4 February 2022

THE WEEK AHEAD

Year of the Tiger, Thrill of the Central Bank Fight

WATCH LIST

Date		Period	Consensus		Previous
U.S.					
Tue 2/8	NFIB Small Business Optimism	Jan			98.9
Tue 2/8	Trade Balance	Dec	-$83.0 B	▼	-$80.2 B
Thu 2/10	Consumer Price Index	Jan	7.3% Y/Y	▲	7.0% Y/Y
Fri 2/11	U. of Michigan Consumer Sentiment (Preliminary Est.)	Feb	67.0	▼	67.2
Europe					
Fri 2/11	U.K. GDP (Prelim. Est.)	4Q21		-	1.1% Q/Q
Fri 2/11	U.K. Industrial Production	Dec			1.0% M/M
Fri 2/11	U.K. Manufacturing Production	Dec		-	1.1% M/M
Asia Pacific					
Mon 2/7	Caixin China Services PMI	Jan	50.5	▼	53.1
2/8-2/15	China Aggregate Financing	Jan	5460.0 B	▲	2370.0 B
Wed 2/9	Japan Machine Tool Orders (Prelim. Est.)	Jan		▼	40.6% Y/Y
Wed 2/9	Japan PPI	Jan	8.2% Y/Y	▼	8.5% Y/Y
Fri 2/11	Japan Markets Closed – National Foundation Day		--		--

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

U.S.

- **The consumer price index** is expected to remain elevated in January amid protracted supply constraints.
- We continue to watch **Q4 corporate earnings** to gauge how companies are faring in the face of rising input prices. So far, earnings are on track to grow 24.5% Y/Y, with the beat over initial expectations rising from 2% last week to about 5% this week.

Europe

- **U.K. Q4 GDP data**, as well as **industrial and manufacturing output** for December, will show how the economy reacted to new Omicron restrictions.

Asia Pacific

- Watch **China credit growth for January,** as it may have accelerated on the back of policy easing. More stimulus is likely necessary given headwinds from Omicron and a slowdown in property, and, more recently, manufacturing.
- **Japan PPI** is expected to remain elevated, which risks squeezing corporate profits amid limited pass-through to CPI, so far.

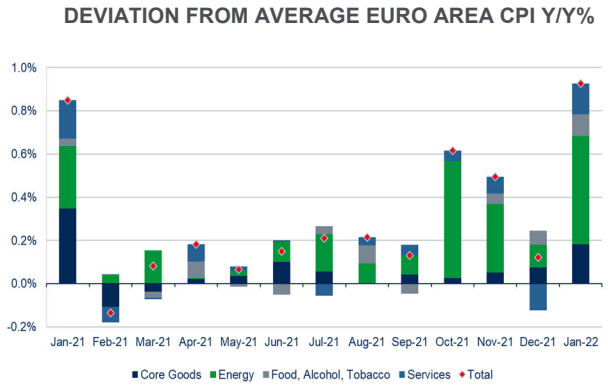
What This Week Means For Markets

The upward surprise in euro area CPI in January, and ensuing higher inflation concerns by the ECB, led markets to boost rate hike expectations, while euro area yields surged and the euro appreciated in response. Energy prices continue to surprise to the upside, driven by geopolitics, diminishing central banks' conviction on their inflation outlooks. And while the BoE delivered a 25bps hike, four of the nine members dissented in favor of a 50bps hike, leading markets to increase expectations of policy tightening. The Dollar Index was lower, given more hawkish market expectations being priced for both central banks. Meanwhile, equities were defensive amid weakness in tech, driven by both tightening monetary policy and a few notable weak earnings reports. Please see our Monthly Macro Dashboard.

IN REVIEW

Inflation is Rising But ECB Stays Patient

The euro area's annual inflation rate hit a record high 5.1% in January, up from 5% in December and well above consensus (4.4%). Energy (up 28.6% Y/Y after rising 25.9% in December) was the biggest driver, as in previous months, though services and food also posted above-average prints. While core inflation came in above market expectations (1.9% Y/Y), it declined from 2.6% in December to 2.3% in January.



Source: Haver and Barings calculations. As of February 3, 2022.

