



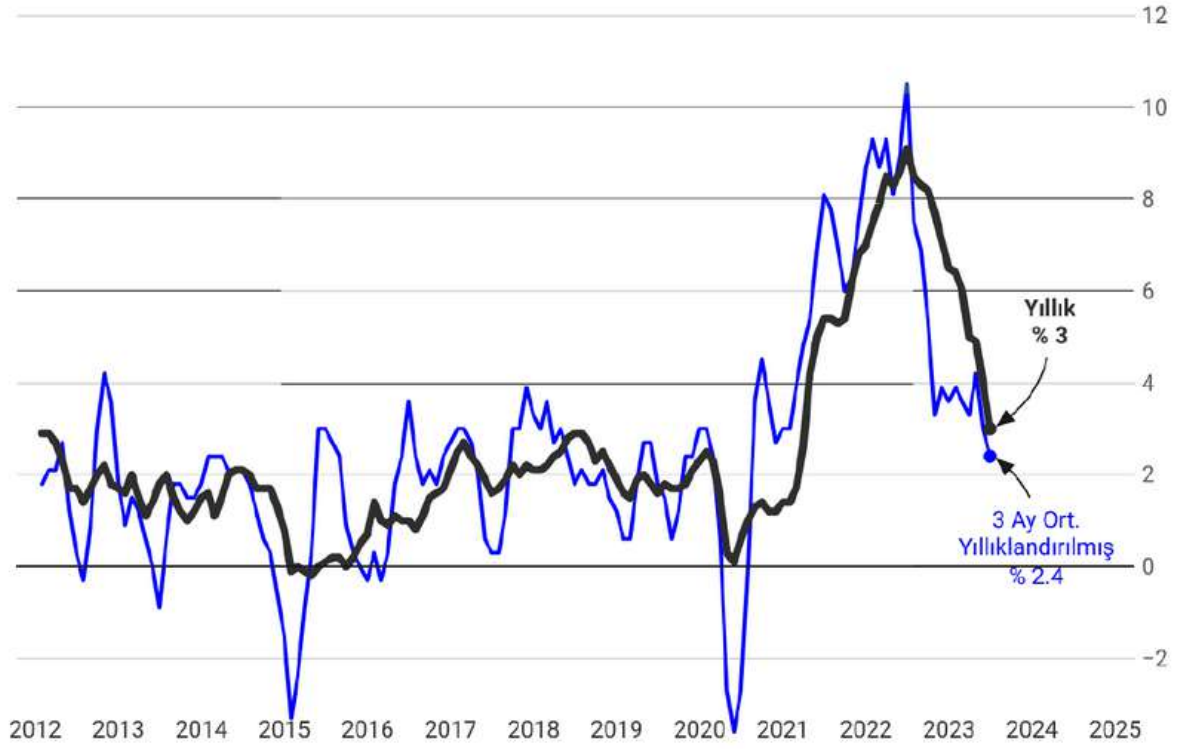
GOLDERA

MANAGEMENT | INVESTMENT | BUSINESS DEVELOPMENT

EKONOMİ ve PİYASA HAFTALIK EKONOMİK GÖRÜNÜM

17 TEMMUZ 2023

ABD Enflasyon



Geçen hafta piyasaları etkileyen önemli verilerden bir tanesi ABD’de açıklanan enflasyon verisi oldu. ABD’de enflasyon oranı, iki yıldan uzun bir sürenin en düşük seviyesine geriledi. Bu durum, barınma maliyetlerinde yaşanan yükselişin yavaşlamasına ve ABD Merkez Bankası’nın tarihi parasal sıkılaştırma politikalarının da sona ermesine yönelik önemli bir sinyal olarak görülebilir. Ekonomide yumuşak bir yavaşlama senaryosunun gündeme taşınması risk iştahını destekliyor.

Tüketici enflasyonu %3’e gerileyerek son 40 yılın en yüksek seviyesinden önemli ölçüde düştü. Ek olarak, Haziran ayına ilişkin detaylar da beklenenden daha iyi çıktı ve temel enflasyon ölçütlerinin çoğu tahminlerin altında gerçekleşti. Düşüşte baz etkilerinin de rol oynadığı dikkate alındığında %2 hedefine ulaşmada halen risklerin olduğu görülüyor.

Bütün bu gelişmelere rağmen FED’in son bir faiz artışına gideceği piyasalarda bekleniyor. 26 Temmuz’daki toplantıda FED’in faizleri %5,5 seviyesine çıkarması olasılığı ağırlığını koruyor. Açıklanan enflasyon verisiyle birlikte hazine tahvil faizlerinde düşüş ve ABD Dolarında gevşeme yaşandı.

