FED shift up a gear as impetus for front loading rate hikes increases; Futures markets are now pricing in 50 basis points rises at the up-and-coming FOMC policy meetings (May, June and July) as Fed Chair, Jerome Powell, hit the news wires unequivocally stating that this would be a possibility as rampant inflation persists. Inflation in the US, which printed at 8.5% earlier in the month, was also undoubtedly playing on the minds of policy makers as the runoff of assets from the Fed's near $9 trillion balance sheet as the market interpreted that this would take place at a faster rate according to minutes of the Fed's March 15-16 meeting and a myriad of Fed officials who have since raised concerns about broadening of inflation throughout the economy. Treasury yields rose largely as expected, of particular note was the price action in 2-year Treasury yields scaling multi-year highs around 2.80% before falling back to the more familiar 2.50% region. The closely followed spread between the 2 and 10 year Treasury yields was also the subject of much attention, having widened from negative territory earlier in the month – typically a harbinger for economic malaise – to nearly 40 basis points and then back to around 25 more recently as the market anticipates that more hikes now will stymie future economic and thereby forestall rate rises further down the line.

Russia boycotted at G-20 summit by sub-contingent of representatives; US, Canadian, Danish, British and Ukrainian officials dissented from the session which featured the Russian representative as secretary of the Treasury, Janet Yellen, lead the remonstration as demands persisted to have Russia expelled from the G20 collective altogether. The US has recently backed the Ukrainian cause with further economic aid, with around $800 million in military assistance and a further $500 million in general financial aid.

ECB officials capitulate on earlier dove-ish stance in the face of market tightening expectations; ECB President Christine Lagarde pushed back against the idea of rushing to hike rates earlier this month, saying policy will be tightened slowly adding that acting too hastily would endanger Europe's economic recovery. More recently however, ECB officials have been more hawkish in their collective language in comments made to the press. Money market futures now price as much as 80 basis points of tightening by the end of 2022 with the ECB's quantitative easing program also slated to end by this summer. The change in tact was most dramatically manifested in European bond yields, most of which having begun the year in negative territory, backing-up to nearly a percent in the case of the 10-year German bunds.

The UK consumer in dire straits; UK retail sales offered little solace to the markets as a much weaker outturn of 0.9% versus consensus of 2.8%, and a prior reading of 7.2%, spelled sinking consumer confidence which, given high inflation rates, are fuelling concerns of a potential UK recession.

Markets wise; global equities were down on the week with concerns reverberating around the stability of the global economy in the face of potential stagflation as well as the general proclivity to re-trench to safety as the war rhetoric increases and geopolitical tensions flare. The march higher of the 10 year US Treasury yield however remained a consistent theme throughout the week, rising to a few basis points shy of the psychologically significant 3% mark (not seen since 2018) before falling back toward the more familiar 2.80% level. In terms of currencies, the USD has also witnessed a recent blip higher, convincingly breaking the $1.30 mark in GBPUSD with the next obstacle to the downside around the $1.25 support level. The price action has been closely mirrored in EURUSD, which has recently seen $1.10 broken with a further break of the $1.05 mark now firmly in the markets' sights– a break of which has not been seen since 2016. The price of a barrel of West Texas Intermediate crude oil meanwhile dropped to just under $102 from around $107 last week

This document has been prepared by Gulf International Bank (UK) Limited (GIB UK). GIB UK is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority and the PRA. GIB UK is registered as an Investment Adviser with the Securities and Exchange Commission in the United States. None of the content in this communication is investment advice, and the information contained herein is for information purposes only. There can be no assurance that forward looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

The views expressed in this publication are those of the author(s) alone and are subject to change without notice. GIB UK has no obligation to update this publication. The information contained in this publication has been obtained from sources that GIB UK believes to be reliable, but makes no representation that the information contained herein is accurate, reliable, complete, or appropriate.