EA inflation continues to deviate from the ECB's target of 2%, but with most of the pressure coming from energy prices, the ECB kept interest rates unchanged at 0% in February and confirmed that quantitative easing (QE) programs will perform monthly net purchases of €40 billion in the second quarter of 2022, €30 billion in the third quarter, and €20 billion from October onwards—and for as long as necessary. ECB President Christine Lagarde was, however, much less decisive in pushing back against the idea of a policy rate increase before year end. Markets interpreted this as a hawkish shift and euro area yields surged, together with the single currency.

Back-to-Back Increase for the Bank of England

The Bank of England raised interest rates again by 25bps to 0.50% in January following high inflation releases, marking the first back-to-back increase since 2004. The BOE was very close to hiking 50bps, with four of nine Monetary Policy Committee members voting for it. The group also approved beginning a reduction of the stock of government bond and corporate bond purchases, and completing it no earlier than the end of 2023. Together with the surprise delivered at the ECB press conference that a 25bps hike is still possible by year end, this added pressure to global markets.

Tight Labor Market Supports U.S. Consumers

While Omicron weighed on spending, U.S. consumers remain in a strong position. In 4Q21, the Employment Cost Index (ECI) for wages and salaries (the Fed's and our preferred measure of nominal wage growth) eased slightly compared with the third quarter, but was still up 4.5% Y/Y—the highest since 1990. Nominal wages are rising amid a tight labor market. However, given that inflation has also been elevated, real wages are declining. Data from the December Job Openings and Labor Turnover Survey (JOLTS) surprised to the upside, recording 10.9 million open positions—close to the recent peak. This near-record level of job openings suggests that nominal wage growth is set to remain elevated in the near-term as companies attempt to attract and retain workers.

Rising wages and salaries are driving gains in personal income, which rose 0.3% M/M in December, despite the absence of fiscal support consumers have seen during the pandemic. Omicron weighed on personal consumption, which fell 0.6% M/M in December. The decline was driven by a fall in goods spending (-2.6% M/M), while spending on services rose 0.5% M/M. The decline in consumption is expected to be temporary. As COVID concerns fade, healthy consumer balance sheets and rising wages should support strong growth this year, with purchases expected to continue shifting toward services.

China PMIs Show a Hit to Prosperity

China's official manufacturing PMI declined to 50.1 in January, from 50.3 prior, a sign activity slowed amid weakening output and domestic demand. Activity in the non-manufacturing sector also eased, with services declining to 50.3 from 52.0 prior. While factory data this time of year tends to be harder to interpret, both the Lunar New Year holiday and the Beijing Winter Olympics are likely to weigh negatively in the near-term as production goes into low gear, and amid pollution controls. Elevated COVID cases present downside risks to the service sector and could also lead to factory or port disruptions. However, with the government encouraging people to stay at home, production could start up quicker once the holiday ends, as it did last year. Downside pressures on domestic demand will be difficult to address, but authorities recognize this and have been rolling out targeted stimulus measures.

