Focus

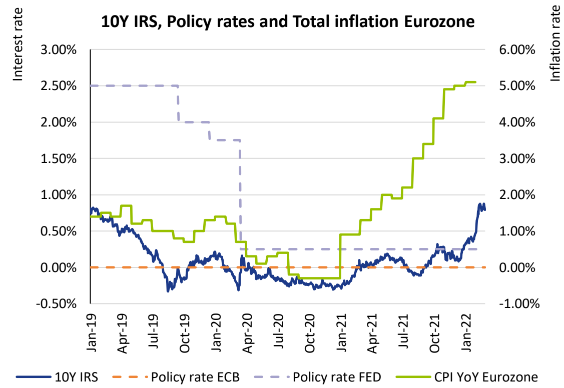
Looking at the capital market interest rates of the last few months (benchmark 10Y IRS), the rates were relatively stable (and partly negative) up to the end of last year, but from the second half of December 2021 they started to increase and even a (both in relative and absolute terms) significant increase from the end of January. What caused the interest rate to increase so significantly since the end of 2021?

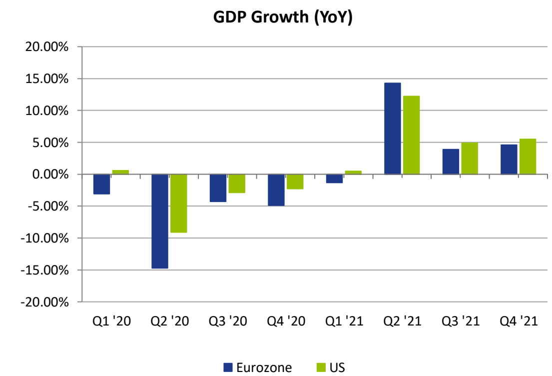
Significant changes in market interest rates tend to be the result of financial market reactions to central bank monetary policy changes or announced changes, following changes in structural inflation rates. Policy interest rates are usually adjusted to contain inflation, as according to theory, a higher policy interest rate could reduce inflation. When policy interest rates, and therefore market interest rates, increase, market participants and consumers have the incentive to spend less money and invest or save more. This reduces the demand for goods and, as a result, consumer prices fall. It should be noted, however, that in recent years, before the increase in inflation, there has been low inflation and even negative interest rates on both the money and capital markets, so that the real interest rate was also negative. Inflation depends on more variables than interest rates, such as economic expectations and 'sentiments' in the market and the (international) relationship between supply and demand of money.

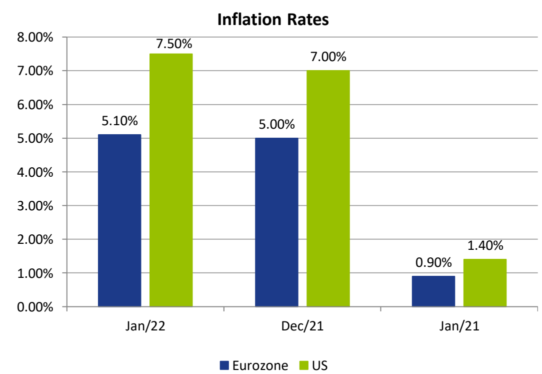
High inflation, which reached 5.0% and 5.1% in the Eurozone in December and January respectively, is caused by supply chain problems and higher energy prices. The events in Ukraine and Russia are the main reason for the current higher energy prices. Problems in the supply chain have been occurring since the start of the corona pandemic. The production and supply of essential components and raw materials is faltering, affecting manufacturing companies and reducing supply.
Despite this high inflation, the Federal Reserve (Fed) left its key interest rate unchanged at its latest policy rate meeting on 26 January. The Fed did, however, announce its intention to increase interest rates in mid-March due to persistently high inflation. The federal funds rate remained in the 0.00 to 0.25% range. The discount rate was maintained at 0.25%. The last time the Fed adjusted the policy rate was a decrease in March 2020 to mitigate the negative effects of the corona crisis.

