Economic View

February 2022

Focus

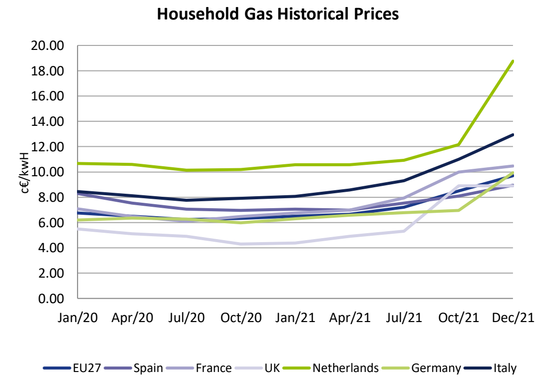
Since the second half of last year, energy prices in the Netherlands and the rest of the world have increased sharply. Although this was somewhat expected by economists, due to the faster economic recovery and easing of global travel restrictions, the price increases are much higher than predicted. As a result of increased tensions between Russia and Ukraine, European gas prices have increased in the past six months and are major drivers of the high inflation rates in the eurozone. Nevertheless, since the beginning of January, European gas prices are slightly declining again. ABN AMRO and others expect the price of energy, and especially gas, to remain high until mid-2023. The question is what implications this will have for European households in the medium term and how developments can be put into perspective.

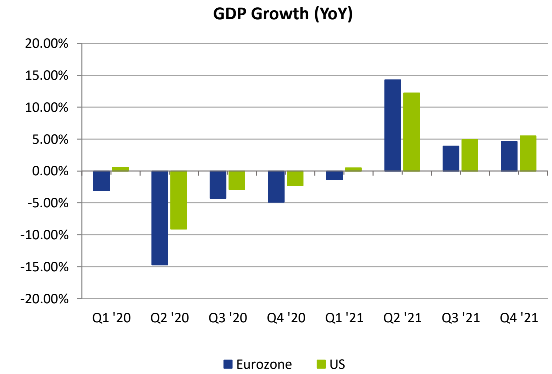
Last October, EU leaders already discussed the so-called 'gas crisis' after the International Monetary Fund (IMF) stated that the sharp rise in energy prices threatens the recovery of the global economy. The sharp increase in energy prices has a major financial impact on households with a limited income, but also on energy suppliers. In the Netherlands, seven energy suppliers went bankrupt in 2021 as a result of the increased energy prices. As a result, more than 100,000 Dutch households have been affected by the much higher tariffs charged through new contracts. In Great Britain, too, various energy companies collapsed, as a result of which approximately 1.7 million Britons lost their supplier and were forced to switch to more expensive contracts.

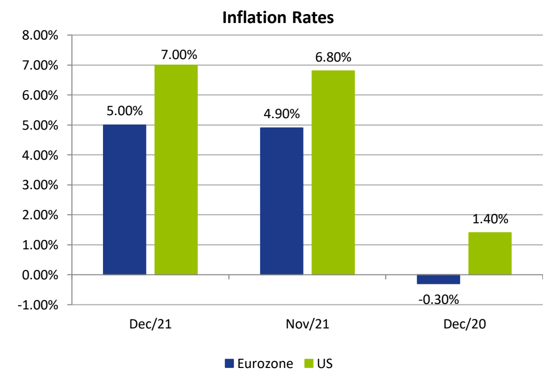
A major cause of the high energy prices is the lack of supply, as opposed to a very high demand. Among other things, the closure of various coal-fired power stations in Europe has sharply increased the demand for alternatives such as gas for use in power stations. Also the long colder winter in Europe, which led to higher energy consumption and a hot summer with more use of cooling, caused the demand for energy in Europe to far exceed the supply. Higher costs for CO2 emissions and low investments in new gas production also contributed to the problem. Finally, Russia, which accounts for 40% of EU gas imports, exported less to Europe due to the political tensions.

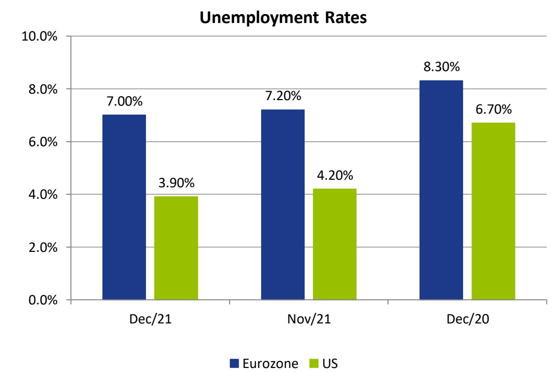
To stabilise gas supplies in the short term, the United States has already sent many ships with American gas to Europe. In addition, the EU and their member countries are looking at how gas prices can decline further. Russia is pleading for an earlier start of the Nord-Stream 2 pipeline, which runs from Russia to Germany, in order to guarantee an additional supply of gas from Russia to Europe. Nevertheless, due to the political tensions this will take at least another six months. Because prices will remain high for the time being, the Dutch government has decided to make hundreds of euros available per Dutch households as compensation, with lower income groups receiving an additional financial compensation. In neighbouring countries, such as Great Britain, it is suggested that oil and gas companies, which profit from the high prices, will be subject to higher taxes. These tax revenues will be used to provide households with more financial support.

