

Central Bank Palooza

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Wed 12/22	GDP, annualized (Third Estimate)	3Q21	2.1% Q/Q	-	2.1% Q/Q
Wed 12/22	Conference Board Consumer Confidence	Dec	110.8	▲	109.5
Wed 12/22	Existing Home Sales	Nov	6.54 M	▲	6.34 M
Thu 12/23	Personal Income	Nov	0.5% M/M	-	0.5% M/M
Thu 12/23	Personal Spending	Nov	0.6% M/M	▼	1.3% M/M
Thu 12/23	Core PCE Deflator	Nov	4.5% Y/Y	▲	4.1% Y/Y
Thu 12/23	New Home Sales	Nov	767 K	▲	745 K
Fri 12/24	Markets Closed for Christmas		--		--
Europe					
Tue 12/21	EA Consumer Confidence (Advance Estimate)	Dec	-8.5	▼	-6.8
Wed 12/22	U.K. GDP (Final Estimate)	3Q21			1.3% Q/Q
Fri 12/24	Markets Closed for Christmas	Dec	--		--
Asia Pacific					
Mon 12/20	PBOC Monetary Policy Meeting	Dec	--		--
Tue 12/21	South Korea Exports 20 Days	Dec			27.6% Y/Y
Fri 12/24	Japan Consumer Price Index	Nov			0.1% Y/Y

Arrows indicate consensus forecast compared to the previous period. Local dates of release.

U.S.

- **The core PCE deflator**—the Fed’s preferred inflation measure—is expected to increase in November amid protracted supply constraints and elevated demand.
- Meanwhile, **November’s personal spending data** will be watched closely to see if higher prices are impacting consumers and how much spending is shifting from goods to services, given weaker-than-expected retail sales growth in November.

Europe

- **U.K. GDP 3Q21 growth** will show whether the economy advanced less than expected.
- **Euro area and U.K. December Consumer Confidence** will give an indication of whether Omicron is affecting consumers’ decisions.

Asia Pacific

- **The PBOC meeting for December** will likely see key policy interest rates remain unchanged, as policymakers focus on targeted stimulus measures, such as open market operations and targeted relending (to SMEs and decarbonization efforts) rather than broad-based support.
- **Japan CPI is likely to remain subdued**, given still-tepid domestic demand.

What This Week Means For Markets

Central bank meetings were front and center this week. The FOMC on Wednesday showed a hawkish shift—as expected—but Fed Chair Jerome Powell successfully unwound some of the hawkishness to suggest policy normalization won’t derail the recovery, which helped lead equities higher. However, much of the market reaction can also be attributed to a reversal of hedges from before the meeting. In the U.K., the Bank of England surprised markets by hiking the Bank Rate by 15bps to 0.25%. This led the pound to appreciate and gilts to sell off, showing that, once again, markets were blindsided by the BOE decision. The faster pace of policy normalization from the FOMC amid a shifting reaction function is in line with our central scenario of a Brave New World, in which U.S. growth eases but remains above-trend in 2022 while inflation pressures ease in 2H22. Please see our [Monthly Macro Dashboard](#).

IN REVIEW
The Fed Reaction Function Has Shifted

The FOMC decided to double the pace of taper at its December meeting, and the updated dot plot suggests a sooner and faster pace of rate hikes on the back of stickier inflation pressures. The Fed's reaction function has clearly shifted and is putting more emphasis on price stability. The FOMC in January will reduce the pace of asset purchases by \$20 billion in Treasuries and \$10 billion in mortgage-backed securities per month, leaving room for flexibility; taper should conclude in March 2022 at this pace. Meanwhile, the median dot in the updated Summary of Economic Projections (SEP) is for three hikes in 2022, three in 2023, and two in 2024. Powell unwound some of the hawkish tone and signaled that the Fed will act to maintain price stability without derailing the recovery. The shift in Fed rhetoric was in line with our central scenario for faster-but-still-accommodative monetary policy normalization, as well as market expectations.

DECEMBER FOMC SUMMARY OF ECONOMIC PROJECTIONS

Variable	2021	2022	2023	2024	Longer run
GDP	5.5%	4.0%	2.2%	2.0%	1.8%
Unemployment Rate	4.3%	3.5%	3.5%	3.5%	4.0%
PCE Inflation	5.3%	2.6%	2.3%	2.1%	2.0%
Federal Funds Rate	0.1%	0.9%	1.6%	2.1%	2.5%

Source: Federal Reserve. As of December 16, 2021.

