

Focus

Rapidly rising mortgage rates are beginning to have an effect on the housing market. This September, Dutch home prices fell relative to the previous month. The 0.7% drop in prices between August and September is the strongest monthly decline since May 2013. Moreover, it is the second consecutive monthly decline. In August, house prices already fell 0.1%. What is the cause of rising mortgage rates? And what are the (possible) consequences?

Since 2013, house prices have been on the rise, mainly due to the growing economy, falling mortgage rates and the housing shortage of nearly 300,000 homes. Over the past six years, mortgage interest rates have fallen dramatically and the average income in the Netherlands has risen. This allowed existing homeowners to borrow more and bid against each other, driving up the prices of homes for sale.

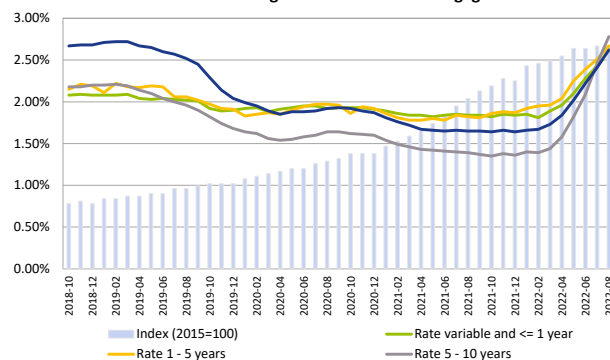
With high inflation currently in effect, the growing economy and low mortgage rates are slowly changing. The most important cause of the high inflation is the increased price of energy. The high inflation is leading to a historic drop in purchasing power this year, allowing people with the same income to buy much less. In response to this high inflation, the ECB has raised the key interest rates. Key interest rates are the interest rates that banks must pay when they borrow money from the ECB. The common thought is that higher interest rates help reduce inflation and thus keep prices more stable. These increases in key interest rates affect the entire economy to varying degrees, including banks and mortgages. The level of mortgage interest rates depends in part on how much interest the mortgage provider has to pay to get money. This is reflected in the mortgage rates offered.

With rising mortgage rates, people can borrow less and mortgage costs are rising, which will reduce the number of potential buyers. Overbidding is thus gradually diminishing, causing the house prices to fall. This affects consumer confidence in the housing market, which is currently at its lowest point since 2014. Rising mortgage rates are also having an effect on sales of homes. In the third quarter, 50,453 homes were sold. That was 6.4% fewer than in the same period a year earlier. Fewer homes were sold in almost all provinces, except South Holland, Flevoland and Utrecht. The cities of Amsterdam and Utrecht also sold more houses year-on-year.

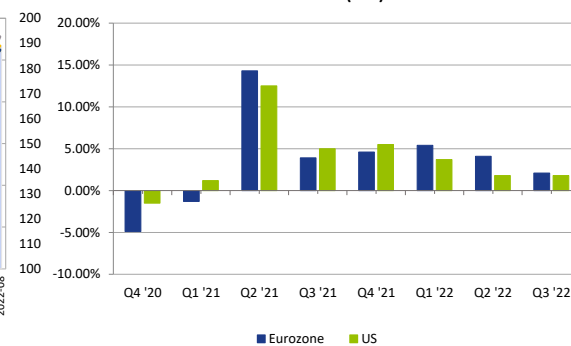
Homebuyers now pay between 4% and 5% interest for their mortgage, depending on the term of the loan. At the end of last year, many interest rates were still below 2%. A large increase in mortgage interest rates can have the effect of making mortgage payments impossible, as happened in 2007 when interest rates rose in America. Homeowners could no longer pay the excessive interest charges. Between 2008 and 2010, over a million American homes had to be foreclosed on, often for less than the value of the mortgage. Banks suffered huge losses, resulting in a major global crisis.

The housing market remains tight, home sellers are still finding buyers quickly. Also, many homeowners currently still have excess value and borrowed less risky than during the financial crisis. Therefore, on an annual basis, we are still seeing an increase in the price of homes. In September, existing houses were 9.6% more expensive than a year earlier. However, the year-on-year increase slightly flattens, as it was 11.9% a month earlier. It is therefore uncertain whether the current situation is a harbinger of a crisis like the one between 2008 and 2013.

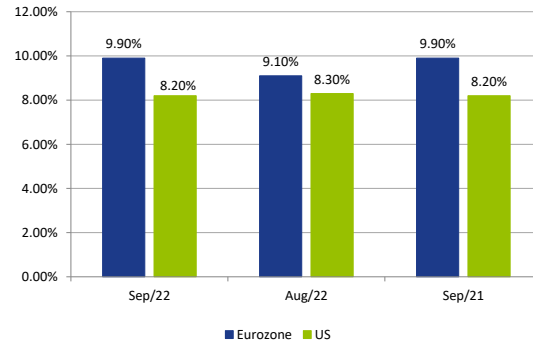
Price index existing houses for sale & mortgage rates



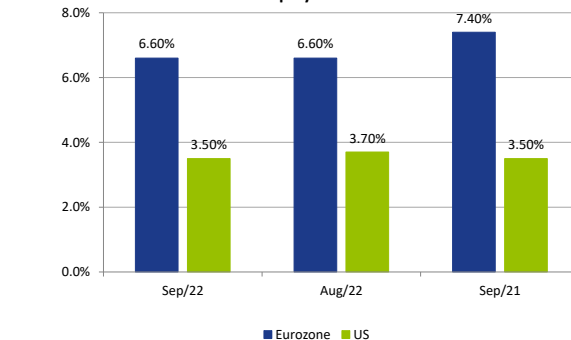
GDP Growth (YoY)



