bulk are the most affected. Since Russia accounts for 5% of global maritime exports, and about 10% for oil and petroleum products, intermediate-sized "Aframax" tankers, of which 8% of the fleet is controlled by Russia and under threat of sanctions, are experiencing a surge in freight rates. In search of alternative supply sources to Ukrainian grain or Russian coal, small and mid-sized bulk carriers are also coming out ahead. **The search for new markets for Russian exports, and substitutes for their customers, are likely to lengthen routes and – along with skyrocketing bunker prices – keep freight rates high across those segments. Tankers and bulk carriers are also on the front line against the risk of defection by Ukrainian or Russian seafarers**, who make up respectively 4% and 10% of the global workforce.

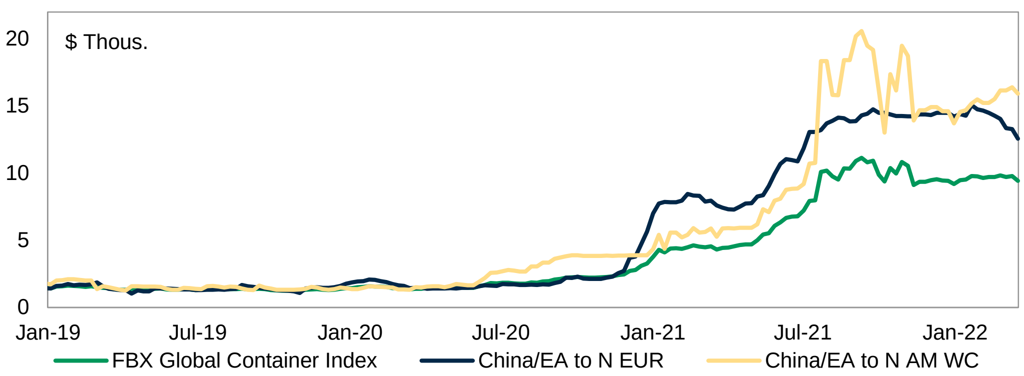
Container shipping seems to be less exposed, as the two countries only account for 1.5% of global traffic. But between ships being diverted and boxes being detained to check for the presence of banned goods in Russia-bound exports, Northern Europe's already-squeezed ports are facing even more disruptions. **The interruption of bookings to/from Russia by the major carriers – with the notable exception of China's Cosco – seems, for now, to be accentuating the decline since January in spot freight rates along the Asia-Europe route**, now deprived of a small percentage of its traffic. However, to avoid crossing Russian territory, a higher volume of railway traffic on the Silk Road between China and Europe could switch to the sea route and add to the tensions.

Russia	
Global maritime exports	5%
Oil and petroleum products	10%

While it was easing in Asia just a few weeks earlier, **the port congestion impacting containers is set to go into overtime** against a backdrop of aggravated blockages in the US, heightened pressure in Europe and a new Covid wave in China, where ships are back in long queues again. Container shipping times promise to get even longer. The decline in spot rates, which is partly seasonal, should not conceal the rise in contract rates, which are expected to extend the rate hike through H1. **Nonetheless, the surge in inflation and geopolitical uncertainty could temper demand, clearing the way for a possible easing by the end of the year.**

Bertrand GAVAUDAN

Transport price of a 40-foot container



Sources: Datastream, Freightos, Crédit Agricole S.A.

Food prices – Inflation is back

Euro area annual inflation was 5.8% in February 2022, from 5.0% in December 2021 (source: Eurostat). Energy prices were the main driver (up an annual 25.9% in December 2021). Prices fell in H220, helping to lessen consumers' perception of accelerated inflation.

2020-21: the pandemic kept prices in check

The pandemic affected the kinds of foods consumers bought. Prices of consumer products produced by major industrial suppliers dipped slightly but steadily (over three consecutive six-month periods starting in July 2020, resulting in an average decline of -0.4%). At the end of 2021, in France and in adjacent markets, prices increased on the majority of foodstuffs, as the cost of energy, commodities and agricultural inputs all rose. Supply-side inflation pushed supermarket prices up 0.5% YoY (2021, excluding fuel and primarily at the end of the year). France: features of rising food prices

The food price index often trends in the opposite direction to the general price index. Increases happen in event-driven bursts, followed by restraint or even falls – with the price war as a constant in the background. This battle to woo shoppers with low prices reflects fiercer competition since 2009 when the French Economic Modernisation Act (*Loi de modernisation de l'économie, LME*) and its measures on pricing freedom became law. Competition ramped up between suppliers (especially big international groups) and between the big supermarket chains. All in an industry with three clearly-delineated sectors: upstream agriculture, agrifoods and supermarkets.

Mandatory trade negotiations…

The balance of power is regulated through annual trade negotiations. The context for these talks has changed from the more liberal framework in 2009. France introduced more regulation to the food and drink industry (the EGALIM 1 Act in November 2018 and EGALIM 2 Act in October 2021) to shift the balance of power between large buyers and producers for talks in 2017/2021.

For prices to drop, volume must increase. To do this, supermarkets in France have formed four major purchasing centres. Upstream, the food industry is a highly varied grouping of 15,000 companies, in contact with agricultural producers, designated an adjustment variable in price variations.

Rising food prices

+3% in 2022?

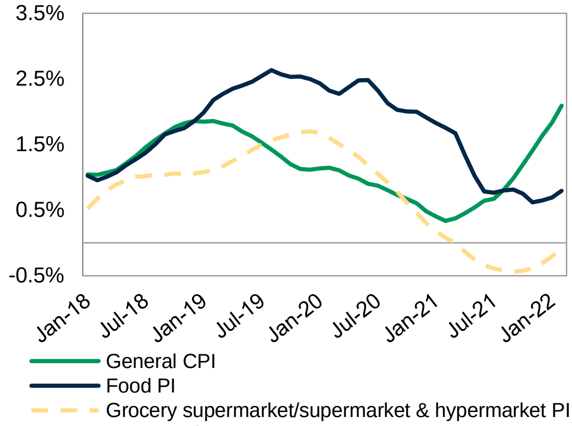
How food prices are formed is rarely a smooth consensus-based process where each actor in the chain adds their margins. When it comes to food, the perception is that prices are set by the distribution sector. As the primary damper on price increases, the distribution sector de facto decides on margins upstream.

…that were exceptionally extended for 2022

When they were due to wind up on 1 March, the 2021-22 negotiations pointed to an increase of 3% on average, a level not seen since 2014. And this was based on known upstream price increases at end-2021. Then the war in Ukraine started on 24 February 2022, sending up prices to such an extent that many of the clauses are already obsolete (price reviews and logistics penalties). Hence another round is due to start, with the danger of a very sharp rise in prices (double what was initially agreed to 6%?) and some difficult decisions ahead.

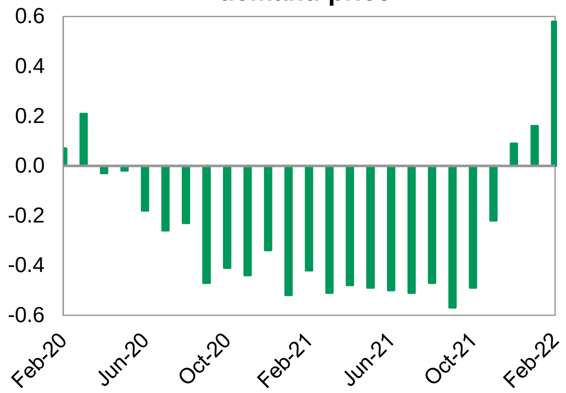
Noël ISORNI

France: price index



Sources: Insee, Crédit Agricole S.A.

Consumer products price index demand price



Sources: CA S.A., IRI Infoscan Food prices Census

MARKETS

Monetary policy – A wide range of tightening measures

Interest rates – Bound to flatten

Exchange rates – Monetary tightening and terms of trade risk

Monetary policy – A wide range of tightening measures

Monetary tightening was already on the cards, modulated according to the intensity of what has become a global concern – accelerating inflation. And now tightening measures must be bold enough to tackle the potential adverse shocks of the Russia-Ukraine conflict. The Fed's determination will continue to contrast with the constrained normalisation policies of the ECB and the BoE.

