Bank of Japan: towards further policy normalisation

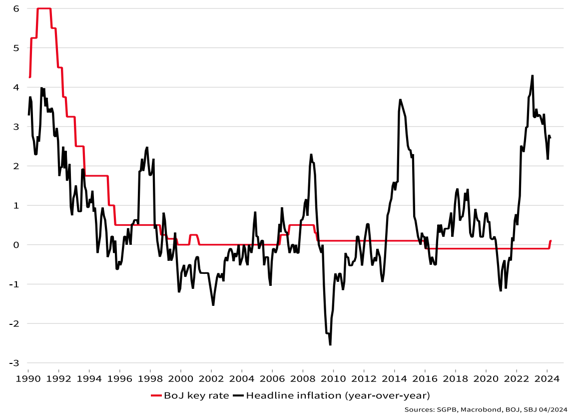
Lagging other developed economies, Japan is experiencing a period of high inflation and strong wage increases, putting an end to several decades of deflation. Against this backdrop, the Bank of Japan (BoJ) ended its negative interest rate policy a few weeks ago. Nevertheless, the rate hike was very moderate, which combined with expectations of fewer rate cuts in the United States, pushed the yen to its lowest level since 1990 against the dollar. The Japanese authorities seemed to have intervened recently, allowing the yen to stabilise. However, in order to support its currency in the long term, the BoJ will probably have to normalise its monetary policy more sharply in the months ahead.

A historic but limited pivot. In March, the Bank of Japan raised interest rates for the first time in 17 years. The central bank thus ended its negative interest rate policy, with rates moving from -0.1% to a range of 0% to 0.1%. The BoJ also abandoned its yield curve control (but may still intervene should bond yields increase too fast) and its purchases of risky assets. The BoJ is therefore beginning to normalise its policy. Nonetheless, not only was the rate hike smaller than markets expected, but Governor Ueda did not commit to further rate hikes in the future. There is no doubt that this caution was at least partly linked to memories of mid-2006, when the BoJ made a previous attempt to move away from zero interest rates, only to be forced to backtrack a few months later.

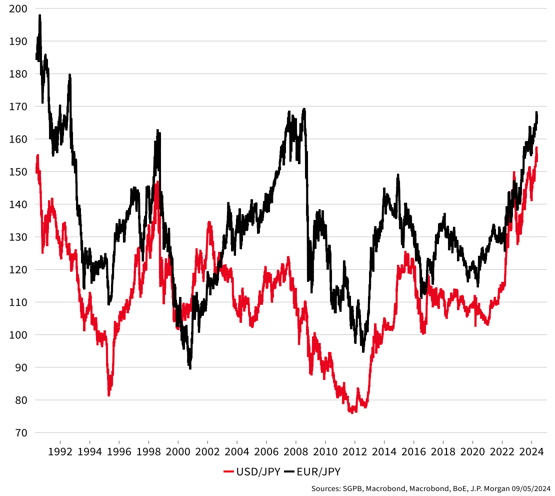
Emerging from deflation. Nevertheless, the situation today is different: inflation is much higher than in 2006 (2.7% year-on-year in March compared with 0.3% in July 2006) and the unemployment rate is much lower (2.6% in March compared with over 4% in 2006). Against this backdrop, wage growth has remained above 2% year-on-year for almost a year, compared with between 0.5% and 1% in the years pre-Covid. Meanwhile annual pay negotiations reached a 30-year high (5.3% increase for a fraction of employees). Japan thus appears to have turned the page on several decades of deflation, marked by average inflation and real growth (between 1995 and 2020) close to zero. This development should enable the BoJ to continue normalising its monetary policy.

