Focus

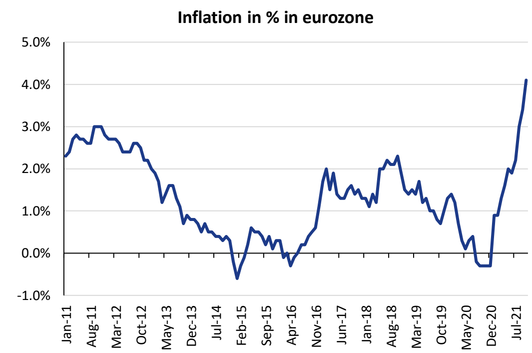
In October, Jens Weidman, the President of the Bundesbank, announced that he would be leaving early as President of Germany's central bank. The German, who has led the Bundesbank since 2011, is known for being the most outspoken member of the ECB's Executive Board when it comes to the European Central Bank's (ECB) monetary policy. In the past, Weidman has warned for rising inflation rates if monetary policy would not be tightened, whereby the ECB raises interest rates again and cancels the asset purchase programmes. In October 2021, the inflation in the eurozone stood at 4.1%, while the ECB norm is 2%. Why is the inflation continuing to rise and what can the ECB do to tackle the rising inflation in the Eurozone?

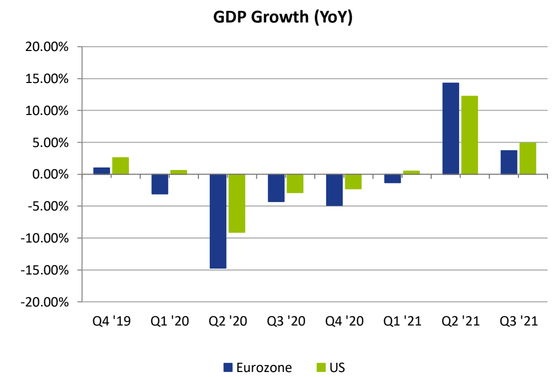
The inflation in the eurozone has not been this high since the euro crisis in 2011. For the ECB, the inflation rates are important indicators of the policy it intends to pursue. ECB's current monetary policy is characterised by very low interest rates and large asset purchase programmes of government- and corporate bonds. ECB President Christine Lagarde said that the high inflation is due to several factors, in particular now by higher energy prices and supply chain problems. Lagarde also said that the ECB should not be too quick to cut back on the support measures put in place to combat the economic effects of the corona crisis in response to rapidly rising inflation rates.

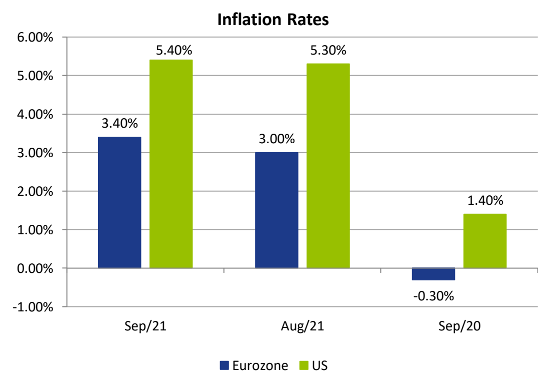
The ECB can combat rising inflation through its conventional instruments, such as interest rate policy and less conventional instruments, such as the asset purchase programmes. Under the asset purchase programmes, the ECB has been buying a range of assets including government bonds from market participants. This raises bond prices, increases the availability of funds in the banking system and lowers market interest rates. The very high inflation rate will increase the pressure on the ECB to reduce their stimuli. However, in September it was announced that the ECB will extend the support programme that came into force in May 2020, the Pandemic Emergency Purchase Programme, until the end of 2022. As a result, the ECB is allocating a total of approximately €1.850 billion in total to this Pandemic Emergency Purchase Programme.

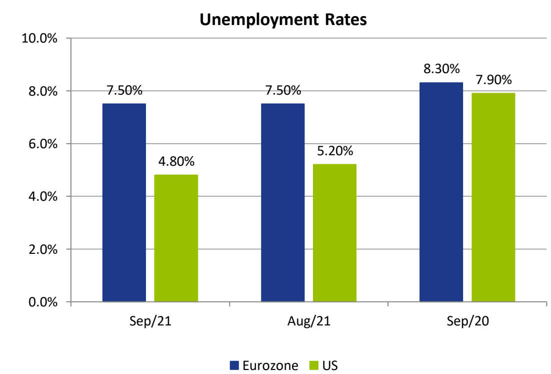
The decision to move to quantitative easing (QE) was made in 2014 and since then there has been a debate about whether this will have the right effects on the inflation in the eurozone. Critics argue that a large-scale asset purchase programme could be ineffective. From the beginning, German President Weidman of the Bundesbank was critical, and was pointing in particular to the separate fiscal discipline of the member states' central banks. In addition, QE is no guarantee for economic recovery. Klaas Knot, President of the Dutch Central Bank, also expressed concerns about its effectiveness. The criticism is very relevant nowadays, as it is stated by the Netherlands, among others, that the asset purchase programmes do not ensure that government debts are being limited. QE increases central banks' holdings of treasury bills and securities. As a result, it can stimulate further inflation, or even hyperinflation in the long run. On the other hand, proponents argue that the purchase programmes benefit the supply of loans. In principle, this gives banks room to provide more credit, which in turn lowers interest rates and increases the demand for credit. .