FEDERAL RESERVE: FOMC CONTINUES TO RAMP UP HAWKISHNESS

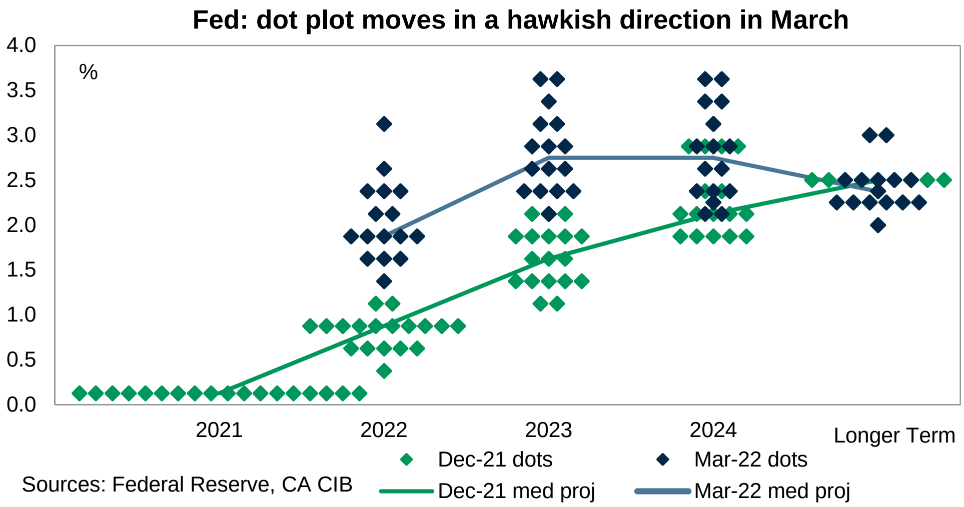
After an abrupt pivot in a hawkish direction at the end of 2021 from the FOMC, this shift has only picked up steam in the first three months of 2022. This was evident in the latest dot plot, where the median projection shifted notably upwards, including the 2022 dot going from three 25bp hikes in December to seven in the March version. Fed officials have left all options on the table, as summed up by Chair Jerome Powell in a recent speech: "If we conclude that it is appropriate to raise the Federal funds rate by more than 25 bp at a meeting or meetings, we will do so. And if we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well".

With our own inflation forecasts having been revised up since the beginning of the year as well, our expectations for the Fed have followed suit and we consequently expect a more aggressive tightening path compared to earlier in the year. Our latest base case involves a 50bp hike in May followed by another 25bp in June before the pace slows in H2 as quantitative tightening (QT) ramps up and inflation moves past the peak. We currently see additional 25bp hikes in each of Q3 and Q4, resulting in a target range of 1.50-1.75% at end-2022, and three further 25bp hikes next year leaving the target range right around the Fed's estimate of neutral at 2.25-2.50% at end-2023.

However, risks continue to be tilted to the upside, and in fact markets have priced in an even more aggressive scenario with an additional 200bp+ of tightening by the December 2022 meeting. We believe the Fed will remain data-dependent in determining the exact path of policy rates, and if we are forced to revise our inflation forecasts higher once again, we would likely adjust our Fed funds forecast closer to that of the market. For the time being, however, we maintain a slightly less hawkish stance as we are concerned that too aggressive a tightening path may weigh on the economic outlook more than the Fed would like and expect that a more aggressive balance sheet run-off could allow for a shallower rate hike path by H222 as well.

In this vein, we look for an earlier and faster balance-sheet run-off compared to the prior cycle, with an announcement on QT possible as soon as the May meeting. We expect the initial pace to begin in the USD25bn per month range with a quick ramp-up in increments of USD25bn to a peak of USD125bn per month, USD50bn in MBS and USD75bn in Treasuries. While we believe that the beginning of the process will involve natural run-off of maturing securities, we would not rule out outright sales of MBS further down the line.

Nicholas VAN NESS



Sources: Federal Reserve, CA CIB

EUROPEAN CENTRAL BANK: NORMALISATION UNDER PRESSURE

Despite the Russian invasion of Ukraine, and given that the economic outlook for the Eurozone remains relatively favourable, the ECB is expected to confirm the end of its purchase programmes by September 2022.

The PEPP was wound down as planned at the end of March, while the APP will end in Q3. The end of these purchase programmes means the end of monetary easing, but not yet the beginning of tightening. Therefore, the main issue for the ECB is to determine the pace of monetary tightening.

Obviously, the first tool is the deposit rate: this is what drives all market rates. For the time being, the ECB has given itself flexibility regarding its first rate hike: It is no longer tied to the end of the purchase programme (the rate hike will occur "some time" after the end of the APP, whereas it was supposed to occur "shortly thereafter" in previous releases). Furthermore, the ECB has been clear that it will decide on its rate hike based on economic developments.

Nevertheless, a consensus seems to have been forged at the Governing Council that the first rate hike will be in December. In an environment where, even if growth is likely to disappoint, inflation will surprise to the upside, the balance within the Governing Council is likely to remain for a 25bp increase in December.

On the other hand, as the economic slowdown will be increasingly noticeable in H222, we believe that the ECB will wait until June 2023 to raise rates again.

However, policy rates are not the only factor driving monetary tightening. Indeed, from June 2022 onwards, the TLTRO III will significantly tighten the ECB's monetary policy. The increase in the favourable TLTRO rate (from -1.0% to -0.5%) will not only increase the financing costs of the banking system, but will also lead to early repayments that could reduce the liquidity surplus (as well as the ECB's balance sheet) by around EUR1trn by the end of the year.

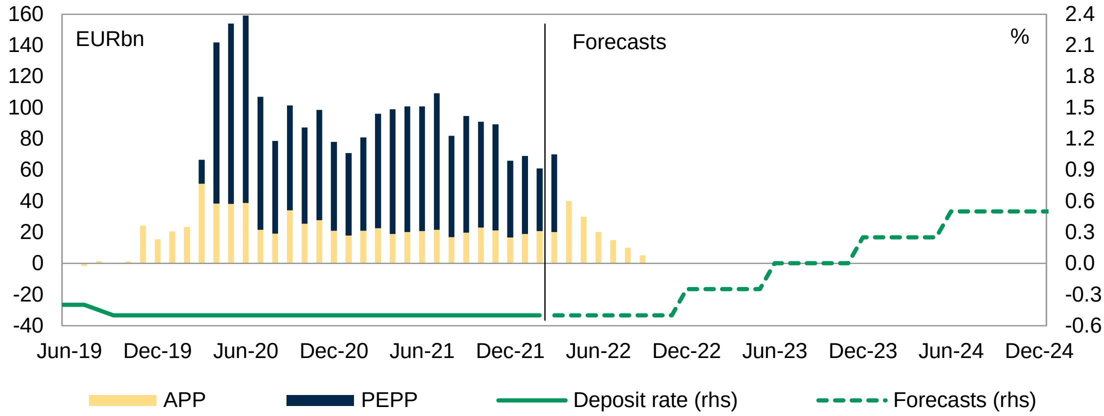
Policy rates are not the only factor driving monetary tightening.

At the same time, these TLTRO repayments will free up securities currently used as collateral to be sold to the market, acting exactly like quantitative tightening via the banking system – just as the TLTROs acted as quantitative easing during 2020.

The question for the ECB during 2022 is how flexible it will be in the face of very high inflation: the worst-case scenario would be an overreaction that would have little impact on inflation in the short term, but would undermine growth in the Eurozone.

Louis HARREAU

ECB: normalisation of the monetary policy



Source: ECB, Crédit Agricole CIB

BANK OF ENGLAND: A TOUGH JOB IN THE FACE OF THE HISTORIC SHOCK TO REAL INCOME

Since December, the BoE has raised its key policy rate, the Bank rate, three times, by a total 65bp to 0.75% in March, bringing it back to its pre-pandemic level. We anticipate that monetary tightening will continue in the short term against a backdrop of fast-rising inflation. Yet the uncertainty emanating from the war should make the BoE more cautious, as was already the case in March, and its action more uncertain amid expectations of slower demand. The BoE is expecting a historic shock to real household income, exacerbated by the Russian invasion in Ukraine – a shock that no monetary policy can prevent.