More than one reason to raise rates. Recent developments in the yen could also play into the BoJ's hands in terms of further rate hikes. The interest rate differential between Japan and the United States is exerting strong downward pressure on the yen, which has lost almost 15% against the dollar since the start of the year (and 35% since the beginning of 2022), reaching its lowest level since 1990.In fact, the yen is clearly undervalued against the major currencies. Against this backdrop, the BoJ appears to have intervened recently on the foreign exchange market to limit the yen's depreciation, which could reinforce inflationary pressures. But further rate hikes by the BoJ would be far more effective in supporting the yen, allowing to both narrow the rate differential with the US or the euro area and help achieve its objective of stabilising inflation at 2%.

Japan: inflation and BoJ interest rates



Yen vs. US dollar and euro



SOCIETE GENERALE
Private Banking

Our Macro Comments

Events of the week

As expected by the markets, the **Bank of England** (BoE) left rates unchanged for the sixth time at 5.25%. Nonetheless, it sent out several signals pointing to a rate cut in the months ahead. Firstly, a second member (out of nine) of the Monetary Policy Committee voted in favour of a cut. Secondly, the BoE Governor, Mr Bailey, stressed that it was likely that the BoE would have to ease monetary policy, even more than the markets expect. Furthermore, he did not reject (nor validate) the possibility of a cut as early as June. Finally, the press statement stresses the importance of the data to be published between now and the next committees. Yet, inflation could fall back below the 2% target (at least temporarily) in May and June. Against this backdrop, the markets have raised their rate cuts expectations, with the first cut in June now expected with a probability of 60% (40% a week ago) and almost three cuts this year.

In a relatively quiet week in terms of data, the **equity markets** rebounded sharply this week, led by Europe and the United States, benefiting from the modest fall in interest rates for the second week running. The Japanese market, meanwhile, recorded another weekly fall. On the foreign exchange market, the dollar depreciated slightly against the euro but continued its rebound against the yen.

The week in data

Country	Data	Actual	Last	Forecast
Germany	Industrial Production MoM MAR	-0.40%	1,70%	-0.60%
China	Caixin Services PMI APR	52.5	52.7	52.5
Italy	Industrial Production MoM MAR	-0.50%	0%	0.30%
Japan	Household Spending YoY MAR	-1.20%	-0.50%	-2.40%
United Kingdom	BoE Interest Rate Decision	5.25%	5.25%	5.25%
United Kingdom	GDP Growth Rate QoQ Q1	0.60%	-0.30%	0.40%
United Kingdom	GDP Growth Rate YoY Q1	0.20%	-0.20%	0.00%
United Kingdom	Industrial Production YoY MAR	0.50%	1%	0.30%
Euro area	Retail Sales MoM MAR	0.80%	-0.30%	0.60%

Source : Macrobond, the 10th May 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
United States	Consumer Inflation Expectations APR
Tuesday	
United Kingdom	Unemployment Rate MAR
United Kingdom	Average Earnings MAR
United States	PPI APR
Wednesday	
Euro Area	Employment Change Q1
Euro Area	Industrial Production MAR
United States	Core Inflation Rate APR
United States	Inflation Rate YoY APR
Thursday	
Japan	GDP Growth Rate Q1
United States	Industrial Production APR
Friday	
China	Industrial Production APR
France	Unemployment Rate Q1

SOCIETE GENERALE
Private Banking

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3.90	3.91	3.91	3.90	3.15
USD SOFR O/N	5.31	5.31	5.31	5.39	5.05
JPY TONAR O/N	0.08	0.08	-0.01	-0.04	-0.05
GBP SONIA O/N	5.20	5.20	5.19	5.19	4.43
CHF O/N	1.33	1.36	1.64	1.66	0.80

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84.09	0.5%	2.9%	10.6%	11.6%
Or, USD/oz	2,346	1.8%	15.3%	13.9%	16.4%
Copper, USD/metric ton	9,858	0.8%	18.7%	15.4%	18.9%
Platinium, USD/oz	984	3.1%	11.3%	-1.1%	-10.9%
Palladium, USD/oz	954	0.7%	8.2%	-14.2%	-39.3%
Silver, USD/oz	27.63	5.3%	23.6%	15.4%	11.0%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	3.00	3.05	2.86	2.56	2.79
10Y Bund	2.49	2.55	2.35	2.02	2.22
10Y BTP	3.83	3.87	3.93	3.70	4.12
10Y JGB	0.87	0.89	0.70	0.62	0.41
10Y Bonos	3.28	3.33	3.33	3.00	3.30
10Y Swiss	0.69	0.71	0.90	0.68	0.97
10Y Gilt	4.14	4.29	4.11	3.74	3.71
10Y USTnote	4.45	4.58	4.15	3.91	3.39