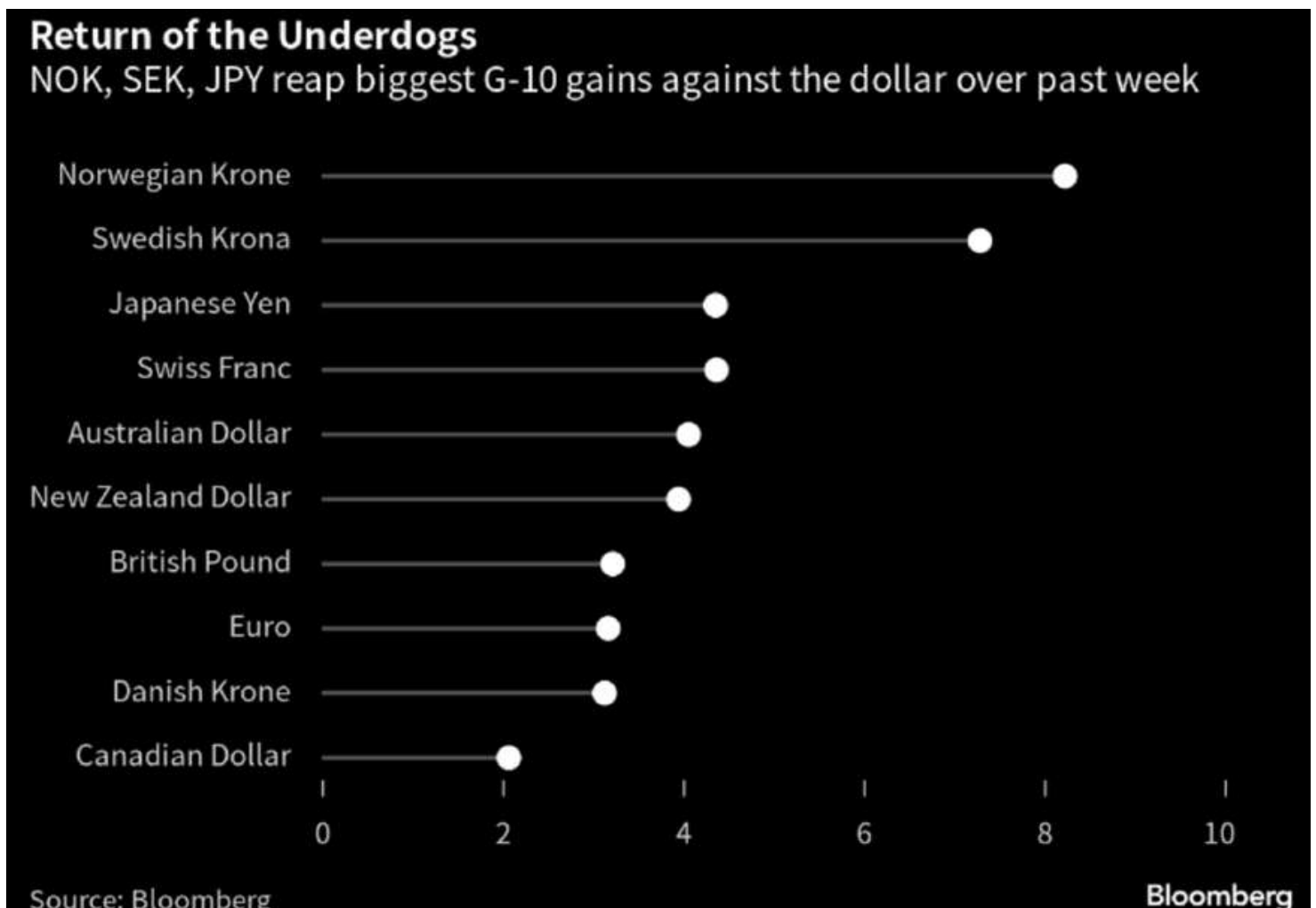
Underdog Rally in Year's Worst Currencies Aids Central Banks

Krone, krona, rand and yen lead gain versus dollar on US CPI

By Alice Atkins

(Bloomberg) -- After being beaten down by a dominant dollar this year, the weakest links in the currency world are making a comeback – much to the relief of central banks.

The Japanese yen, Norwegian krone and South African rand have turned from the worst-performing major currencies this year to become the best in recent days, along with Sweden's krona. The sharp turn of fortunes has come on the back of softer US inflation that is weakening the greenback.