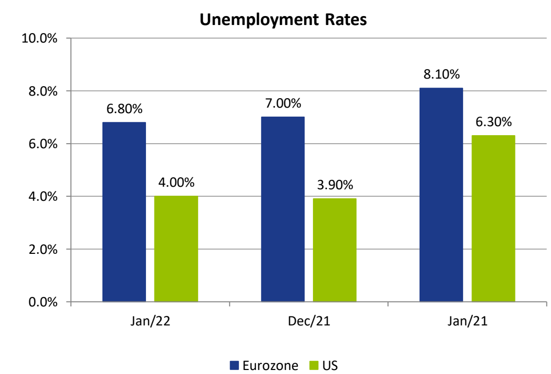
On 3 February, the European Central Bank (ECB) also announced at its policy meeting that it would not change its interest rate policy for the time being. The deposit rate will therefore remain negative at 0.50% and the policy rate at 0.00%. The last time the ECB adjusted its policy rate was in 2016. The ECB has long argued that high inflation will naturally fall back below the 2% target later this year, but a string of record high inflation figures has cast doubt on this narrative. ECB President Christine Lagarde said at the post-meeting press conference, "Compared to our December expectations, the risks to the inflation outlook have tilted upwards, especially in the short term." While Lagarde said the ECB will not act precipitously, she declined to repeat her earlier advice that a rate increase this year was "very unlikely". As a result, several experts have concluded that a change in policy rates will follow later this year.

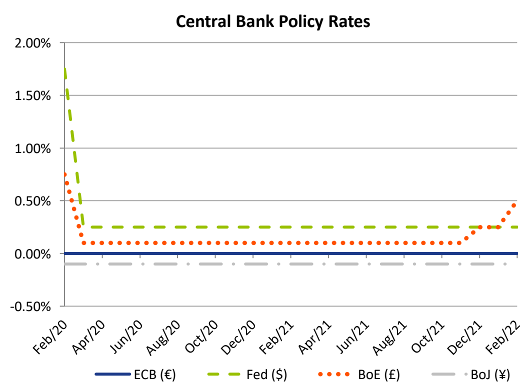
Looking back at capital market rates, significant increases can be seen in the days following the announcements on 26 January and 3 February. In December, when the Fed and ECB made earlier announcements about the intention to reduce repurchase programmes as a result of persistent inflation, the first increases are visible in the days following the announcement. With this, the capital market appears to be reacting and possibly anticipating developments in central banks' monetary policy.











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	CCC-	B3	B
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

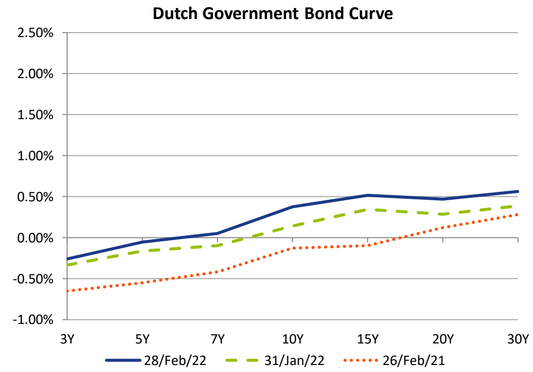
The news last month was dominated by the Russian invasion of Ukraine. The West imposed sanctions on Russia, including closing air space to Russian aircraft and excluding several Russian banks from the SWIFT system. In addition, assets of the Russian central bank and several oligarchs have been frozen. The Russian rouble had fallen by around 30% by the end of February compared to a month earlier. In response, the Russian central bank raised the interest rate from 8.5% to 20%. The Moscow Stock Exchange closed, while Russian companies registered on stock exchanges in other countries dropped in value by up to 90%.