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1.07	0.3%	-0.2%	-2.0%	-1.8%
EUR/CHF	0.98	0.0%	3.8%	5.2%	0.1%
USD/GBP	0.80	-0.2%	0.7%	0.9%	0.1%
USD/JPY	155.57	1.0%	4.1%	9.6%	15.7%
USD/BRL	5.16	0.9%	3.4%	5.2%	3.7%
USD/CNY	7.22	-0.2%	1.5%	1.8%	3.9%
USD/RUB	91.63	-2.0%	0.5%	0.4%	19.3%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3.17	3.24	3.04	2.73	3.21
EUR Corporate Baa	3.97	4.05	3.97	3.78	4.37
GBP Corporate Baa	4.73	4.91	4.78	4.36	4.74
USD Corporate Aaa	4.98	5.07	4.71	4.54	4.22
USD Corporate Baa	5.70	5.80	5.51	5.38	5.42
USD EM aggregate	7.21	7.37	7.22	7.11	7.27

Equity indices	-1W	-3M	YTD	-12M
Developped markets	2.1%	5.1%	6.1%	14.4%
Euro area	3.3%	7.3%	13.6%	17.3%
Germany	4.4%	10.2%	13.0%	18.0%
France	3.4%	6.8%	10.5%	10.9%
United Kingdom	2.6%	10.3%	9.1%	8.4%
Switzerland	3.5%	4.2%	3.9%	0.7%
United States	3.0%	4.3%	10.8%	26.2%
Japan	-0.6%	5.9%	14.7%	30.3%
Brazil	0.8%	0.0%	-3.5%	18.4%
Hong Kong	1.8%	16.8%	11.4%	-6.1%
India	-3.0%	1.4%	1.5%	17.0%
China	1.7%	8.9%	8.5%	-8.2%

Source: Bloomberg, on 10 May 2024, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change. Equities; total return in local cu rrency. Government bonds = 10 year returns. Figures are rounded..

IMPORTANT INFORMATION – PLEASE READ

GENERAL INFORMATION

This document is a marketing communication issued by Société Générale Private Banking which is the business line of the Société Générale Group operating through its headquarters within Société Générale S.A. in France and its network (departments or separate legal entities (branches or subsidiaries) hereinafter the “Entities”),), located on the various below-mentioned territories, acting under the brand name "Societe Generale Private Banking" and distributors of the present document.

This material has been prepared solely for informational purposes and has no contractual value.

This material does not constitute an offer of purchase, sale, or subscription in any of the asset classes presented herein, nor a solicitation of such an offer, nor is it an offer of financial services, to participate in any investment strategy. Nothing in this document should be construed as constituting investment advice or personal recommendation to any investor or its agent. Information contained herein is not intended to provide a basis on which to make an investment decision.

Any investment may have tax consequences and Société Générale Private Banking and its Entities do not provide tax advice. The level of taxation depends on individual circumstances and tax levels and bases may change. In addition, this document is not intended to provide accounting, tax or legal advice and should not be relied upon for accounting, tax, or legal purposes. Independent advice should be sought where appropriate.

The accuracy, completeness or relevance of the information provided is not guaranteed although it has been drawn from sources believed to be reliable. The information and opinions expressed in this document were produced as at the date of writing and are subject to change without notice.

This material has not been prepared regarding specific investment objectives, financial situations, or the particular needs of any specific entity or person. Investors should make their own appraisal of the risks and should seek their own financial and legal advice regarding the appropriateness of investing in any asset classes or participating in any investment strategy.

