Economic View

July 2022

Focus

June was an eventful month in the money and capital markets. Both the European Central Bank (ECB) and the Federal Reserve (Fed) indicated, through changes or announced changes in policy interest rates, that a different course will be taken to counter high inflation. In June, the ECB expected inflation in the eurozone to reach 6.8% this year and 3.5% in 2023. In the same month, the Fed expected US inflation to reach 5.2% in 2022 and 2.6% in 2023.

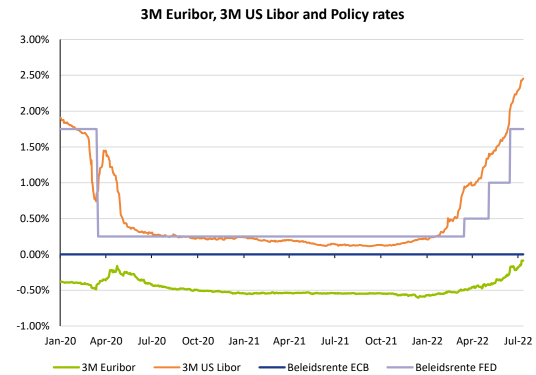
The President of the European Central Bank, Christine Lagarde, warned in early June about the dangers of high inflation and the urgency of tackling it with a series of interest rate hikes. The ECB has also indicated its intention to increase the policy rate by 25 basis points at the July monetary policy meeting. This will be the first time that the central bank has increased its own interest rate since 2011. Looking further ahead, the ECB expects to increase its policy interest rates further in September. The size of this increase will depend on the updated medium-term inflation outlook. The ECB indicates that if the medium-term inflation outlook persists or worsens, an increase beyond 25 basis points will be necessary at the September meeting. After September, based on its current assessment, the ECB expects that a gradual but persistent path of further interest rate increases will be necessary. The pace at which the ECB will adjust its monetary policy to achieve the medium-term inflation target of 2% will depend on new data and medium-term inflation developments.

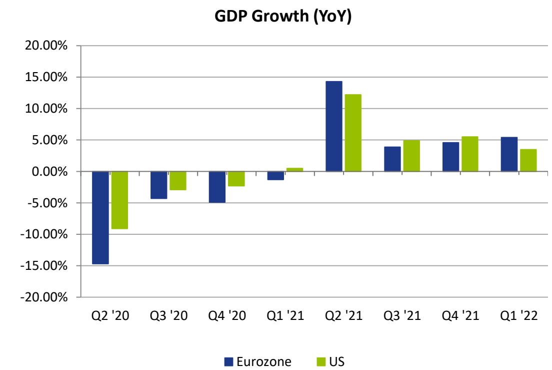
In the week after the news of the ECB's intention to increase interest rates was shared, interest rates on government paper from southern eurozone countries increased significantly within just a couple of days. For instance, the difference between German bond yields and Italian bond yields (BTP-Bund spread) briefly increased to almost 250 basis points at the end of June. This situation caused a déjà vu of the period preceding the euro crisis. In an emergency meeting, the ECB decided to start purchasing bonds in a targeted manner. This solution is not seen as a new support scheme; redemptions from a previous repurchase programme will be reinvested until at least 2024. To combat fragmentation within the euro area, the ECB also indicated that a new instrument should be designed promptly.

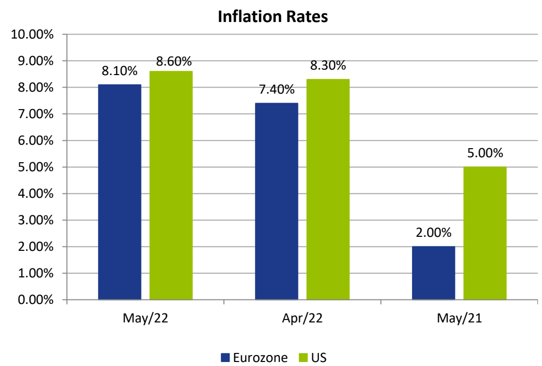
The Fed also took extraordinary measures in June to combat inflation. It increased its most important policy rate, the Federal Funds Target Rate, by 75 basis points to a range between 1.50% and 1.75%. This is the largest interest rate increase in 28 years. The increase is also larger than the 50 basis points the Fed previously expected to implement in June. A few days before the policy meeting, the US inflation rate of 8.6% in May turned out to be much higher than expected, which made the Fed decide a higher increase was necessary. In addition, recent statements by two prominent policymakers suggest that the Fed is well on its way to increasing rates again in July and possibly in September by 75 and 50 basis points, respectively.

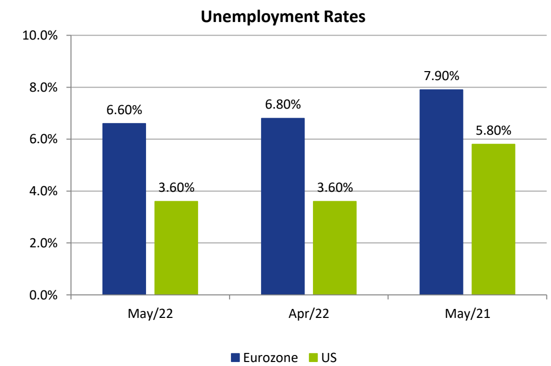
Increasing policy rates are reflected in money market rates. Prior to interest rate changes, central banks usually announce their intentions to implement these changes. As a result, fuelled expectations among banks lead to changes in money market rates. This can be seen in the chart with the 3M Euribor and 3M US Libor. The chart also shows that when the Fed actually increased its policy rates, 3M US Libor increased significantly in a short period of time.