The BoE's tone became more dovish in March because of this uncertainty around the war in Ukraine.

In March, the BoE turned more dovish. The voting result showed one member of the MPC opposed to the 25bp rate hike, opting instead for the status quo. Forward guidance was also amended: the central bank no longer considers that rate hikes in the coming months are likely, but merely possible – signalling that the rate hike in March could be the last one.

The drop in real household income will be more significant than previously forecast (>2% in 2022) due to the impact of Russia's invasion of Ukraine on energy and commodity prices, and it will weigh more heavily on demand and domestic inflationary pressures in the medium term, which is likely to lead to an earlier drop in inflation down toward the 2% target.

The labour market continues to strengthen, suggesting that monetary policy tightening should continue in the short term

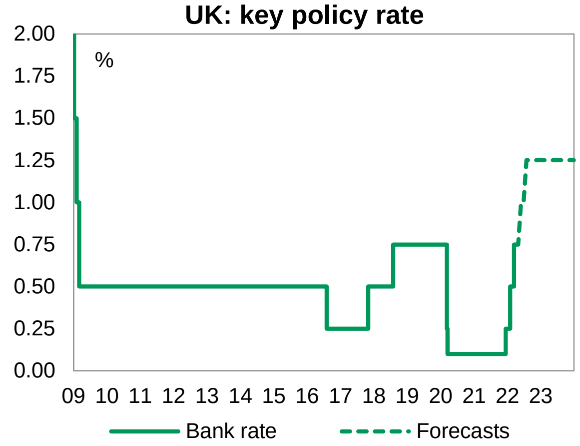
The labour market is not showing any signs of wear, contrary to the BoE's expectations. Vacancies are still increasing and unemployment continues to fall. Wage growth remains higher than its pre-pandemic pace, and surveys of companies suggest record wage hikes this year. Amid these labour market tensions and sharp increases in both core and headline inflation forecasts, the BoE is expected to keep tightening its monetary policy to anchor inflation expectations. We are maintaining our scenario for two additional increases in the coming months (one per quarter): one in May and the other in August (25bp each). If so, the Bank rate will reach 1.25% in August of this year. Our expectations are much lower than the market's, which have the Bank rate up above 2% by 2023 and which the BoE considers too hawkish.

We anticipate two more rate hikes this year.

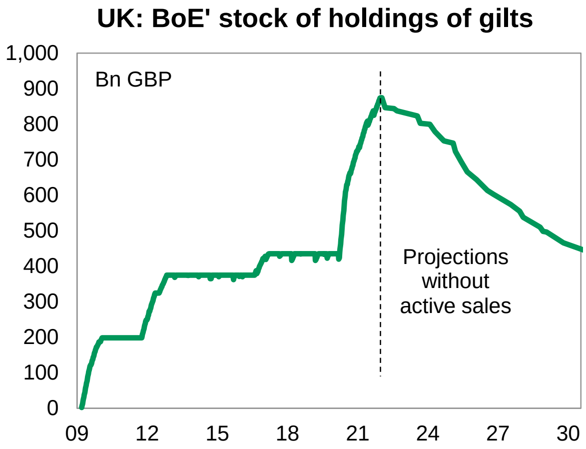
Securities could be sold off starting in May

The BoE has begun reducing its stock of securities purchased by deciding to stop reinvesting gilts that are maturing. In March, GBP28bn in gilts reaching maturity were not reinvested, which does not appear to have disrupted the bond markets. From now until the end of the year, there are only GBP3bn in gilts due to mature in July and GBP6bn in September, followed by GBP18bn in 2023. According to its forward guidance, the BoE could begin actively selling gilts when the key policy rate reaches 1% (in May, according to our expectations) and if economic conditions require. However, the BoE has already let it be known that the policy rate will remain its preferred tightening tool. If growth slows down as expected and the BoE discontinues its monetary policy tightening next August, we do not expect securities to be actively sold under our scenario.

Slavena NAZAROVA



Sources: Thomson Reuters, Crédit Agricole S.A.



Sources: BoE, Crédit Agricole S.A.

BANK OF JAPAN: YCC NOT TO BE CHANGED, JUST YET

Increasing focus on the relationship between the BoJ and a weaker JPY

The market's focus on the BoJ has been centred on the bank's interpretation of the recent rise in USD/JPY and its impact, both positive and negative.

While a negative impact of the weaker JPY is obvious, ie, the worsening terms of trade, a positive impact has become obscure.

A typical positive impact of the weaker JPY used to take the form of an increase in goods exports, which in turn would boost employment and capex at home. But with Japanese companies having accumulated outward foreign direct investment (FDI), a positive impact has come to take the form of a surplus in the JPY-denominated primary income account, which does not necessarily lead to a boost in domestic employment and capex. Indeed, such a surplus has either been piled up as retained earnings or been re-invested in the form of FDI instead of being distributed to households.

Meanwhile, a negative impact of the weaker JPY – the worsening terms of trade – has become so evident being coupled with rising energy and food import prices that Japan's current account before seasonal adjustment has moved into negative territory.

Kuroda believes a weaker JPY is net positive

Still the bank's governor, Haruhiko Kuroda, sticks to his long-held view that the weaker JPY is net positive for the Japanese economy.

He seems to be claiming that it should be the government that should take action if the weaker JPY brings about negative effects while the BoJ remains committed to the stable 2% inflation target based on the accord with the former Abe government back in 2013. Therefore, we remain of the view that YCC will be left intact during Kuroda's governorship, ie, until April 2023

Replacement of five board members to possibly lead to a change in the policy reaction function in H223

However, we have started to see that the Kishida government may have a different view on monetary policy than Abe. In March, Japan's lower house voted for the appointment of Hajime Takada, an economist at Okasan Securities, and Naoki Tamura, a senior advisor of SMBC, to replace board members Goshi Kataoka and Hitoshi Suzuki, respectively, on 24 July. While voting in the upper house is still pending, Kataoka, a dyed-in-the-wool reflationist, is to be replaced with non-reflationist Takada, indicates that the Kishida government is not seeking aggressive monetary easing.

Importantly, Kuroda's replacement in April 2023 will be the fifth replacement of the nine-member board as of 2022, suggesting that the BoJ's policy reaction function can change under a post-Kuroda governor, which in our view will take the form of shortening the long-term policy rates (10Y JGB yield) under YCC to, say, 5Y, leading to bear steepening of the >5Y zone of the JGB curve in 2023.

Kyohei MORITA

Five of nine BoJ board members to be replaced by April 2023

Titles	Names	Term	Major previous job
Governor	Haruhiko KURODA	8 April 2023	Vice Minister of Finance for International Affairs, MoF
Deputy governor	Masayoshi AMAMIYA	19 March 2023	Executive Director, BoJ
Deputy governor	Masazumi WAKATABE	19 March 2023	Professor, Waseda University
Board member	Hitoshi SUZUKI	23 July 2022	Deputy President, BTMU
Board member	Goushi KATAOKA	23 July 2022	Senior Economist, Mitsubishi UFJ Research and Consulting
Board member	Seiji ADACHI	25 March 2025	General Manager, Marusan Securities
Board member	Toyoaki NAKAMURA	30 June 2025	Representative Executive Officer, Hitachi
Board member	Asahi NOGUCHI	31 March 2026	Professor, Senshu University
Board member	Junko NAKAGAWA	29 June 2026	Chairperson, Nomura Asset Management

Sources: BoJ, Crédit Agricole CIB

Interest rates – Bound to flatten

Aggressive or measured, monetary tightening is pushing up short-term rates. Structural factors – as well as questions around whether inflation is here to stay and whether the recovery will last – will tend to slow the pace of increases in long-term rates.

