



## THE WEEK THAT WAS

	current	-1W	-1M	YTD
<b>10-Year Bond Yields</b>				
			change (bps)	
US Treasuries	1.34	-14	-24	43
Bunds	-0.38	-4	-21	20
BTPs	0.92	-5	-13	40
OATs	-0.02	-6	-21	32
JGBs	0.05	-3	-4	3
Gilts	0.75	-8	-33	55
<b>Spreads over Bunds</b>				
			change (bps)	
GIIPS	101	-2	7	13
Covered Bonds	62	-3	7	18
<b>EMU Corporates (OAS)</b>				
			change (bps)	
Non-Fin.	104	-6	15	11
Fin.	105	-8	15	13
<b>Forex</b>				
			%-change	
EUR/USD	1.13	0.0	-2.6	-7.4
USD/JPY	113	-0.5	-1.0	9.3
EUR/GBP	0.85	0.6	0.6	-4.7
EUR/CHF	1.04	-0.6	-1.8	-4.0
<b>Equities</b>				
			%-change (total return)	
S&P500	4,538	-1.2	-2.5	22.4
MSCI EMU	146.8	-0.5	-4.8	17.2
TOPIX	1,958	-1.3	-3.6	10.7
FTSE	7,122	1.2	-1.4	14.1
MSCI EM (\$)	1,225	0.2	-2.9	-3.0

Current as of closing 3/12/2021

## MARKET MOVES

- Fed Chair Powell transitioned away from labelling inflation 'transitory' and hinted at an accelerated tapering, pushing short-term rates up.
- US Nov. non-farm payrolls disappointed but the unemployment rate receded further and the participation rate rose.
- Amid persistent omicron uncertainties longer-dated UST yields receded and equity volatility stayed high.
- OPEC+ members decided to increase production but to act if demand proved too weak.
- Despite interventions the TRY plummeted further as the Finance Minister stepped down, Fitch reduced the Turkish rating outlook and Erdogan showed no signs of changing his mind on key rates.

## KEY EVENTS

- In a week relatively light on data, US preliminary consumer confidence for Dec. (Fri) will allow for a first assessment of the strength of demand towards year-end.
- For the euro area, the Sentix (Mon) and the ZEW (Tue) give some indication about the effect of omicron on confidence. We expect it to be dampened but to remain consistent with ongoing growth.
- Monetary data from China (Fri) will give insights about the effect of the latest lockdown measures on activity.
- The new German government will likely take office (Thu).

	Time	Market	Event	Period	Consensus	Previous
6-Dec	8:00	Germany	Industrial Orders MM	Oct	-0.5%	1.3%
6-Dec	10:30	UK	All-Sector PMI	Nov		57.5
6-Dec	10:30	Euro Zone	Sentix Index	Dec	15.9	18.3
7-Dec	8:00	Germany	Industrial Output MM	Oct	0.5%	-1.1%
7-Dec	11:00	Euro Zone	GDP Revised QQ	Q3	2.2%	2.2%
7-Dec	11:00	Germany	ZEW Economic Sentiment	Dec	26.1	31.7
7-Dec		China	Exports YY	Nov		27.1%
10-Dec	16:00	US	U Mich Sentiment Prelim	Dec		67.4
10-Dec		China	New Yuan Loans	Nov		826.2K

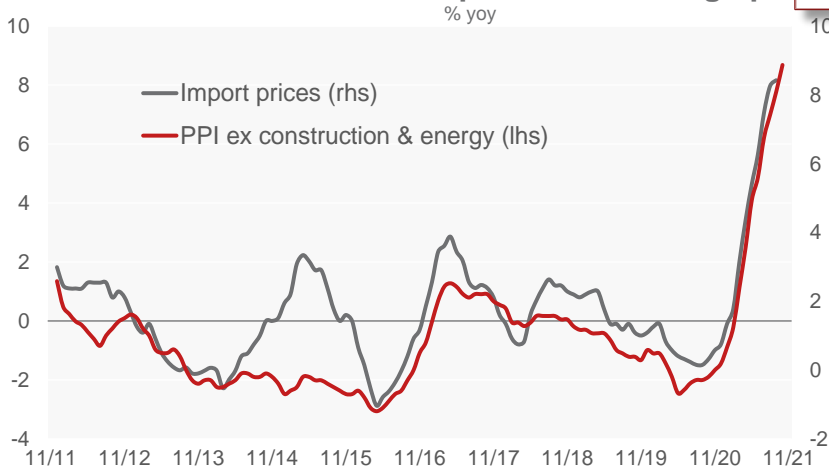
Rating updates: Italy, Russia, Sweden, Slovenia (Fitch)

## TO THE CORE

Omicron might soon become the dominant Covid-variant but comments from ECB Governing Council members suggest that it will not be a game changer

## A CHART SPEAKS A THOUSAND WORDS

### Euro Area inflation pressure building up



Source: Datastream, GIAM calculations

## IGNORE AT YOUR PERIL

### ECB not to follow Fed in giving up transitory inflation view

The Fed has started to adjust its inflation view. Evidence forced Fed Chair Powell to give up labelling inflation as "transitory". Euro area headline inflation jumped to a high of 4.9% yoy in Nov., price increases are broadening and producer prices advanced by 21.9% yoy in Oct. With also import prices up (8.2% yoy in Sep.) it is evident that additional inflation pressure is emerging.

But it is unlikely that the ECB will follow the Fed's change in inflation rhetoric at the Dec. 16 meeting. ECB officials continued to emphasize that they keep assessing the present inflation spike as transitory for the well-known trinity of base effects, higher energy prices and bottlenecks. Wage pressures are still low and inflation expectations anchored. However, the ECB will need to upgrade its inflation projections and Governing Council members increasingly emphasise upside risks, with 2nd round effects a key signpost to watch. A 2022 rate hike is still highly unlikely, but our base case of unchanged rates in 2023 is a getting a closer call.

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