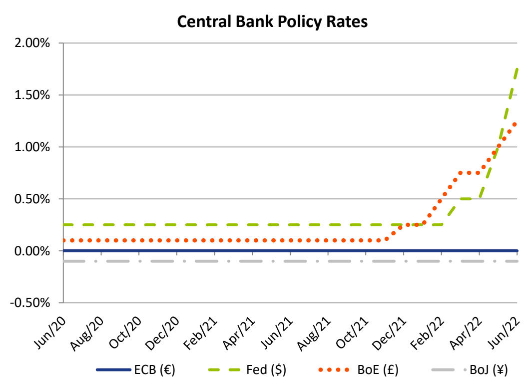
Based on the latest announcements from the ECB and the Fed, policy rates will increase further in 2022 to a range between 1.00% and 1.25% and a range between 3.25% and 3.50% respectively to counter inflation. This will also cause substantial increases in money market rates.











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	NR	NR	NR
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review & preview

European Union member states have reached an agreement to ban almost all imports of Russian oil. European Council President Charles Michel announced that the ban will halt two-thirds of all oil imports from Russia and that by the end of the year Russian oil imports will be reduced by 90%. The remaining 10% of imports are temporarily exempted from the agreement because countries such as Hungary, Slovakia and the Czech Republic are currently too dependent on supplies from Russia. In addition, the member states have reached an agreement to disconnect Russia's largest bank, Sberbank, from the SWIFT payment system and Russian broadcasters are no longer allowed to broadcast in the EU. Russian production has already fallen by 1 million barrels per day since the invasion of Ukraine and is likely to fall further as the European Union's ban on Russian oil takes effect.

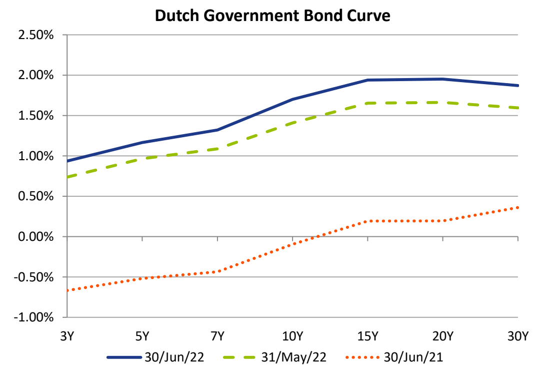
Consumer prices in the Netherlands rose substantially again in May, but less strongly than in the previous month. This was shown Thursday by figures from the Central Bureau of Statistics. Last month the price level rose by 8.8% on an annual basis, after an inflation of 9.6% in April. The decline in inflation was mainly due to the price development of energy. In May energy was 105% more expensive than a year earlier, in April this was 136%.

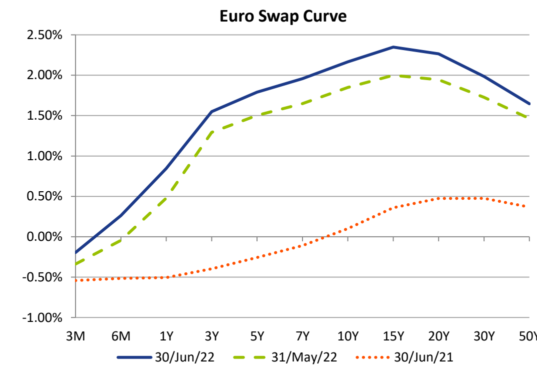
The European Central Bank (ECB) is likely to stop using negative interest rates at the end of the third quarter. ECB President Christine Lagarde wrote this in a blog on the ECB website. Lagarde reiterated that she expects bond purchases under the APP program to be stopped "very early" in the third quarter. "This would allow us to raise interest rates at our July meeting, in line with our forward guidance. Based on the current outlook, we are likely to be able to get out of negative interest rates by the end of the third quarter," Lagarde said. If it then becomes clear that inflation is stabilizing at 2 percent over the medium term, a gradual further normalization of interest rates towards neutral rates is appropriate, she believes. Lagarde warns that the extent and pace of normalization cannot be determined in advance.

The European Commission announced at the Spring 2022 Economic Forecast press conference that it was lowering its growth forecast for this year. Previously, the forecast for gross domestic product growth was 4.0%, but this has been revised downwards to 2.7%. On the other hand, the expectation for inflation was raised to 6.1%. The European Commission expects to see a peak in inflation in the second quarter of 2022, which will then slowly subside.

Agenda

15 July 2022 Economic growth China
19 July 2022 Unemployment in the United Kingdom
21 July 2022 Interest rate decision ECB
22 July 2022 Inflation figures Japan
27 July 2022 Interest rate decision Federal Reserve
29 July 2022 Inflation figures Eurozone





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	30/Jun/22	31/May/22	30/Jun/21
EUR/USD	1.048	1.073	1.186
EUR/GBP	0.861	0.852	0.857
EUR/CHF	1.001	1.030	1.097
EUR/JPY	142.260	138.110	131.755
EUR/DKK	7.437	7.440	7.436
EUR/SEK	10.720	10.480	10.140
EUR/CAD	1.350	1.358	1.470
EUR/AUD	1.519	1.496	1.581
EUR/CNY	7.023	7.161	7.657