USA: HAWKISH FED FLATTENS CURVE

Treasury yields have increased significantly since early March despite the Russia-Ukraine conflict. While short to intermediate rates will likely stay elevated given the rapidly changing Fed rhetoric to a more hawkish direction, we believe long end Treasury yields will likely outperform in this tightening cycle.

Since the 16 March FOMC meeting, a number of Fed speakers have reinforced the hawkish tone due to high inflation prints and continued rise in commodity prices. St Louis Fed President James Bullard's dissent for a 50bp hike at the March meeting was complemented by a desire to implement balance sheet run-off immediately and vie for a Fed funds rate above 3%. Fed Governor Chris Waller also favoured 50bp hike increments at coming meetings and balance sheet run-off as of July. Similarly, Fed Chair Jerome Powell kept all options on the table, including a larger move than 25bp.

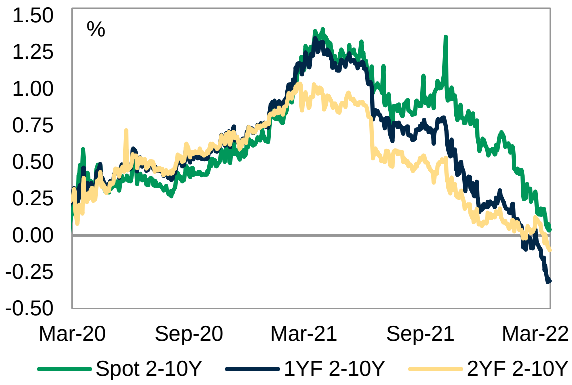
The hawkish comments suggest the Fed is willing to put the brakes on the US economy as needed to get inflation under control. Rising prices have stoked demand for TIPS, with 5Y and 10Y TIPS breakevens recently setting record highs at around 3.75% and 3.00%, respectively. OIS rates now project Fed policy rate at about 2.56% by February 2023, while 1Y forward 1Y OIS stands at around 2.88%, a level that we would consider restrictive. The 1Y forward 2-10Y swap curve is inverted by about 40bp (see Chart 1).

The Fed's willingness to normalise policy aggressively to control inflation will put further flattening pressure on the yield curve, in our view. Financial conditions have tightened in general since Q421, despite the recent rebound (see Chart 2). Interestingly, equities have remained relatively resilient, with the S&P 500 index down only about 5% YTD, so most of the tightening in financial conditions has been a result of wider credit and mortgage spreads, and a stronger USD YTD, which is usually associated with a flattening curve.

More aggressive rate hikes and an earlier/faster balance sheet run-off in this cycle will likely create a more pronounced economic slowdown, which would limit upward pressure on long-end rates, in our opinion. While the 10Y Treasury yield hit a cycle high of 3.25% in late 2018, we believe this time is different. We forecast 10Y Treasury yield to trade at about 2.00%, and the 2-10Y curve to invert to -40bp by the end of 2022.

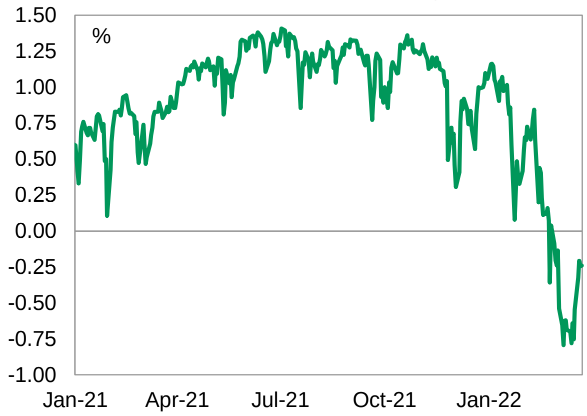
Alex LI

1Y forward 2-10Y swap curve has inverted



Sources: Bloomberg, Crédit Agricole CIB

Financial conditions have tightened



Sources: Bloomberg, Crédit Agricole CIB

EUROPE: STAYING VOLATILE

So far, **this year has been rather volatile for rates investors, and we think this will continue to be the case.** The main theme however will continue to be the expected path of accommodative policy withdrawal from central banks as we move on from the Covid crisis. Very unfortunately, we now face the Ukraine crisis which has humanitarian, growth and inflation implications to complicate the decision making. The contrast however is that the Covid crisis policy response was distinctly inflationary while the response to the Ukraine crisis may imply the need to counter the build-up in inflation pressures. From our view, this is not a conventional supply shock that will unwind but perhaps a new paradigm. So it is not so unusual for the market to be forward-looking and price in a more aggressive policy response from the ECB.

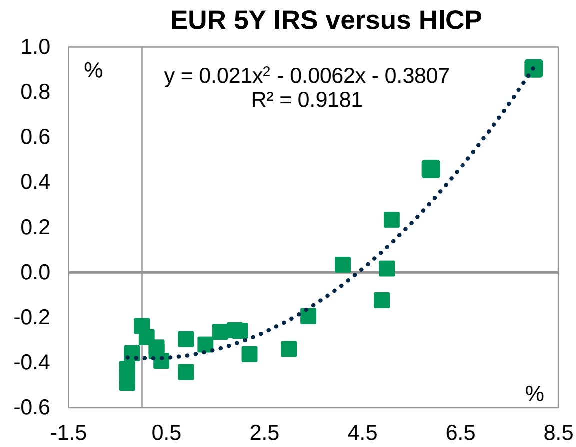
As Figure 1 shows, **the inflation outturn has accelerating inflation pushing for higher EUR 5Y swap rates**. And as inflation approaches 8%, it seems very likely that 1% swap rates is where we will arrive at a minimum. Hence we remain of the view that the EUR curve will continue to bear flatten with high front-end yields and long-end yields starting to stabilise just above 1%, which happens to be the assessment of the markets' terminal rate. To be clear, this level of long-end rates is dependent on the ECB proceeding with tightening, because if it does not, we believe long-term inflation expectation will rise further.

But before the ECB hikes rates, the PEPP will expire and APP purchases will come to an end later this year. In our view, **the end of QE should not send EGB yields materially higher, but it does imply that markets will be subject to more volatility** as there is no constant hand of stabilisation. Indeed, less forward guidance automatically opens up the path for the next stage of policy withdrawal which should imply wider spreads because of less favourable funding conditions. Between June and year-end, TLTRO paybacks could be very large, implying a large drop in excess liquidity which should push money market rates up and widen periphery EGB spreads.

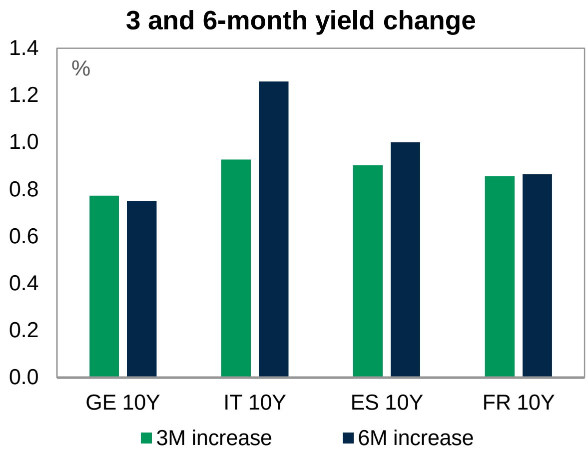
For Italy, we foresee only modest further cheapening as is usual in a rising yield environment (Figure 2). Having avoided a negative politically destabilising outcome at the Presidential elections, national elections will once more bring the focus upon BTPs in a year's time. As for upcoming French elections' impact on OATs, there are hardly any reasons to expect market volatility in the absence of a strong contender with a Eurosceptic background.

To be sure, France, as a large energy producer, might be more insulated from the energy shock than other major EU countries which are big importers of natural gas and electricity and perhaps more vulnerable. In our view, this implies some fiscal slippage as countries try to dampen household energy prices. For Germany, this year we expect net issuance to be more than doubled as its economy slows down, energy prices create a fiscal drag, and military spending is increased materially with EUR100bn approved, but yet to be funded.