The asset classes presented herein may be subject to restrictions regarding certain persons or in certain countries under national regulations applicable to said persons or in said countries. It is the responsibility of any person in possession of this document to inform themselves and to comply with the legal and regulatory provisions of the relevant jurisdiction. This document is not intended for distribution to any person or in any jurisdiction where such distribution would be restricted or illegal. In particular, it may not be distributed in the United States, nor may it be distributed, directly or indirectly, in the United States or to any US Person.

GENERAL RISKS

Some of the asset classes mentioned may present various risks, imply a potential loss of the entire amount invested or even an unlimited potential loss, and may therefore only be reserved for a certain category of investors, and/or only be suitable for well-informed investors who are eligible for these asset classes. In addition, these asset classes must comply with the Société Générale Group's Code of Tax Conduct.

The price and value of investments and the income derived from them may go down as well as up. Changes in inflation, interest rates and exchange rates may adversely affect the value, price and income of investments denominated in a currency other than that of the client. Any simulations and examples contained in this document are provided for illustrative purposes only. This information is subject to change because of market fluctuations, and the information and opinions contained herein may change. Société Générale Private Banking does not undertake to update or amend this document and will not assume any liability in this regard.

This document is for information purposes only and investors should make their investment decisions without relying on this document. Société Générale Private Banking and its Entities shall not be liable for any direct or indirect loss arising from any use of this document or its contents. Société Générale Private Banking and its Entities do not make any warranty, express or implied, as to the accuracy or completeness of this information or as to the profitability or performance of any asset class, country, or market.

Past performance does not predict future returns. The value of an investment is not guaranteed, and the valuation of investments may fluctuate.

Forecasts of future performance are based on assumptions which may not materialized. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future.

For a more complete definition and description of the risks, please refer to the prospectus of the product or other legal information document as the case may be (as applicable) before making any final investment decisions.

This document is confidential, intended exclusively for the person to whom it is addressed, and may not be communicated or made known to third parties (except for external advisers and provided that they themselves respect confidentiality), nor reproduced in whole or in part, without the prior written agreement of Société Générale Private Banking and its Entities.

AVERTISSEMENT IMPORTANT

CONFLICTS OF INTEREST

The Societe Generale Group maintains an effective administrative organization that takes all necessary measures to identify, control and manage conflicts of interest. To this end, Societe Generale Private Banking and its Entities have put in place a conflict of interest policy to prevent conflicts of interest, including information Chinese walls.
This document contains the views of SGPB teams. Société Générale trading desks may trade, or have traded, as principal on the basis of the teams' views and reports. In addition, SGPB teams receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, revenues of their entity of the Société Générale group and competitive factors.
As a general matter, entities within the Société Générale group may make a market or act as a principal trader in securities referred to in this report and can provide banking services to the companies mentioned in that document, and to their subsidiary. Entities within the Société Générale group may from time-to-time deal in, profit from trading on, hold on a principal basis, or act as advisers or brokers or bankers in relation to securities, or derivatives thereof, or asset class(es) mentioned in this document.
Entities within the Société Générale group may be represented on the supervisory board or on the executive board of such persons, firms or entities.
Employees of the Société Générale group, or persons/entities connected to them, may from time to time have positions in or hold any of the investment products/ asset class(es) mentioned in this document.
Société Générale may acquire or liquidate from time-to-time positions in the securities and/or underlying assets (including derivatives thereof) referred to herein, if any, or in any other asset, and therefore any return to prospective investor(s) may directly or indirectly be affected.
Entities within the Société Générale group are under no obligation to disclose or consider this document when advising or dealing with or on behalf of customers.
In addition, Société Générale may issue other reports that are inconsistent with and reach different conclusions from the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.
Société Générale group maintains and operates effective organisational and administrative arrangements taking all reasonable steps to identify, monitor and manage conflicts of interest. Société Générale Private Banking has put in place a management of conflicts of interest policy designed to prevent conflicts of interest giving rise to a material risk of damage to the interests of its clients. For further information, please refer to the management of conflicts of interest's policy, which was provided.