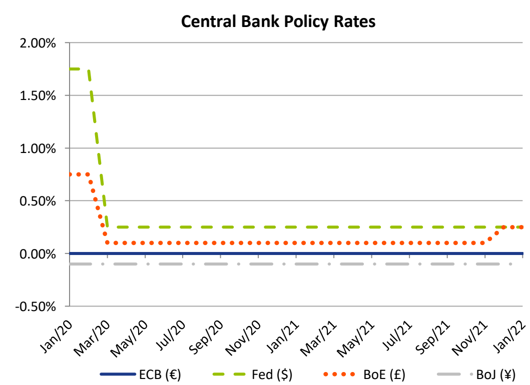
With energy prices soaring, much has become uncertain for governments and European households. Experts do not expect prices to drop to the 'old' level in the short term. The higher energy prices will therefore remain one of the driving factors in the rising inflation figures in the coming months. This puts the importance of the desired transition to green energy alternatives even more on the economic, political and social agenda.











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

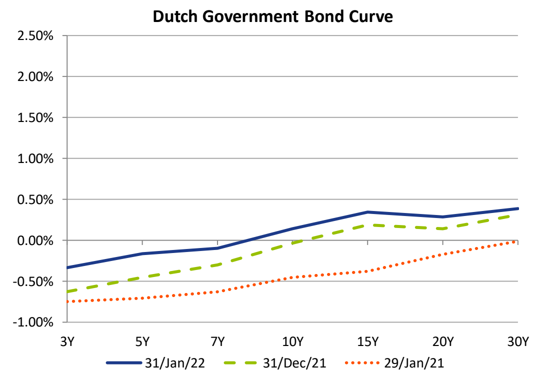
In January, the Federal Reserve (Fed) left the Federal Funds Target Rate unchanged at 0.00%-0.25%. However, FOMC chairperson Jerome Powell expressed the intention to raise the Fed's key interest rate by mid-March. Financial analysts expect at least 4 interest rate hikes in 2022 to combat the rising inflation in the US. Some analysts even predict that the Fed will impose as many as 7 rate hikes in 2022. In the statement, Powell stated that 'inflation has not gotten any better since the Fed's last policy meeting in December, and probably gotten a bit worse'. In December 2021, inflation was approximately 7.0% year-on-year, the highest level since 1982. Powell announced that 2022 will be a year when the Fed will 'move steadily away from the very highly accommodative monetary policy we put in place to deal with the economic effects of the pandemic', signalling that the Fed is also looking to reduce the Fed's asset holdings, that were built up through the buyback programmes the Fed put in place to combat the economic consequences of the COVID-19 crisis.

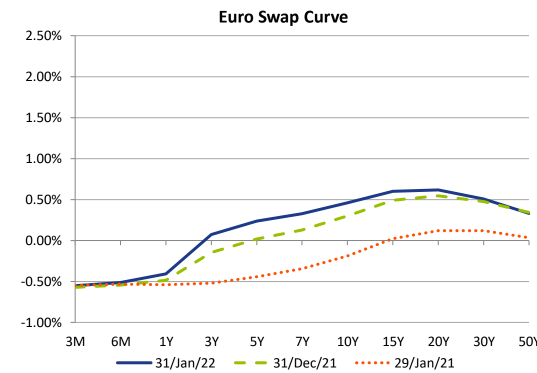
Meanwhile, inflation in the Eurozone is also rising rapidly. Inflation in December 2021 reached a level of 5.0% year-on-year. Statistics Netherlands (CBS) reported an inflation of 6.4% for the Netherlands in December 2021, and a preliminary figure of 7.6% for January 2022. Analysts do however not expect the European Central Bank (ECB) to raise its key interest rate in the coming months. According to a report of Danske Bank, the ECB is expected to not raise interest rates until the end of 2023. This is conditional to a decrease of inflation to a level of 2%, before the end of 2023. Although this is still the current assumption of the ECB, hawkish economists believe that inflation will remain above this target for the foreseeable future. These economists assume that the higher inflation would force the ECB to increase its benchmark interest rate and lower its regular buyback programmes (that have been extended by the ECB until the second half of 2022). The average assumption in the financial markets is that the ECB will raise its rate by 30 basis points before the end of the year.

A new forecast from the International Monetary Fund (IMF) states the global economy will grow more slowly this year than previously expected. In particular, the expectations for the United States and China have been revised downwards. In October, the IMF still assumed growth of 4.9% for this year in its World Economic Outlook, which has been adjusted downwards to 4.4% in January. The IMF points to uncertainties regarding COVID-19, supply chain disruptions, energy price volatility (see our Focus piece) and resulting inflation and policy paths as downside risks to the current assumptions. Moreover, if leading global economies (for instance the Fed and/or ECB, red.) raise interest rates, this might lead to increased risks for developing economies, due to high debt levels that have been accumulated to combat the COVID-19 crisis.

Agenda

3 February ECB interest rate decision
3 February Interest rate decision Bank of England
4 February Unemployment figures United States
10 February Inflation United States
11 February Economic growth Q4 2021 Britain
16 February Inflation China
24 February Economic growth Q4 2021 United States





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

Currencies	31/Jan/22	31/Dec/21	29/Jan/21
EUR/USD	1.124	1.137	1.214
EUR/GBP	0.835	0.841	0.886
EUR/CHF	1.041	1.038	1.081
EUR/JPY	129.325	130.895	127.130
EUR/DKK	7.441	7.437	7.438
EUR/SEK	10.474	10.294	10.154
EUR/CAD	1.428	1.437	1.551
EUR/AUD	1.590	1.565	1.588
EUR/CNY	7.146	7.229	7.802