The December FOMC meeting followed the release of November consumer price index (CPI) last week, which showed fairly broad-based inflationary pressures. Headline CPI accelerated from 6.2% Y/Y in October to 6.8% Y/Y, while core CPI rose 4.9% Y/Y. We expect inflation to remain elevated through 1Q22 and ease more in the H2, though risks to the outlook, such as COVID variants, supply chain disruptions, and higher inflation, remain.

BOE Hikes Rates as Inflation Rises

U.K. inflation rose 5.1% Y/Y in November, from 4.2% in the previous month (cons. 4.7%); CPI increased 0.7% M/M. Energy prices, supply backlogs, and low base effects from lockdowns pushed CPI to a 10-year high. Upward pressures also came from transportation costs, second-hand cars, and household services, signaling broadening inflation pressures. Core CPI rose above market forecast (3.7%) to 4% in November—highest since 1992.

Bank of England policymakers factored rising prices, Omicron concerns, and an uncertain U.K.-EU relationship into their decision. Notwithstanding these uncertainties, the BOE's Monetary Policy Committee voted 8-1 to increase the Bank Rate by 15 bps, to 0.25%. The BOE maintained the stock of sterling

non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion, as well as the stock of U.K. government bond purchases, financed by central bank reserves, at £875 billion.

ECB Leaves Rates Unchanged, Cuts Bond Buying

The ECB, in contrast to the BOE, wants to see how Omicron and any necessary restrictions impact the economy before talking about changing its interest rate, currently at zero. The bank announced it would reduce asset purchases under its €1.85 trillion pandemic QE program PEPP next quarter and stop them in March 2022. This was widely expected.

A hawkish surprise came instead for what regards the standard QE program APP. For this, the ECB decided on a monthly net purchase pace of €40 billion in 2Q22 and €30 billion in 3Q22, with purchases falling back to the current €20 billion/month thereafter. This was only half of the purchases expected by markets and caused some moderate widening in more highly indebted EU countries, such as Italy, Spain, and Portugal.

The euro area composite PMI declined to 53.4 in December from 55.4 in the previous month (cons. 54) as Omicron concerns and related restrictions weighed on services; service PMI fell to 53.3 from 55.9 (cons. 54.1). Despite manufacturing PMI falling to 58 in December from 58.4 in November, signs of shortened delivery times and easing supply chain pressures are emerging.

Chinese Activity Stabilizes, But Risks Remain

Activity data for November showed that production improved but consumption and investment still face multiple headwinds.

Amid government intervention on coal output and easing of power constraints, industrial production grew 3.8% Y/Y, just above consensus. The consumption recovery remained relatively weak amid local COVID outbreaks. Mobility restrictions also weighed on services output, slowing further to 3.1% Y/Y from 3.8% prior. Weak property and infrastructure investment continue to drag down overall fixed asset investment, which grew 5.2% Y/Y from 6.1%; manufacturing investment continued to improve amid robust profits and strong global demand.

The pandemic should keep undermining nascent consumption recovery, particularly on services, given the Omicron variant and China's Zero-COVID approach. Infrastructure investment also remains hard-pressed to increase despite intentions to increase public spending. Given these downside risks, policy makers have pivoted to a pro-growth stance, but any additional support actions will likely continue to remain measured.