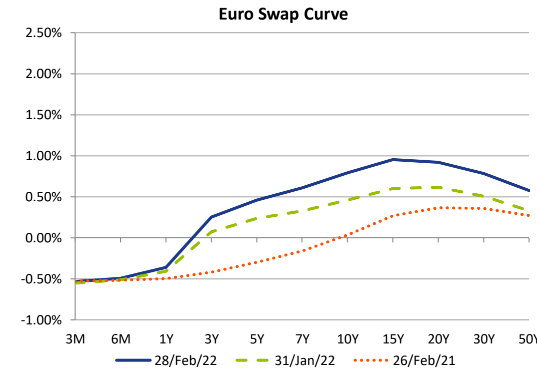
The oil price rose to over USD 101 for a barrel of Brent oil at the end of February. A barrel of West Texas Intermediate was also considerably more expensive, at USD 95.72 per barrel. Because of Russia's invasion of Ukraine, prices are expected to rise further in the coming period. The main reason for the rise in oil prices is the conflict in Ukraine. It is expected that the oil prices will remain high or even increase further as long as this conflict is going on. The International Energy Agency has indicated the release of 60 million barrels to counter the rising prices, but this seems to have little effect in reassuring the markets.

Consumer prices in the eurozone continued to rise in January. This was shown Wednesday by final figures from the European statistics office Eurostat. The inflation rate in January was 5.1%. In December it was 5.0% and in November 4.9%. Core inflation, an important measure for the ECB, was 2.3% in January on an annual basis. This was in line with an earlier estimate. Excluding volatile prices for food, energy and alcohol, inflation was 2.6% in December. In the Netherlands, annual inflation was 7.6% and monthly inflation 0.5%. The main cause of inflation seems to be the increase in energy prices and the global shortage of raw materials. The conflict in Ukraine may exacerbate these causes.

Agenda

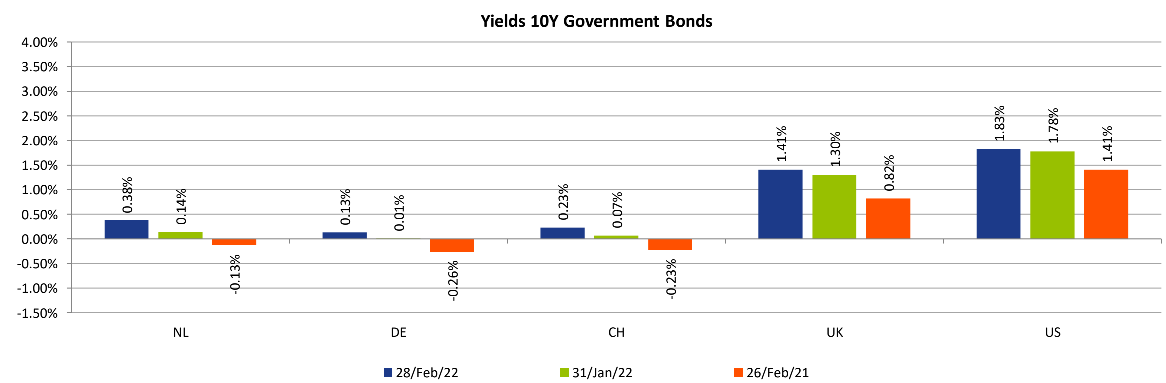
10 March	ECB Interest rate decision
10 March	Inflation Netherlands
16 March	Fed Interest rate decision
18 March	BoE Interest rate decision
23 March	Inflation United Kingdom
25 March	Economic growth Netherlands





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	28/Feb/22	31/Jan/22	26/Feb/21
EUR/USD	1.122	1.124	1.207
EUR/GBP	0.836	0.835	0.867
EUR/CHF	1.029	1.041	1.097
EUR/JPY	129.015	129.325	128.670
EUR/DKK	7.437	7.441	7.436
EUR/SEK	10.627	10.474	10.187
EUR/CAD	1.422	1.428	1.538
EUR/AUD	1.545	1.590	1.567
EUR/CNY	7.078	7.146	7.817



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