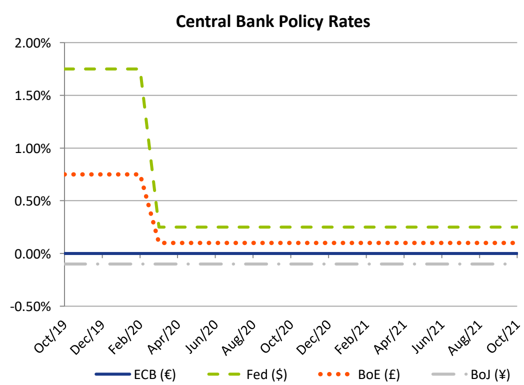
Especially now that inflation is above the ECB norm, quantitative easing and the debate on the temporary nature of asset purchase programmes is more topical than ever. The debt and interest burden of countries like Italy, Spain and Greece is kept in check by the asset purchase programmes, while on the other hand high government debts are a risk for the financial stability. It is difficult to determine the right moment to review the policy of quantitative easing. But the ECB and central banks need to recognise its importance. Weidman writes in his farewell letter that it is now crucial to look at the side-effects of the agreed inflation target, and in particular, the financial stability risks are to be given greater attention.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review & preview

Natural gas prices increased significantly in Europe in October.Gas prices in Europe increased in October to a high of well over € 100 per megawatt hour (MWh) . The monthly futures contract for gas traded in the Netherlands, which is considered a European standard, briefly peaked at € 155 per MWh on 6 October. Gas prices are about five times higher than at the beginning of this year partly as Russian gas consumption has reached record levels. Russian Deputy Prime Minister Alexander Novak has indicated in an interview that Russia is inclined to increase gas deliveries to Europe, despite the fact that Russia first intends to replenish its own gas storage reserves. In its monthly energy monitor ABN AMRO has expressed its expectation that gas prices will not normalize until 2023. ABN AMRO expects the price of gas to reach € 50 per MWh by the end of 2021, where it had previously anticipated a price of € 30 per MWh. For the end of 2022, ABN AMRO predicts a price of € 30 and only in late 2023 the price will drop to a normal level of € 22 per MWh. On 29 October, the market closed with a price of € 76.8 per MWh.

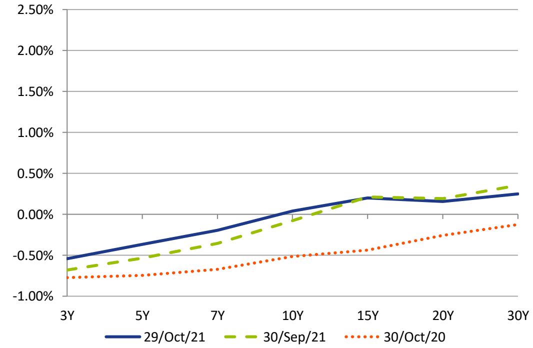
World trade is recovering from the corona crisis faster than expected. New estimates from the World Trade Organization (WTO) indicate that world trade will grow by 10.8% this year in comparison to 2020, when trade decreased by 5.3%. In March, the WTO was still predicting growth of 8.0%. The expected growth for 2022 was revised upward from 4.0% to 4.7%. Figures published by the WTO show that trade in Asia is recovering fastest following the corona crisis. Apart from the relatively small contraction in Asia, the continent reports the strongest growth in trade since March 2020. Growth is lagging the most in South America, the Middle East and Africa.

The International Monetary Fund (IMF) reports that global inflation will be expected to continue to increase in the coming months. The IMF predicts that after this peak, inflation will gradually start to decline to levels akin to before the corona crisis. With regard to the inflation in developed countries, the IMF expects the inflation to peak at 3.6%, after which it is predicted to fall back to around 2% in 2022. In developing countries, the inflation is expected to reach around 7% at its peak, after which it is likely to decline to 4% by mid-2022.

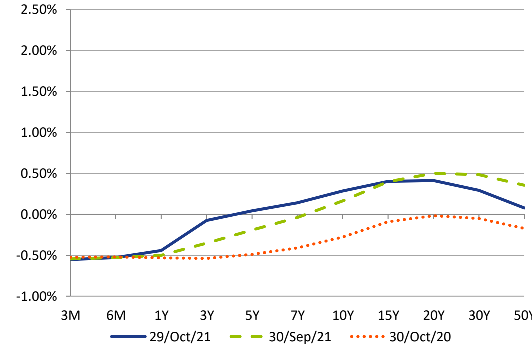
Agenda

November 3	Inflation figures Netherlands
November 3	Interest rate decision Federal Reserve (US)
November 10	Inflation figures United States
November 17	Inflation figures United Kingdom
November 19	Inflation figures Japan

Dutch Government Bond Curve



Euro Swap Curve



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa2	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A2	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	29/Oct/21	30/Sep/21	30/Oct/20
EUR/USD	1.156	1.158	1.165
EUR/GBP	0.845	0.859	0.900
EUR/CHF	1.058	1.079	1.068
EUR/JPY	131.770	128.880	121.930
EUR/DKK	7.440	7.437	7.445
EUR/SEK	9.932	10.144	10.364
EUR/CAD	1.432	1.468	1.552
EUR/AUD	1.538	1.602	1.657
EUR/CNY	7.406	7.463	7.796

Yields 10Y Government Bonds