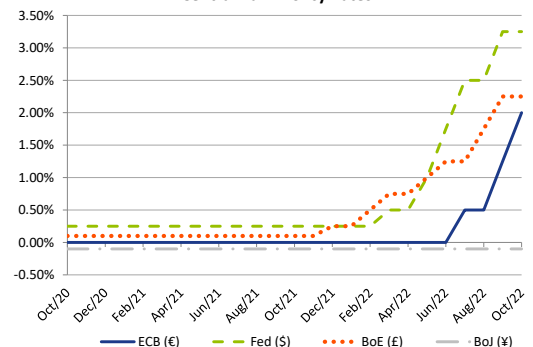
Inflation Rates



Unemployment Rates



Central Bank Policy 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

Review & preview

Rishi Sunak has succeeded the resigned Liz Truss as prime minister of the UK. With this, the earlier budget plans will be reversed. The budget update will be postponed to 17 November. The UK government's reversal of the budget plans means that the Bank of England (BoE) will not have to raise interest rates as far. The upcoming policy meeting is still expected to see a big interest rate step of 100 basis points to support investor confidence as much as possible. A move of 75 basis points would be considered the minimum by the market. The BoE is unable to factor the budget effects into its economic forecasts due to the budget delay.

The European Central Bank raised interest rates by 75 basis points, as expected by analysts. The 75-basis-point increase raises the refinancing operations, interest rates for the marginal lending facility and the deposit facility to 2.00, 2.25 and 1.50%, respectively, from 2 November 2022. The ECB already announced that more interest rate hikes are coming. "Inflation is still far too high and will remain above target for an extended period," the ECB said. ECB president Lagarde said the goal remains to get inflation to 2%. Eurozone inflation was 10.7% in October.

According to Statistics Netherlands, inflation in the Netherlands according to the European harmonised index of consumer prices (HICP) was 16.8% in October. In September, inflation was still at 17.1% and 13.7% in August.

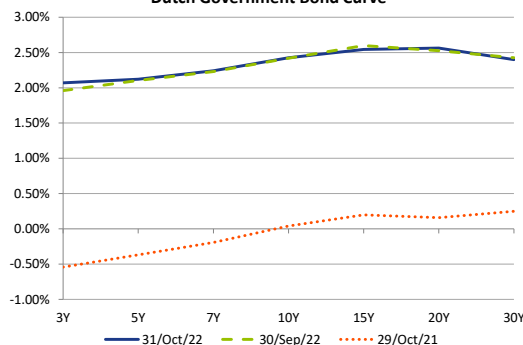
Eurozone manufacturing contracted more sharply than expected. The purchasing managers' index fell to 46.4 in October from 48.4 in September. The number of new orders fell harder only during the worst parts of the corona pandemic and financial crisis in 2008 and 2009. The German purchasing managers' index fell from 47.8 to 45.1, while the index for France dropped from 47.7 to 47.2.

Xi Jinping managed to secure a historic third term. China is expected to continue with its zero covid policy which experts say is hurting the Chinese economy. China's economy saw growth turn to contraction in October. The services purchasing managers' index came in at 48.7 in October, down from 50.6 in September. China's purchasing managers' index for manufacturing was found to have fallen to 49.2 in October from 50.1 in September.

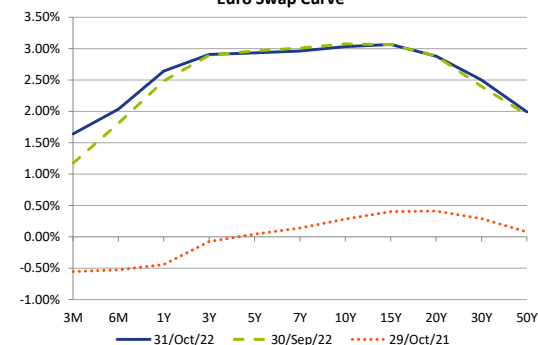
Agenda

- 03 november 2022 BoE interest rate decision
- 03 november 2022 Unemployment rate Eurozone
- 04 november 2022 Unemployment rate US
- 10 november 2022 Inflation rateU
- 11 november 2022 GDP growth UK
- 15 november 2022 Unemployment rate UK
- 15 november 2022 GDP growth Eurozone
- 16 november 2022 Inflation rate UK
- 30 november 2022 Inflation rate Eurozone
- 30 november 2022 GDP growth US

Dutch Government Bond Curve



Euro Swap Curve



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-	A1	BBB+
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A	A2	BBB+

Currencies	31/Oct/22	30/Sep/22	29/Oct/21
EUR/USD	0.988	0.980	1.156
EUR/GBP	0.862	0.878	0.845
EUR/CHF	0.990	0.967	1.058
EUR/JPY	146.975	141.875	131.770
EUR/DKK	7.446	7.436	7.440
EUR/SEK	10.907	10.872	9.932
EUR/CAD	1.346	1.356	1.432
EUR/AUD	1.545	1.532	1.538
EUR/CNY	7.219	6.980	7.406

Yields 10Y Government Bonds

