



2nd September 2022

Global Market – ECB – Monetary policy on 8-Sep-22 & Energy Crisis in Europe

Last week, we have discussed US Fed chair Jerome Powell speech at Jackson Hole Symposium and its impact on market was seen this week. Earlier on 17-Jul-22, we have discussed Is Europe – epicenter of next financial crisis? For last few weeks, globally market is focusing on Europe as energy & Natural gas prices shoots up as supply concern from Russia.

This week we will focus on ECB monetary policy meeting on 8-Sep-22. Currently ECB key rate stands at 0.50% whereas latest inflation numbers released for August for EURO zone at flash CPI came @ 9.1% Vs expectation of 9.0%. Core CPI inflation came @ 4.3% Vs expectation of 4.1%.

Core CPI is at 4.3% which does not include food and energy prices. ECB is far behind the curve as compared to other central banks for developed countries and emerging economy countries.

Energy Crisis in Europe

Russia has temporarily stopped gas supply to Europe which has trigger electricity prices to record high ahead of winter. Electricity prices will remain one of the major challenges for European countries which is already behind the curve in raising interest rate and controlling inflation.

Energy prices have soared in Europe as Russia has slashed natural gas supplies to the continent, with fears of more drastic cuts in the winter amid tensions between Moscow and the West over the war.

One-fifth of European electricity is generated by gas-fired power plants, so drops in supply inevitably lead to higher prices.

Equichain Wealth Advisors: Key points

Central banks across the world were following similar monetary policy to fight demand slowdown & lockdown post COVID-19, but as things have turned normal, different regions have different issues and solutions also need to be different accordingly.

Biggest game changer for Europe is sanctions put on Russia by US & European countries to isolate Russia economically, but it backfired and worst impact is now seen in Europe. US & RUSSIA, currency of both these countries have been strong post Russia-Ukraine crisis.

ECB is expected to raise interest rate by 75 bps on 8-Sep-22 followed by 50 bps in October 2022 meeting broadly expected by market participant.

Current inflation across the globe is more of a supply side problem rather than demand problem, which got accelerated post hard steps announced by Russia to stop gas supply to Europe.



Equichain Wealth Advisors: View & Opinion

ECB could sound more hawkish and take aggressive steps to control inflation following the path of US Fed, as mentioned in Jackson Hole Symposium by US Fed chair that even if it may take some pain, inflation need to be brought down for long term sustainable growth.

Any delayed steps towards tight monetary policy by ECB could do more damage to European countries as US Fed is expected to move towards tight monetary policy.

Global assets class and market participant are not prepared for tight monetary policy to sustain over a longer period of time and next few will be important as ECB meeting on 8-Sep-22 will be followed by BOE meeting on 15-Sep-22, US Fed on 21-Sep-22 & BOJ on 22-Sep-22 followed by RBI on 30-Sep-22.

Global central banks have to choose pain & tight monetary policy for long term sustainable growth and bring inflation under control. Country which will manage to bring inflation under control will be first to return to accommodative interest rate policy.

Disclosure & Note: Investor need to understand risk associated with F&O strategy, technical & other trading strategy before implementation and due risk assessment is required from client's end and prefer professional advice before executing.