Bert LOURENCO



Sources: Bloomberg, Crédit Agricole CIB



Sources: Bloomberg, Crédit Agricole CIB

Exchange rates – Monetary tightening and terms of trade risk

The war in Ukraine has pushed terms of trade risk into the spotlight over monetary tightening and risk aversion. But the eclipse may only be temporary.

DEVELOPED COUNTRIES: TOWARDS A NEW FX MARKET PARADIGM?

FX investors have recently embraced a new market paradigm based on the relative commodity-terms-of-trade as a main FX driver. With global commodity prices likely to remain very elevated for now and with market risk sentiment still resilient, a carry-over of the dominant Q1 theme into Q2 could see commodity currencies outperforming while the JPY and EUR can remain on the defensive. The 'USD smile' market theme may stage a comeback, however, especially if the risk appetite that fuels demand for high-yielding USD-proxies at present wanes in Q222.

Focus in Q222 will remain on the war in Ukraine and its impact on global energy prices as well as on the upcoming Fed policy meetings and their impact on the global markets. We further note that FX investors have recently embraced a new market paradigm that has been successfully vying for dominance with other traditional templates like risk-on/risk-off – or 'RoRo' – as well as the 'USD smile' – according to which the USD should outperform when the Fed is leading the global tightening cycle or when risk aversion drives investors into the safety of the UST market.

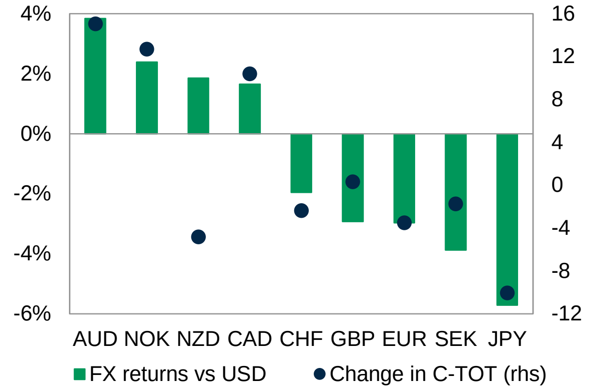
In particular, the recent FX market price action seems to follow the path of the relative commodity-terms-of-trade (dubbed 'CTOT'), with the currencies of energy exporters with hawkish central banks like the CAD, NOK and AUD emerging as the big outperformers (including vs the USD), while the currencies of energy importers with dovish central banks like the JPY, EUR, SEK and CHF as the key underperformers.

A key question ahead is whether 'CTOT' can remain a dominant FX market driver or if 'RoRo' and the 'USD smile' will stage a return. With global commodity prices likely to remain very elevated for now and with market risk sentiment having recovered of late – potentially because investors believe that the global recovery will continue despite the above risks – a carry-over of the dominant Q1 theme into Q2 should see G10 commodity currencies outperforming while the likes of the JPY and EUR could remain on the defensive in the near term.

The 'RoRo' and in particular the 'USD smile' market themes may stage a comeback, however, especially if the risk appetite that fuels demand for high-yielding USD-proxies at present wanes in Q222. Among the triggers of a potential renewed risk aversion spike will be a more protracted conflict in Ukraine, worsening energy and food crises as well as tighter global financial conditions on the back of even more hawkish central banks. **The developments can take their toll on the global economic sentiment and risk appetite and support the safe-haven USD.**

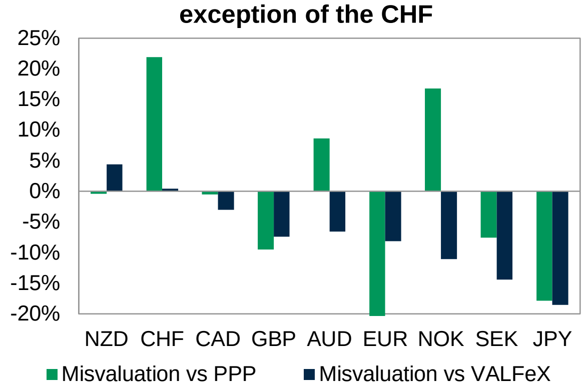
Given the limited exposure of the US economy to the above headwinds and the hawkish Fed, the reign of the high-yielding, safe-haven King USD can resume in Q2. As in Q1, however, FX overvaluation and an overhang of market longs may limit any USD outperformance. Any USD-longs thus are best expressed vs the low-

FX returns vs relative commodity terms of trade (C-ToT) change in Q122



Sources: Bloomberg, Crédit Agricole CIB

The USD is looking overvalued across most G10 currencies with the exception of the CHF



Sources: Bloomberg, Crédit Agricole CIB

yielding currencies of commodity importers like the overvalued CHF. At the same time, the currencies of commodity exporters, especially those that are less impacted by the Ukraine war like the AUD and CAD could remain buy on dips. We remain long CAD/CHF in our portfolio.

Valentin MARINOV

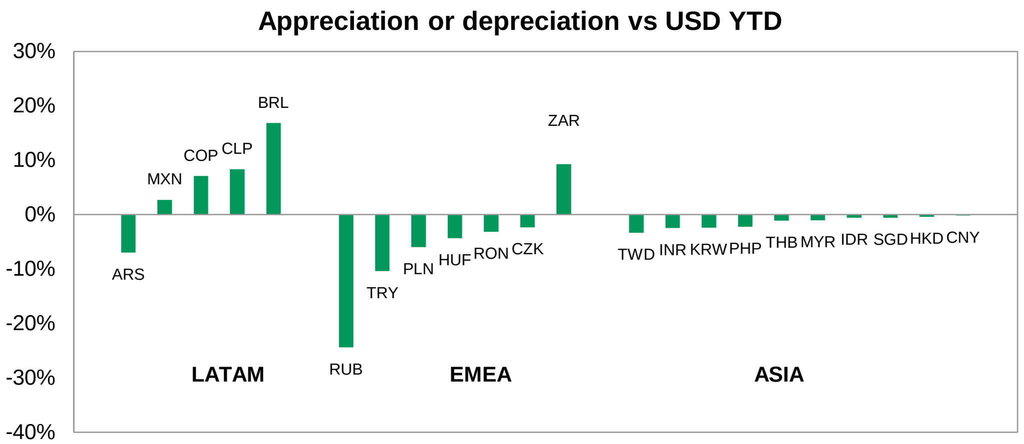
EMERGING COUNTRIES: DIFFERENTIATED VULNERABILITIES

Our EM currency forecasts reflect the macro backdrop we described in the EM macro section of this publication, but also whether the risks (geopolitical, supply chains, inflation and impact of higher commodity prices) are already in the price. On the paper, **Central European currencies are the most vulnerable**. However, these currencies have also depreciated more strongly than other EM currencies since the beginning of the year. Hence, their vulnerability is already in the prices. Also, we believe **the region's central banks will tighten more than they expected to do at the beginning of the year**, in reaction to inflation pressure and market volatility (we revised our rate forecast upward). This should support currencies. In a median scenario where the war does not spread beyond the frontiers of Ukraine, we see CE4 currencies coming towards appreciation, beyond possible short term weakness.

Latin American currencies, by contrast, have been resilient, thanks to their remoteness from Europe and Latin American countries' status of commodity exporters. We also expect Latin American central banks to hike rates significantly. However, we expect the combination of higher inflation, narrow fiscal flexibility and political uncertainty to weigh on currencies, eventually.

Asian currencies should prove resilient on average, in our view. Current account surpluses in many countries, despite higher energy prices, and the fact that central banks will increasingly join the tightening race, should act as buffers. Also, the fact that most Asian currencies have depreciated in Q1 suggests that part of their vulnerability to the war in Ukraine has been priced in. We see the CNY depreciating slightly, in line with efforts of the authorities to enhance supportive economic policy.