SPECIFIC INFORMATION PER JURISDICTION

France : Unless expressly stated otherwise, this document is published and distributed by Société Générale, a credit institution providing investment services authorised by and under the prudential supervision of the European Central Bank ("ECB") (located at ECB Tower, Sonnemannstraße 20, 60314 Frankfurt am Main, Germany) within the Single Supervisory Mechanism and supervised by the Autorité de Contrôle Prudentiel et de Résolution (located at 4, Place de Budapest, CS 92459, 75436 Paris Cedex 09) and the Autorité des Marchés Financiers ("AMF") (located at 17 Pl. de la Bourse, 75002 Paris). Société Générale is also registered with the ORIAS as an insurance intermediary under the number 07 022 493 orias.fr.
Société Générale is a French public limited company with a capital of EUR 1.003.724.927,50 as of November 17, 2023, whose registered office is located at 29 boulevard Haussmann, 75009 Paris, and whose unique identification number is 552 120 222 R.C.S. Paris, and its ADEME number is FR231725_01YSGB. Further details are available on request or at www.privatebanking.societegenerale.com.

Luxembourg: This document is distributed in Luxembourg by Societe Generale Luxembourg, a credit institution which is authorized and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") under the prudential supervision of the European Central Bank- ECB, and whose head office is located at 11, avenue Emile Reuter – L 2420 Luxembourg. Further details are available on request or can be found at https://www.societegenerale.lu/. No investment decision whatsoever may result from solely reading this document. Societe Generale Luxembourg accepts no responsibility for the accuracy or otherwise of information contained in this document. Societe Generale Luxembourg accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and Societe Generale Luxembourg does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or Societe Generale Luxembourg unless otherwise mentioned. Societe Generale Luxembourg has neither verified nor independently analyzed the information contained in this document. The Commission de Surveillance du Secteur Financier has neither verified nor independently analysed the information contained in this document.

AVERTISSEMENT IMPORTANT

Monaco: The present document is distributed in Monaco by Societe Generale Private Banking (Monaco) S.A.M., located 11 avenue de Grande Bretagne, 98000 Monaco, Principality of Monaco, governed by the 'Autorité de Contrôle Prudentiel et de Résolution' and the 'Commission de Contrôle des Activités Financières'. The financial products marketed in Monaco can be reserved for qualified investors in accordance with the Law No. 1339 of 07/09/2007 and Sovereign Ordinance No 1.285 of 10/09/2007. Further details are available upon request or on www.privatebanking.societegenerale.com.

Switzerland: This document is an advertising according to the Financial Services Act ("FinSA"). It is distributed in Switzerland by Societe Generale Private Banking (Suisse) SA ("SGPBS"), whose head office is located rue du Rhône 8, CH-1204 Geneva. SGPBS is a bank authorized by the Swiss Financial Market Supervisory Authority ("FINMA"). Nothing contained herein shall constitute, or shall be deemed to constitute, investment advice or a recommendation by SGPBS. Users are advised to seek professional advice before applying any information contained in this document to their own particular circumstances. SGPBS accepts no responsibility for the accuracy or otherwise of information contained in this document.The financial products, including collective investment schemes and structured products referred to in this document can only be offered in compliance with the FinSA. Further details are available on request or can be found at www.privatebanking.societegenerale.com.

This document is not distributed neither by SG Kleinwort Hambros Bank Limited in the United Kingdom, nor by its branches in Jersey, Guernsey and Gibraltar together operating through the brand name "SG Kleinwort Hambros". Consequently, the information and potential offers, activities and financial information contained in this document do not apply to these entities and may neither be authorized by these entities or adapted on these territories. Further information on the activities of the private banking entities of Société Générale located in the territories of the United Kingdom, the Channel Islands and Gibraltar, including additional legal and regulatory details can be found at: www.kleinworthambros.com."