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%	1 bps	0 bps	0 bps	0 bps	-2 bps	0 bps
3 Month USD Libor	0.31%	3 bps	10 bps	17 bps	19 bps	12 bps	10 bps
3 Month Euribor	-0.55%	1 bps	3 bps	2 bps	0 bps	-1 bps	3 bps
3 Month U.S. T-Bill	0.20%	0 bps	15 bps	15 bps	15 bps	13 bps	15 bps
2-Year U.S. Treasury	1.15%	8 bps	43 bps	71 bps	98 bps	104 bps	43 bps
10-Year U.S. Treasury	1.76%	-7 bps	25 bps	22 bps	59 bps	66 bps	25 bps
10-Year German Bund	0.04%	11 bps	22 bps	20 bps	52 bps	52 bps	22 bps
10-Year U.K. Gilt	1.26%	7 bps	30 bps	24 bps	73 bps	90 bps	30 bps
10-Year JGB	0.18%	4 bps	11 bps	10 bps	17 bps	13 bps	11 bps
Fixed Income	**Yield**	**OAS**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
Barclays Capital U.S. Government-Treasury	1.59%	N/A	0.5%	-1.8%	-1.7%	-3.1%	-1.8%
Barclays Capital U.S. TIPS	1.71%	N/A	0.5%	-2.5%	-1.2%	3.1%	-2.5%
Barclays Capital U.S. Aggregate	2.11%	37	0.4%	-2.1%	-2.1%	-2.8%	-2.1%
Barclays Capital Global Aggregate	1.55%	37	-0.1%	-1.7%	-2.3%	-5.0%	-1.7%
Barclays Capital U.S. ABS	1.44%	31	0.0%	-0.5%	-0.8%	-1.0%	-0.5%
Barclays Capital U.S. MBS	2.26%	21	0.3%	-1.5%	-1.8%	-2.6%	-1.5%
Barclays Capital U.S. Corporate Investment Grade	2.76%	105	0.4%	-3.1%	-3.2%	-2.7%	-3.1%
BAML Euro Corporate Investment Grade	0.78%	106	-0.8%	-1.4%	-1.8%	-2.3%	-1.4%
Barclays Capital U.S. Corporate High Yield	5.06%	326	-0.2%	-2.1%	-1.2%	2.5%	-2.1%
BAML European Currency High Yield Non-Financial	3.56%	364	-0.6%	-1.3%	-1.0%	1.0%	-1.3%
CS U.S. Leveraged Loans	5.60%	430	-0.1%	0.5%	0.9%	4.5%	0.5%
JPM CEMBI Broad Diversified	4.93%	319	0.0%	-1.5%	-1.6%	-0.7%	-1.5%
JPM EMBI Global Diversified	5.66%	379	0.6%	-2.3%	-2.6%	-3.2%	-2.3%
JPM GBI-EM Global Diversified	5.89%	N/A	0.8%	0.7%	0.0%	-7.3%	0.7%
Equities	**Price**	**Div Yield**	**1W Return**	**1M Return**	**3M Return**	**12M Return**	**YTD Return**
S&P 500	4,589.38	1.27%	5.5%	-3.6%	-0.5%	21.6%	-3.6%
Euro STOXX 600 (Local)	477.01	2.66%	2.1%	-2.2%	-0.5%	17.5%	-2.2%
U.K. FTSE 100 (Local)	7,583.00	3.13%	1.5%	2.7%	4.2%	16.4%	2.7%
Japan Nikkei 225 (Local)	27,533.60	1.73%	1.9%	-4.4%	-6.7%	-2.9%	-4.4%
China Shanghai Composite (Local)	3,361.44	#VALUE!	-2.7%	-7.6%	-4.1%	-4.9%	-7.6%
MSCI AC World (Local)	729.08	1.82%	4.0%	-3.2%	-2.3%	14.2%	-3.2%
MSCI Emerging Markets (Local)	1,213.23	2.52%	0.1%	-1.5%	-3.2%	-8.4%	-1.5%
Commodities/Currencies	**Price**	**1W Change**	**1M Change**	**3M Change**	**6M Change**	**12M Change**	**YTD Change**
S&P GS Commodity Index	630.89	1.8%	12.4%	6.4%	18.3%	43.1%	12.4%
WTI Crude ($/bbl)	88.26	-0.1%	17.2%	5.2%	23.8%	61.1%	17.2%
Copper ($/lb)	4.49	-0.3%	0.8%	2.7%	1.3%	26.9%	0.8%
Gold ($/oz)	1,803.65	-1.8%	-0.1%	0.7%	-0.4%	-1.6%	-0.1%
U.S. Dollar Index	95.94	0.0%	0.0%	2.0%	4.2%	5.2%	0.0%
Euro (USD/EUR)	1.13	0.1%	-0.7%	-2.4%	-4.9%	-6.1%	-0.7%
British Pound (USD/GBP)	1.36	0.4%	0.2%	-0.3%	-2.4%	-0.5%	0.2%
Japanese Yen (Yen/USD)	114.40	0.1%	-0.7%	0.5%	4.7%	8.8%	-0.7%
Chinese Yuan (CNY/USD)	6.37	0.7%	-0.1%	-0.5%	-1.5%	-1.4%	-0.1%

Source: FactSet and Bloomberg. As of February 3, 2022.

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