Sébastien BARBÉ



Sources: Bloomberg, Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
United States	**5.7**	**3.3**	**2.1**	**4.7**	**7.6**	**4.2**	**-3.6**	**-3.5**	**-3.3**
Japan	**1.7**	**0.7**	**2.0**	**-0.2**	**1.3**	**1.2**	**2.8**	**0.8**	**1.5**
Eurozone	**5.3**	**2.9**	**2.4**	**2.6**	**6.8**	**3.3**	**3.4**	**2.7**	**2.9**
Germany	2.9	2.5	2.3	3.2	6.9	3.5	6.5	6.8	6.7
France	7.0	3.3	2.1	2.1	4.9	2.9	-1.0	-0.7	-0.7
Italy	6.6	1.9	2.1	2.0	7.4	3.0	3.0	1.2	1.0
Spain	5.0	4.6	3.6	3.0	8.0	3.0	1.2	1.6	2.3
Netherlands	4.8	3.5	1.8	2.8	8.8	4.0	9.0	8.7	8.6
Belgium	6.1	2.3	1.5	3.2	9.9	3.6	2.4	0.3	0.0
Other advanced									
United Kingdom	7.4	4.0	1.2	2.6	7.4	4.2	-2.6	-3.2	-4.0
Canada	5.1	3.9	2.5	3.3	3.2	2.2	0.6	0.2	-0.2
Australia	3.5	4.1	2.6	2.5	2.1	2.2	3.6	1.3	0.5
Switzerland	3.7	3.0	1.4	0.4	0.6	0.8	7.2	7.5	7.2
Sweden	4.6	2.8	2.1	2.2	5.1	3.0	5.6	5.2	5.0
Norway	4.1	3.3	2.4	3.5	3.4	2.3	15.4	15.5	13.7
Asia	**7.3**	**5.3**	**5.2**	**2.2**	**3.1**	**2.8**	**1.7**	**1.0**	**0.7**
China	8.1	4.9	5.3	0.9	2.1	2.3	1.8	1.2	0.6
India	9.6	7.4	6.0	5.1	6.3	4.5	-1.0	-2.5	-2.0
South Korea	4.0	3.3	2.7	2.4	2.3	1.6	4.9	3.9	3.7
Indonesia	3.5	5.0	4.5	2.0	3.0	3.0	-1.0	-1.3	-2.5
Taiwan	6.3	3.4	2.7	2.0	2.3	1.3	14.2	13.2	13.0
Thailand	1.6	3.9	4.0	1.2	1.5	1.2	-2.8	0.3	3.2
Malaysia	3.5	6.5	6.0	2.5	2.8	2.5	3.0	3.2	2.7
Singapore	7.6	3.8	3.0	2.1	2.5	1.2	18.6	16.8	15.2
Hongkong	6.4	2.0	2.9	1.6	2.1	2.0	8.3	5.0	5.5
Philippines	5.6	6.9	6.5	4.4	3.0	3.5	0.5	-1.2	-1.0
Vietnam	3.9	6.5	6.7	2.5	3.5	4.0	1.5	2.7	2.5
Latin America	**6.3**	**1.8**	**2.1**	**14.0**	**11.4**	**8.7**	**-1.4**	**-1.2**	**-1.4**
Brazil	4.6	0.6	2.3	10.1	6.5	4.2	-1.4	-1.2	-1.5
Mexico	5.6	2.2	1.8	7.4	5.8	3.8	-0.4	-0.6	-1.0
Argentina	7.8	2.2	2.0	51.0	46.0	40.0	1.0	0.8	0.5
Colombia	10.8	4.5	2.8	5.6	6.0	3.6	-5.5	-4.1	-4.5
Emerging Europe	**5.6**	**-2.0**	**2.1**	**9.2**	**20.2**	**6.4**	**1.6**	**-1.1**	**-1.6**
Russia	4.7	-9.0		6.7	27.0		6.8		
Turkey	8.0	3.8	4.0	18.0	25.0	20.0	-2.0	-2.0	-4.0
Poland	5.7	3.5	4.3	5.1	10.8	6.2	-0.9	-1.7	-1.9
Czech Republic	3.3	1.6	3.5	3.8	8.9	3.5	-1.8	-0.3	0.0
Romania	5.6	3.9	4.5	5.0	7.8	4.0	-7.1	-6.1	-6.0
Hungary	7.1	2.0	3.5	5.1	7.0	3.9	-1.5	-1.0	-0.5
Africa, Middle East	**4.2**	**4.3**	**3.5**	**10.5**	**9.0**	**6.6**	**2.6**	**3.5**	**2.7**
Saudi Arabia	2.9	5.5	3.5	3.1	2.2	1.8	5.0	6.9	5.1
United Arab Emirates	2.8	5.1	4.1	0.2	3.5	2.9	8.8	12.7	10.1
South Africa	4.9	2.0	1.8	4.5	5.5	4.5	3.7	2.0	1.0
Egypt	7.1	5.0	5.3	5.2	10.1	8.2	-4.2	-4.5	-4.0
Algeria	3.9	2.7	2.0	6.6	9.1	7.3	-5.0	-1.2	-2.1
Qatar	2.9	4.7	3.1	2.3	4.0	2.6	5.0	6.9	5.1
Koweit	2.7	5.9	4.1	3.4	4.1	2.9	30.0	31.0	27.0
Morocco	5.4	3.9	3.7	1.4	3.1	2.1	-4.0	-4.5	-4.6
Tunisia	3.5	3.2	2.7	5.7	8.1	5.8	-4.5	-5.5	-5.3
Total	**6.0**	**3.4**	**3.3**	**4.5**	**6.7**	**4.0**	**0.8**	**0.2**	**0.1**
Advanced economies	**5.1**	**3.0**	**2.1**	**3.2**	**6.2**	**3.4**	**0.1**	**-0.4**	**-0.3**
Emerging countries	**6.7**	**3.8**	**4.2**	**5.4**	**7.2**	**4.4**	**1.4**	**0.7**	**0.3**

	2021				2022				2023			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	6.3	6.7	2.3	7.0	1.7	3.3	2.0	1.8	2.0	2.1	2.2	2.0
Japan	-0.5	0.6	-0.7	1.1	-0.9	0.6	0.5	0.6	0.5	0.3	0.3	0.3
Eurozone	-0.1	2.2	2.3	0.3	0.2	0.4	0.8	0.6	0.6	0.6	0.5	0.5
Germany	-1.7	2.2	1.7	-0.3	0.0	0.9	1.2	0.5	0.4	0.4	0.4	0.4
France	0.2	1.3	3.1	0.7	0.3	0.2	0.5	0.7	0.6	0.4	0.4	0.3
Italy	0.3	2.7	2.5	0.6	-0.3	-0.4	0.3	0.4	0.6	0.9	0.7	0.5
Spain	-0.7	1.2	2.6	2.1	0.4	0.1	1.2	1.0	1.0	1.0	0.6	0.5
United Kingdom	-1.2	5.6	0.9	1.3	1.2	-0.1	0.1	0.3	0.4	0.4	0.4	0.4

	2021				2022				2023			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	1.9	4.8	5.3	6.7	8.0	8.2	7.7	6.7	5.4	4.1	3.6	3.5
Japan	-0.5	-0.6	0.0	0.4	0.6	1.8	1.6	1.4	1.1	1.2	1.3	1.4
Eurozone	1.1	1.8	2.8	4.6	6.1	7.5	7.3	6.5	4.4	3.1	3.1	2.7
Germany	1.7	2.2	3.5	5.4	5.9	7.5	7.2	6.8	4.6	3.3	3.5	2.8
France	1.0	1.8	2.2	3.3	4.2	5.3	5.3	4.7	3.7	2.7	2.7	2.7
Italy	0.8	1.2	2.1	3.8	6.1	8.0	8.1	7.2	4.5	2.8	2.5	2.3
Spain	0.5	2.3	3.4	5.8	7.7	8.8	8.5	6.9	4.3	2.7	2.6	2.3
United Kingdom	0.6	2.1	2.8	4.9	6.1	7.9	8.0	7.7	7.0	4.5	3.5	2.1

