# Monthly Macro Insights

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Rothschild & Co
Asset Management


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**The global economy's H1 21 performance was marked by divergent growth, with uneven gains across regions owing to the scale and mix of policy stimulus and vaccination programmes, alongside broad-based upside inflation surprises. Multiple central banks have started, or intend to, withdraw stimulus, gradually shifting from peak support and further intensifying geographical divides.**

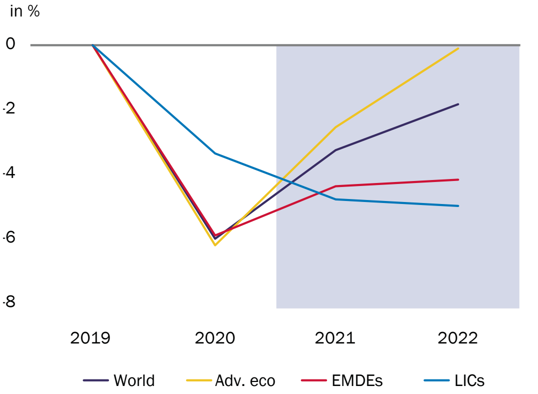
## Surge in food prices

Global food producer prices have rallied, reaching multi-year highs, as demand and supply have become unbalanced. The former has been supported by countries stockpiling food reserves due to pandemic-related worries about food security. On the latter, dry weather has caused harvests to fall short of expectations. Consequently, world stocks-to-use ratios – a measure of market tightness – reached multi-year lows for some staples.

The increase in global food prices has slowly started to feed into domestic consumer prices in some regions as retailers, unable to absorb the rising costs, are passing on the increases to consumers. However, the impact will vary by country with consumers in emerging markets (EM) likely to experience higher increases due to the elevated dependency on food imports while the pass-through from producer prices to consumer prices also tends to be larger in those countries. EM are also more vulnerable to food price shocks because their consumers typically spend a relatively large proportion of their income on food. What's more, most commodities are quoted in USD, especially cereals due to the size of global corn and wheat exports from the US. The depreciation of many currencies against the USD has thus put upward pressure on prices in those countries.

Corruption, a lack of democracy and ethnic tensions are all known drivers of political instability or uprising. However, researchers have found that social disorder and unrest become more likely when food prices rise above a certain threshold.

### World - Deviation of GDP from pre-pandemic projections




*Source: World Bank, Rothschild & Co Asset Management Europe, July 2021.*

### World - Food prices


*Source: Bloomberg, Rothschild & Co Asset Management Europe, July 2021.*

In that regard, the recent upswing in agricultural prices warrants special attention, especially since EM have suffered from slow vaccination deployment, infection outbreaks, and associated containment measures that will likely hold down growth for some time, all the more so where scope for policy support is limited.

## Several EM central banks becoming hawkish...

Aside from higher food prices, the global inflation outlook has been affected by trade which has been constrained by supply bottlenecks and strains in global value chains. Businesses have also experienced a sharp rise in freight rates and localised shortages of shipping containers.

Overall, the rise in inflation has started turning many EM central banks more hawkish, and risks point toward further tightening. This move has been led by the high-yielders, as concerns over credibility, inflation expectations and financial stability have pushed these central banks to launch interest rate hike cycles first.

In Turkey, the central bank increased 1,075 basis points (bp) in the past year. Brazil's central bank, meanwhile, delivered its third consecutive interest rate increase of 75 bp in June to 4.5%, and alluded to larger hikes ahead after dropping plans for a "partial" normalisation of policy, and opting instead to return to "neutral" rates – estimated at 6.5%. Russia increased 75bp to 5.5% and could add further 100bp over the next quarter. In Mexico, Banxico surprised investors with a 25bp hike and Colombia's BanRep could signal a lift-off sooner than expected.

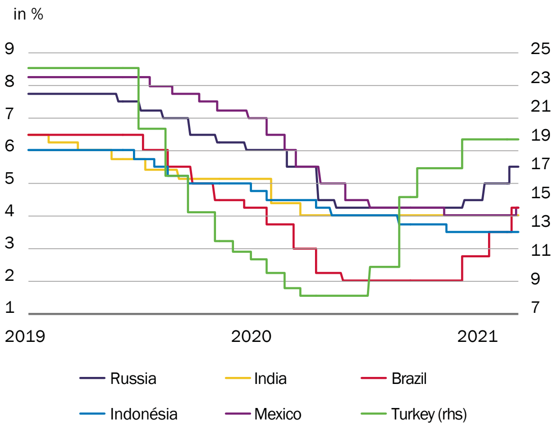
Some EM low-yielders are also moving faster than expected toward policy normalisation. Hungary and Czech Republic kicked off rate hiking cycles in June, as inflation has remained elevated in the CEE and activity is expected to recover swiftly thanks to the acceleration in the Eurozone, its main trading partner. Indeed, both consumer and business confidence indices have surged in recent months in the Eurozone and buoyant growth is expected, thanks to the combination of ongoing macroeconomic policy support and the release of pent-up demand associated with the easing of the pandemic.

By contrast, some EM Asian economies are still struggling with the rapid spread of the delta variant and weak domestic demand. In India, despite a large jump in inflation, the RBI recently eased further to offset the growth hit from the delta variant-led surge in new cases. The Bank Indonesia pointed to rates remaining on hold through 2021, while central banks of Thailand and the Philippines both stressed the need for policy to remain accommodative.