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KEY FINANCIAL INDICATORS

Rates	Yield	1 W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
Fed Funds	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps	0 bps
U.S. SOFR	0.05%	0 bps	0 bps	0 bps	4 bps	-4 bps	-2 bps
3 Month USD Libor	0.22%	2 bps	6 bps	10 bps	9 bps	-1 bps	-2 bps
3 Month Euribor	-0.60%	-3 bps	-4 bps	-6 bps	-6 bps	-6 bps	-6 bps
3 Month U.S. T-Bill	0.06%	-1 bps	1 bps	2 bps	3 bps	-2 bps	-2 bps
2-Year U.S. Treasury	0.68%	0 bps	15 bps	46 bps	52 bps	56 bps	56 bps
10-Year U.S. Treasury	1.46%	-5 bps	-16 bps	15 bps	-4 bps	54 bps	54 bps
10-Year German Bund	-0.37%	-5 bps	-12 bps	-5 bps	-13 bps	26 bps	21 bps
10-Year U.K. Gilt	0.73%	-3 bps	-22 bps	6 bps	-3 bps	49 bps	53 bps
10-Year JGB	0.04%	0 bps	-2 bps	1 bps	0 bps	4 bps	2 bps
Fixed Income	Yield	OAS	1W Return	1M Return	3M Return	12M Return	YTD Return
Barclays Capital U.S. Government-Treasury	1.22%	N/A	0.2%	0.7%	-1.1%	-2.2%	-2.3%
Barclays Capital U.S. TIPS	1.37%	N/A	-0.6%	-1.4%	-0.1%	5.3%	4.7%
Barclays Capital U.S. Aggregate	1.76%	39	0.1%	0.4%	-1.2%	-1.3%	-1.7%
Barclays Capital Global Aggregate	1.27%	37	-0.1%	0.0%	-2.5%	-4.1%	-4.6%
Barclays Capital U.S. ABS	1.11%	39	0.0%	-0.1%	-0.7%	-0.3%	-0.4%
Barclays Capital U.S. MBS	1.99%	35	0.0%	0.0%	-1.0%	-1.0%	-1.2%
Barclays Capital U.S. Corporate Investment Grade	2.36%	98	0.0%	0.3%	-1.6%	-0.6%	-1.4%
BAML Euro Corporate Investment Grade	0.41%	98	0.2%	0.0%	-0.4%	-0.5%	-0.3%
Barclays Capital U.S. Corporate High Yield	4.52%	306	-0.2%	-0.2%	-0.6%	5.2%	4.4%
BAML European Currency High Yield Non-Financial	3.11%	349	0.0%	-0.2%	-0.9%	3.3%	3.1%
CS U.S. Leveraged Loans	5.25%*	441*	0.1%	0.0%	0.7%	5.5%	5.1%
JPM CEMBI Broad Diversified	4.61%	317	0.1%	-0.2%	-1.5%	1.2%	0.8%
JPM EMBI Global Diversified	5.28%	370	-0.2%	-0.6%	-2.9%	-1.2%	-1.9%
JPM GBI-EM Global Diversified	5.69%	N/A	-1.2%	-2.8%	-6.5%	-9.4%	-10.1%
Equities	Price	Div Yield	1W Return	1M Return	3M Return	12M Return	YTD Return
S&P 500	4,709.85	1.22%	0.2%	0.7%	5.5%	29.3%	27.1%
Euro STOXX 600 (Local)	470.76	2.64%	-1.4%	-3.6%	1.5%	19.8%	18.0%
U.K. FTSE 100 (Local)	7,170.75	3.44%	-2.3%	-2.5%	2.2%	10.1%	11.0%
Japan Nikkei 225 (Local)	28,459.72	1.68%	-1.4%	-4.4%	-6.7%	6.6%	3.7%
China Shanghai Composite (Local)	3,647.63	1.98%	0.3%	3.2%	-0.2%	8.3%	5.0%
MSCI AC World (Local)	741.88	1.78%	-0.6%	-1.3%	2.4%	21.7%	19.6%
MSCI Emerging Markets (Local)	1,214.50	2.54%	-1.5%	-4.4%	-3.5%	2.4%	-0.9%
Commodities/Currencies	Price	1W Change	1M Change	3M Change	6M Change	12M Change	YTD Change
S&P GS Commodity Index	536.29	-2.0%	-7.5%	-1.6%	1.2%	34.6%	31.0%
WTI Crude (\$/bbl)	70.87	-2.2%	-12.3%	-2.4%	-1.7%	48.9%	46.6%
Copper (\$/lb)	4.18	-4.8%	-5.2%	-5.1%	-3.7%	18.1%	18.9%
Gold (\$/oz)	1,768.65	-0.8%	-4.9%	-1.6%	-5.2%	-4.4%	-6.3%
U.S. Dollar Index	96.51	0.6%	1.2%	4.3%	6.6%	6.7%	7.3%
Euro (USD/EUR)	1.13	-0.7%	-1.5%	-4.8%	-7.2%	-7.4%	-8.0%
British Pound (USD/GBP)	1.32	0.0%	-1.6%	-4.4%	-6.2%	-1.4%	-3.3%
Japanese Yen (Yen/USD)	113.84	-0.1%	-0.1%	4.2%	3.4%	9.7%	10.3%
Chinese Yuan (CNY/USD)	6.36	0.2%	-0.2%	-1.1%	-0.6%	-2.8%	-2.7%

Source: FactSet and Bloomberg. As of December 15, 2021.

Note: *As of December 14, 2021.

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