	2021				2022				2023			
Unemployment rate, %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	6.2	5.9	5.1	4.2	3.8	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Japan	2.9	2.9	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.5
Eurozone	8.3	8.2	7.6	7.3	7.5	7.5	7.5	7.3	7.2	7.1	7.1	7.0
Germany	3.9	3.6	3.4	3.4	3.4	3.2	3.2	3.2	3.1	3.1	3.1	3.1
France	8.0	8.2	7.9	7.4	7.5	7.5	7.6	7.5	7.4	7.4	7.5	7.4
Italy	10.1	9.8	9.1	9.1	9.1	9.2	9.4	9.1	9.4	9.2	9.1	8.9
Spain	15.6	15.4	14.7	13.4	13.9	14.3	14.1	13.3	12.8	12.6	12.6	12.5
United Kingdom	4.8	4.6	4.2	3.9	3.7	4.0	4.1	4.2	4.2	4.1	4.2	4.1

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2021	5.3	3.5	3.8	4.3	10.9	8.6	1.4	0.5
2022	2.9	3.3	1.9	5.5	6.8	8.4	-0.4	0.4
2023	2.4	2.2	1.1	4.6	4.0	4.5	-0.1	0.5
Q1 2022	*0.2*	*-0.1*	*0.3*	*0.9*	*1.0*	*0.9*	*0.0*	*0.4*
Q2 2022	*0.4*	*0.3*	*0.4*	*1.3*	*1.5*	*1.8*	*-0.1*	*0.4*
Q3 2022	*0.8*	*0.8*	*0.4*	*1.4*	*1.3*	*1.5*	*0.0*	*0.4*
Q4 2022	*0.6*	*0.5*	*0.2*	*1.3*	*0.9*	*1.1*	*-0.1*	*0.5*
Germany								
2021	2.9	0.1	3.1	1.3	9.8	9.1	0.7	1.2
2022	2.5	3.5	2.3	2.3	7.7	8.9	-0.2	-0.1
2023	2.3	2.0	2.4	3.4	4.3	4.5	0.1	0.0
Q1 2022	*0.0*	*-0.2*	*0.3*	*0.4*	*0.5*	*0.7*	*-0.1*	*0.0*
Q2 2022	*0.9*	*0.7*	*1.1*	*2.1*	*2.5*	*3.0*	*-0.1*	*0.0*
Q3 2022	*1.2*	*1.2*	*1.0*	*1.5*	*2.1*	*2.2*	*0.0*	*0.0*
Q4 2022	*0.5*	*0.4*	*0.5*	*1.1*	*1.1*	*1.2*	*0.0*	*0.0*
France								
2021	7.0	4.7	6.3	11.5	9.3	7.7	0.2	0.0
2022	3.3	4.1	2.1	2.1	7.7	7.2	0.0	0.2
2023	2.1	2.4	0.0	1.9	3.9	3.7	0.0	0.4
Q1 2022	*0.3*	*-0.1*	*0.6*	*0.4*	*1.9*	*1.6*	*0.0*	*0.0*
Q2 2022	*0.2*	*0.4*	*-0.2*	*0.5*	*1.5*	*1.3*	*0.0*	*-0.1*
Q3 2022	*0.5*	*0.8*	*0.0*	*0.4*	*1.0*	*1.0*	*0.0*	*0.0*
Q4 2022	*0.7*	*0.6*	*0.0*	*0.5*	*1.0*	*0.8*	*0.0*	*0.2*
Italy								
2021	6.6	5.2	1.0	17.0	13.4	14.6	-0.1	0.3
2022	1.9	2.2	0.7	5.7	4.6	7.2	-0.7	0.1
2023	2.1	2.5	-0.1	3.4	3.2	4.1	-0.2	0.1
Q1 2022	*-0.3*	*-0.2*	*0.2*	*0.8*	*0.7*	*0.8*	*0.0*	*-0.4*
Q2 2022	*-0.4*	*-0.5*	*0.1*	*0.6*	*0.8*	*0.9*	*0.0*	*-0.2*
Q3 2022	*0.3*	*0.1*	*0.1*	*0.7*	*0.5*	*0.9*	*-0.1*	*0.2*
Q4 2022	*0.4*	*0.3*	*-0.2*	*1.0*	*0.4*	*0.9*	*-0.2*	*0.2*
Spain								
2021	5.0	5.3	2.6	3.6	13.7	13.1	0.5	0.3
2022	4.6	3.9	0.5	6.8	12.0	10.1	0.9	0.0
2023	3.6	2.8	1.7	7.3	4.4	4.5	0.1	0.0
Q1 2022	*0.4*	*0.3*	*0.5*	*1.7*	*1.0*	*1.8*	*-0.2*	*0.0*
Q2 2022	*0.1*	*-0.2*	*0.5*	*1.3*	*1.1*	*1.8*	*-0.2*	*0.0*
Q3 2022	*1.2*	*1.3*	*0.5*	*2.3*	*1.0*	*1.5*	*-0.1*	*0.0*
Q4 2022	*1.0*	*1.0*	*0.5*	*2.2*	*1.0*	*1.4*	*-0.1*	*0.0*
Portugal								
2021	4.9	4.4	5.0	6.1	13.0	12.8	-0.6	0.4
2022	4.6	4.3	1.6	4.3	13.3	10.6	0.6	0.1
2023	1.7	2.0	0.9	6.6	3.6	5.4	-1.1	0.0
Q1 2022	*0.3*	*0.3*	*0.1*	*0.8*	*1.0*	*1.0*	*0.0*	*0.0*
Q2 2022	*0.4*	*0.3*	*0.3*	*0.7*	*1.1*	*1.0*	*0.0*	*0.0*
Q3 2022	*0.4*	*0.5*	*0.3*	*1.6*	*1.2*	*1.7*	*-0.3*	*0.0*
Q4 2022	*0.5*	*0.6*	*0.2*	*2.0*	*0.9*	*1.4*	*-0.3*	*0.0*
Netherlands								
2021	4.8	3.5	4.3	3.4	7.0	5.4	2.0	-0.5
2022	3.5	4.2	2.8	1.3	4.6	4.2	0.9	0.0
2023	1.8	1.6	0.8	1.6	3.9	3.8	0.6	0.0
Q1 2022	*0.3*	*0.1*	*0.2*	*0.4*	*1.0*	*1.0*	*0.1*	*0.0*
Q2 2022	*0.4*	*0.3*	*0.3*	*0.4*	*1.0*	*1.0*	*0.1*	*0.0*
Q3 2022	*0.3*	*0.2*	*0.2*	*0.4*	*1.0*	*1.0*	*0.1*	*0.0*
Q4 2022	*0.3*	*0.2*	*0.2*	*0.4*	*1.0*	*1.0*	*0.1*	*0.0*
United Kingdom								
2021	7.4	6.2	14.3	5.9	-1.3	3.8	-1.5	0.4
2022	4.0	4.9	5.4	1.6	9.0	7.5	0.3	0.1
2023	1.2	1.5	4.1	1.2	3.4	5.7	-0.7	-0.1
Q1 2022	*1.2*	*0.8*	*1.0*	*1.2*	*3.0*	*2.0*	*0.3*	*0.0*
Q2 2022	*-0.1*	*0.2*	*1.0*	*-1.0*	*1.0*	*1.0*	*0.0*	*-0.3*
Q3 2022	*0.1*	*0.3*	*1.0*	*-1.0*	*0.5*	*1.0*	*-0.2*	*0.0*
Q4 2022	*0.3*	*0.3*	*1.0*	*1.0*	*0.5*	*1.5*	*-0.3*	*0.0*

(a) contribution to GDP growth (%, q/q) (b) q/q, %

INTEREST RATES

Short-term interest rates		5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Etats-Unis	Fed funds	0.50	1.25	1.50	1.75	2.00	2.25	2.25	2.50
	Sofr	0.29	1.04	1.29	1.54	1.79	2.04	2.04	2.29
Japon	Call rate	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.01	-0.01	-0.01	0.00	0.01	0.02	0.03	0.03
Eurozone	Deposit	-0.50	-0.50	-0.50	-0.25	-0.25	0.00	0.00	0.25
	€str	-0.58	-0.58	-0.57	-0.32	-0.31	-0.05	-0.05	0.20
	Euribor 3m								
United-Kingdom	Base rate	0.75	1.00	1.25	1.25	1.25	1.25	1.25	1.25
	Sonia	0.70	0.95	1.20	1.20	1.20	1.20	1.20	1.20
Sweden	Repo	0.00	0.00	0.00	0.00	0.00	0.25	0.50	0.75
Norway	Deposit	0.75	1.00	1.50	2.00	2.25	2.50	2.75	3.00
Canada	Overnight	0.50	1.00	1.25	1.50	1.50	1.75	1.75	2.00