## ... while the Fed's dots dispersion has increased

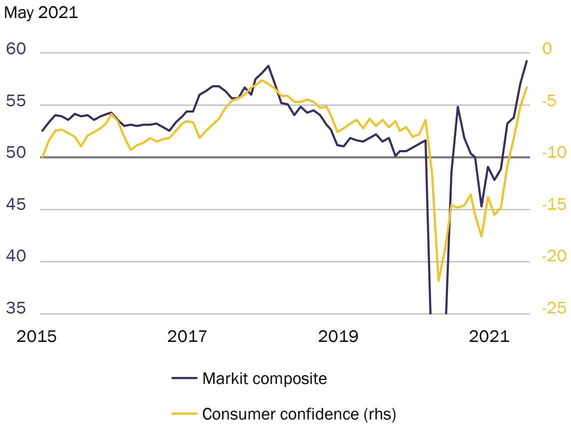
As expected, the Fed left its policy unchanged at its June 16 meeting. However, the revised economic projections and subsequent press conference reflect an ongoing shift away from the need for ultra-accommodative policy, as the language on inflation shifted to more explicitly acknowledging upside risks. Chair Powell also suggested that tapering talks have been initiated, although any changes would be communicated well in advance.

### EM - Policy rate




*Source: Macrobond, Rothschild & Co Asset Management Europe, July 2021.*

### Eurozone - Confidence index




*Source: Macrobond, Rothschild & Co Asset Management Europe, July 2021.*

*(2) Source: US BEA, June 2021.*

The updated dot plot showed that seven of the 18 FOMC participants anticipate a rate hike in 2022, and the majority – 13 members – expect at least one rate hike before the end of 2023, whereas they numbered only five in March. The dispersion within the Fed has thus increased markedly, which reflects the uncertainty regarding the debate on transitory vs. permanent nature of the rise in the inflation rate.

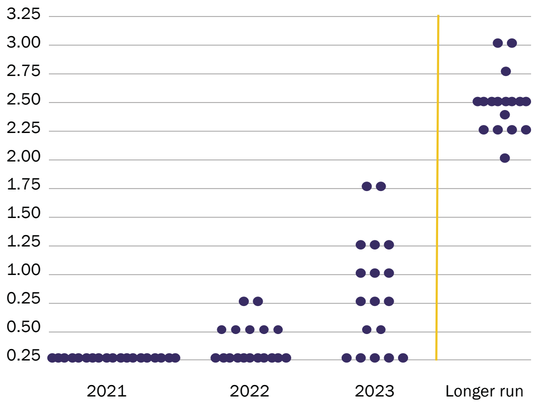
It also reveals that policy makers are split on the economic outlook beyond the effects linked to fiscal stimulus and pent-up demand that will temporarily boost GDP growth in the short term, as the possibilities regarding the longer-term effects of the pandemic on GDP growth remain wide. In fact, the debate on the post-pandemic new normal is far from settled, which might explain why US 10-year yield have – surprisingly to most – been trending down in the past few months despite surging inflation and elevated investors optimism.

What's more, the path of the pandemic remains uncertain. In most regions, Covid-19 new cases are receding. In India, reported cases fell to around 50,000 daily from almost 400,000 in early May, while it touched the lowest level since August in the EU. However, the situation in Latin America remains challenging and the number of daily infections has been rising steadily. The UK registered the highest number of positives since January even though more than 50% of adults have received both shots, which might question the view of a rapid return to pre-Covid-19 normality. That said, the PM Johnson expressed confidence that the next stage of lifting restrictions in England could go ahead as hospitalisation remains very low. ■

**Completed writing on 30 June 2021**

### US - Fed funds rate projections

in %, june 2021




*Source: FOMC, Rothschild & Co Asset Management Europe, July 2021.*

### US - 10-Year sovereign bond

in %


*Source: Macrobond, Rothschild & Co Asset Management Europe, July 2021.*

## Performance of the indices and interest rate levels

| | Price as of 29/06/2021 | 1 month % change | 2021 % change |
|---|---|---|---|
| **Equity markets** | | | |
| CAC 40 | 6 567 | 1.9% | 18.3% |
| Euro Stoxx 50 | 4 108 | 1.7% | 15.6% |
| S&P 500 | 4 292 | 2.1% | 14.3% |
| Nikkei 225 | 28 813 | -0.2% | 5.0% |
| **Currencies** | | | |
| EUR/USD | 1.19 | -2.7% | -2.6% |
| EUR/JPY | 131.48 | -1.9% | 4.2% |

| | | Price as of 29/06/2021 | 1 month bp(1) | 2021 bp(1) |
|---|---|---|---|---|
| **Interest rates** | | | | |
| 3 months | Eurozone | -0.64% | -1 | 13 |
| 3 months | United States | 0.04% | 4 | -2 |
| 10 years | Eurozone | -0.17% | 2 | 40 |
| 10 years | United States | 1.47% | -12 | 56 |

*(1) Basis point.*
*Source: Bloomberg, data as of 29/06/2021. Performances in local currency.*
*Past performance is not a reliable indicator of future performance and is not constant over time.*



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