



16th July 2022

Global Market – Europe – Epicenter on next crisis?

Last week, we have discussed falling commodity prices which includes Energy inflation as well as food inflation. Crude Oil, Natural gas, Metal & Agriculture commodities have decline from 5% to 25%. We see high probability of inflation peaking in near term which is main cause of high interest rate and correction in Emerging market equity, currency and commodity.

This week, we will discuss Europe and which could become next major reason to worry for smooth economic recovery. EURO at parity with US Dollar, sharp depreciation of EURO could just be an early sign of big storm coming.

Double Whammy: High inflation & High interest rate

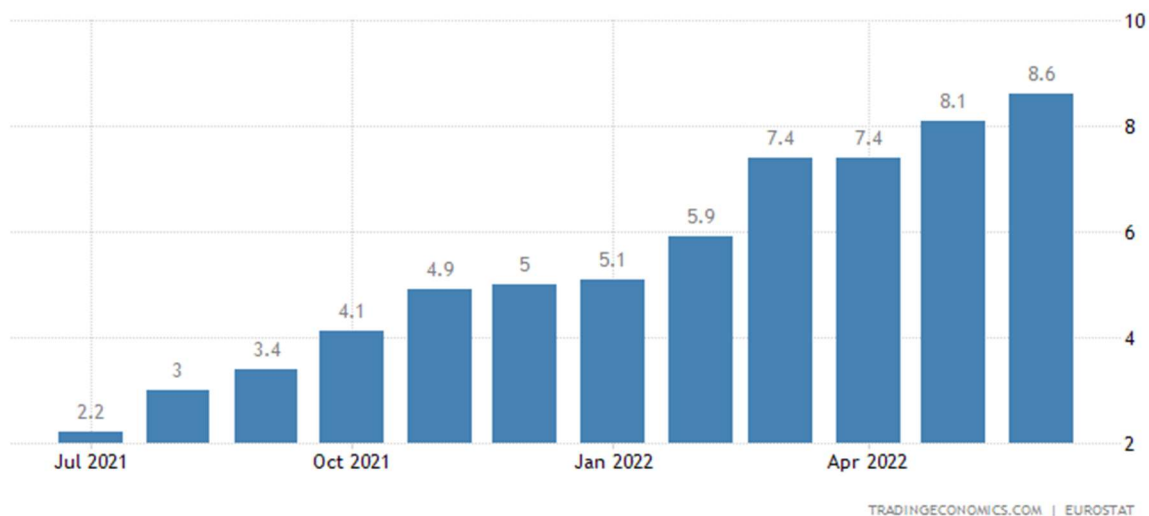
We have discussed “Double Whammy” on our 5-Mar-22 article, after Russia-Ukraine crisis and early days of talk of sanctions on Russia. It triggered energy prices rise to record high and triggered the inflation problem globally.

Why crisis in Europe is next biggest hurdle for global market?

We believe, problem in Europe is at initial stage and things could get worse before things could settle down. Why we believe so – let us discuss few points mentioned below.

- Inflation problem in Europe is more adverse compared to US.
- ECB & BOE are much behind the curve – in raising interest rate.
- Political crisis in UK & ITALY – more to come?

Inflation in Europe





EURO zone flash inflation for June came at 8.6%, ECB plans to hike first interest rate in in July 2022 meeting by 25 bps and followed by September and which could get preopen to July 2022 meeting.

ECB next schedule meeting is on 21-Jul-22. US Fed is expected to hike interest rate by 75 bps or 100 bps in next upcoming meeting outcome on 27-Jul-22.

Next schedule meeting for BOE – Bank Of England is on 4-Aug-22. Inflation figures for May 2022 came at 9.1%.



ECB & BOE are much behind the curve – in raising interest rate.

ECB raises 2022 inflation target to 6.8% from 5.1% earlier in last meeting. With current interest rate near zero, ECB would be compelled to act to bring inflation at sustainable level.

BOE thinks inflation set to surpass 10% later in 2022. BOE raised interest rate by 25 bps to 1.25% in June 2022.

Inflation is way above comfort level, but recent fall in agriculture commodity & Crude Oil and Metal is giving hope to market. But biggest question comes here is what if inflation does not come under control and ECB & BOE is compelled act fast on interest rate.



Political crisis in UK & ITALY – more to come?

UK political crisis may not be directly linked to economic situation but economic situation remains critical in Europe. ITALY Prime Minister Mario Draghi offer to resign but President of Italy have decline, reason for crisis in ITALY is due to economic policies.

Most of the European countries are NATO members and have jointly decided to put sanctions on Russia, Europe is worst hit due to its dependence on cheap Russian Crude oil & Natural Gas. Many European countries have accepted to pay Russia in RUBLE to continue supply of Natural Gas. Price of Natural Gas remains at elevated level in Europe.

Equichain Wealth Advisors: Market View

In today's article we have focus on Europe but US remains the mother market and any recovery in US or in case US market bottom out European market may underperform but it remains to be seen whether this will impact global market or not?

Since COVID-19, globally central bank's policy remains accommodative irrespective of their domestic factors as COVID-19 related lockdown had impacted countries across the world, except China. We may see decoupling in Central bank's policy and which could also bring probability of decoupling of various economy.

In next 3 – 6 months, we expect **European crisis & Decoupling** to be the next important factor to be discussed and driving the market.