10Y rates	5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
USA	2.43	2.55	2.25	2.00	2.15	2.10	2.05	1.95
Japan	0.23	0.25	0.25	0.25	0.25	0.30	0.37	0.45
Eurozone (Germany)	0.60	0.65	0.80	0.90	0.95	1.05	1.10	1.05
Spread 10 ans / Bund								
France	0.53	0.50	0.55	0.50	0.55	0.55	0.60	0.60
Italy	1.62	1.60	1.75	1.85	2.00	2.05	2.10	2.10
Spain	0.98	1.00	1.10	1.15	1.25	1.35	1.35	1.40

Asia		5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	0.75	1.50	1.75	2.00	2.25	2.50	2.50	2.75
India	Repo rate	0.00	4.00	4.25	4.50	4.50	4.75	5.00	5.00
Indonesia	7D (reverse) repo rate	3.50	3.50	3.75	4.00	4.25	4.25	4.50	4.75
Korea	Base rate	1.25	1.50	1.75	1.75	2.00	2.00	2.00	2.00
Malaysia	OPR	1.75	1.75	2.00	2.25	2.50	2.50	2.75	3.00
Philippines	Repo rate	2.00	2.00	2.00	2.25	2.25	2.50	2.50	2.75
Singapore	6M SOR	1.19	0.50	0.74	1.08	1.14	1.39	NA	NA
Taiwan	Redisc	1.38	1.50	1.63	1.63	1.75	1.75	1.75	1.75
Thailand	Repo	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Vietnam	Refinancing rate	4.00	4.00	4.50	5.00	5.00	5.00	5.00	5.00
Latin America									
Brazil	Overnight/Selic	11.75	13.25	13.25	13.25	13.00	12.50	11.00	9.50
Mexico	Overnight rate	6.50	7.50	8.50	8.50	8.50	8.50	8.50	8.50
Emerging Europe									
Czech Rep.	14D repo	5.00	5.50	5.50	5.50	5.50	5.50	5.25	5.00
Hungary	Base rate	4.40	6.40	6.40	6.40	6.40	6.25	6.00	5.75
Poland	7D repo	3.50	5.00	5.50	5.50	5.50	5.50	5.50	5.50
Romania	2W repo	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.50
Russia	1W auction rate	20.00							
Turkey	1W repo rate	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Africa & Middle East									
South Africa	Repo	4.25	4.50	5.00	5.00	4.50	4.00	4.00	4.00
UAE	Repo	0.90	0.60	0.60	0.85	0.85	1.10	1.35	1.50
Saudi Arabia	Repo	1.25	1.25	1.50	1.75	1.75	2.00	2.00	2.25

EXCHANGE RATES

USD Exchange rate

Industrialised countries		5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Euro	EUR/USD	1.09	1.15	1.16	1.18	1.18	1.19	1.20	1.21
Japan	USD/JPY	123.3	118.0	118.0	116.0	115.0	114.0	113.0	112.0
United Kingdom	GBP/USD	1.31	1.35	1.36	1.38	1.39	1.40	1.41	1.43
Switzerland	USD/CHF	0.93	0.94	0.94	0.94	0.94	0.94	0.94	0.93
Canada	USD/CAD	1.24	1.22	1.21	1.20	1.19	1.18	1.19	1.20
Australia	AUD/USD	0.76	0.74	0.75	0.76	0.77	0.78	0.79	0.80
New Zealand	NZD/USD	0.70	0.73	0.74	0.75	0.75	0.76	0.77	0.78

Euro Cross rates

Industrialised countries		5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Japan	EUR/JPY	135	135	136	136	136	136	136	136
United Kingdom	EUR/GBP	0.83	0.85	0.85	0.85	0.85	0.85	0.85	0.84
Switzerland	EUR/CHF	1.02	1.08	1.09	1.10	1.11	1.12	1.13	1.13
Sweden	EUR/SEK	10.27	10.10	10.00	9.90	9.80	9.80	9.70	9.70
Norway	EUR/NOK	9.50	9.90	9.80	9.70	9.60	9.60	9.50	9.50

Asia		5-Apr	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	USD/CNY	6.36	6.48	6.44	6.40	6.40	6.42	6.45	6.49
Hong Kong	USD/HKD	7.83	7.80	7.80	7.80	7.81	7.81	7.82	7.82
India	USD/INR	75.31	76.50	76.00	75.50	75.00	75.00	75.20	75.20
Indonesia	USD/IDR	14345	14400	14300	14200	14000	14200	14300	14300
Malaysia	USD/MYR	4.21	4.20	4.18	4.16	4.15	4.15	4.15	4.15
Philippines	USD/PHP	51.3	52.0	51.7	51.0	50.7	50.7	50.5	50.0
Singapore	USD/SGD	1.36	1.35	1.34	1.33	1.32	1.31	1.31	1.30
South Korea	USD/KRW	1215	1195	1190	1180	1160	1150	1140	1130
Taiwan	USD/TWD	28.7	28.0	27.8	27.7	27.6	27.5	27.4	27.3
Thailand	USD/THB	33.5	32.9	32.5	32.2	32.0	31.8	31.5	31.0
Vietnam	USD/VND	22873	22800	22700	22600	22550	22500	22450	22400
Latin America									
Brazil	USD/BRL	4.66	5.30	5.50	5.30	5.35	5.40	5.45	5.50
Mexico	USD/MXN	19.86	21.00	20.70	20.50	20.70	21.00	21.25	21.50
Africa									
South Africa	USD/ZAR	14.61	15.00	14.50	14.50	14.00	14.00	14.50	15.00
Emerging europe									
Poland	USD/PLN	4.24	4.28	4.06	3.91	3.86	3.77	3.69	3.64
Russia	USD/RUB	83.25							
Turkey	USD/TRY	14.72	15.00	15.10	15.20	15.30	15.40	15.50	15.60
Central Europe									
Czech Rep.	EUR/CZK	24.36	25.00	24.90	24.80	24.70	24.70	24.70	24.70
Hungary	EUR/HUF	376	365	355	350	345	340	340	340
Poland	EUR/PLN	4.63	4.75	4.55	4.50	4.48	4.45	4.43	4.40
Romania	EUR/RON	4.94	4.95	4.94	4.94	4.94	4.93	4.92	4.91

COMMODITIES

Av. quarter price		1-Apr	2022			2023			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	108	110	107	105	100	100	105	108

Av. quarter price		1-Apr	2022			2023			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,924	2,100	1,950	1,900	1,950	2,000	2,100	2,150

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2021	2022	2023	2021	2022	2023
United States	**-12.4**	**-6.5**	**-4.7**	**102.2**	**102.6**	**101.8**
Japan	**-6.4**	**-7.0**	**-3.5**	**242.3**	**244.4**	**244.2**
Eurozone	**-6.2**	**-4.3**	**-2.9**	**95.2**	**93.6**	**94.1**
Germany	-6.2	-3.4	-2.6	70.3	69.0	66.0
France	-6.5	-5.3	-4.6	112.9	112.9	113.5
Italy	-7.5	-5.6	-4.3	152.5	149.5	148.5
Spain	-6.8	-6.6	-1.0	119.2	113.4	109.5
Netherlands	-4.9	-1.7	-0.8	57.8	56.4	55.1
Belgium	-6.3	-4.2	-4.0	112.7	108.9	107.4
Greece	-11.0	-3.3	-1.0	188.7	170.0	165.0
Ireland	-4.1	-5.1	-4.1	54.7	56.6	57.7
Portugal	-4.3	-2.6	-2.0	127.3	124.4	124.2
United Kingdom	**-10.1**	**-5.0**	**-3.9**	**103.0**	**104.0**	**104.7**

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