Cari Açık (Mayıs 2023, 12 ay birikimli)



TCMB verilerine göre Mayıs ayında cari işlemler dengesi 7 milyar 933mn dolar açık verdi, geçen yılın aynı ayında 5 milyar 831mn dolar açık verilmişti. Mayıs gerçekleşmesi ile son 12 ayda verilen toplam açık ise 60,0 milyar dolara GSYH'ya oranla da %6.3) çıkarak kötüleşme eğiliminin devam ettiğini yansıttı.

Buna karşılık, Haziran ayı gümrük dış ticaret öncü verileri geçen yılın yaklaşık 2,8 milyar dolar altında dış açığa işaret ederken, turizm ve taşımacılık gelirlerinde devam eden güçlenme ile son 12 aylık cari açığa düşüş görülebileceğini düşündürüyor.

Finansman tarafında; yüksek cari açık verilmesi ve yüklü net hata-noksan çıkışına ek olarak, finansman hesabının açık vermesi ile resmi rezervlerde 16,6 milyar dolarlık belirgin azalış gözlemlendi.

Bütçe Açığı (Haziran 2023,12 ay birikimli)



Hazine'nin Haziran ayı bütçe gerçekleştirmeleri açıklamasına göre, nakitbazlı bütçenin 184.8 milyar TL faiz dışı ve 206.3 milyar TL toplam açık verdiği görülmektedir. Geçen yıl aynı ayda 14.8 milyar TL faiz dışı ve 26.6 milyar TL bütçe açığı verilmişti. Ayrıca geçen yıl ve bu yıl vergi kayması gözlenmediğinden karşılaştırma sağlıklı yapılabiliyor. Bunun karşılığında, geçen yıl Haziran'da 122mn TL özelleştirme geliri yazıldığı görülürken, bu yıl ise özelleştirme geliri kaydedilmemiştir. Bütün bu etkileri de dikkate aldığımızda, bütçe performansının geçen yıla göre çok belirgin kötüleştiğinden söz edilebiliyor. Bu sonuçlarla, ilk altı ayın toplam nakit açığı 453.5 milyar TL'ye yükselerek, geçen yıl aynı dönemde verilen 55.8 milyar TL'lik fazlanın tersi yönünde oluşurken, son 12 aylık nakit bütçe açığı ise 688 milyar TL'ye (GSYH'ya oranla %3.5 açık) yükselmiş oldu.

TCMB Brüt Rezervler (13 Temmuz)



Varlıklar (Milyar ABD Doları)	Tem 22	30/12/22	09/07/23	YTD
Altın	39.59	45.89	40.54	-5.35
Efektif YP	4.01	9.60	4.48	-5.12
Menkul Kıymet + Depo	10.17	10.29	4.43	-5.86
Diğer Hesap Bakiyesi	54.04	62.94	60.70	-2.24
TOPLAM	106.54	128.72	110.15	-18.57

Yükümlülükler (Milyar ABD Doları)	Tem 22	30/12/22	09/07/23	YTD
Bankalara YP Borçlar	76.12	85.04	67.18	-17.86
IMF & Yabancı Bankalara Borçlar	6.38	16.25	29.98	+13.73
Hazineye Borçlar	13.40	11.85	13.89	-2.04
Bankalara Swap Borçları	41.23	47.41	38.07	-9.34
Merkez Bankalara Swap Borçları	22.75	23.35	23.35	-
TOPLAM	159.88	183.90	172.47	-11.43

Turkish Mystery Money Flight Topped \$7 Billion in Election Month

(11TEMmuz)

By Beril Akman

Turkey suffered unexplained outflows of capital during a month of elections that were the largest since a 2021 currency crisis, revealing the extent of anxiety that gripped the economy as President Recep Tayyip Erdogan faced the biggest challenge to his two-decade rule.

Balance-of-payments data published on Tuesday showed declines in net errors and omissions, or money of unknown origin, more than doubled from April to reach over \$7.4 billion in May. The outflows accounted for almost the entirety of Turkey's current-account deficit, according to the figures published by the central bank. The money flight stands in stark contrast with inflows last year, when capital from unknown origins funded the bulk of a current-account deficit that has long hobbled Turkey's \$900 billion economy.

But those inflows turned to outflows every month so far this year except February. As a result, the central bank has had to rely on its reserves to help finance the ballooning gap in the current account, which widened more than analysts had expected in May to \$7.9 billion.

Official reserves declined by about \$17 billion the same month. The only other time when reserves dropped by a comparable amount was at the start of the Covid-19 pandemic in March 2020.

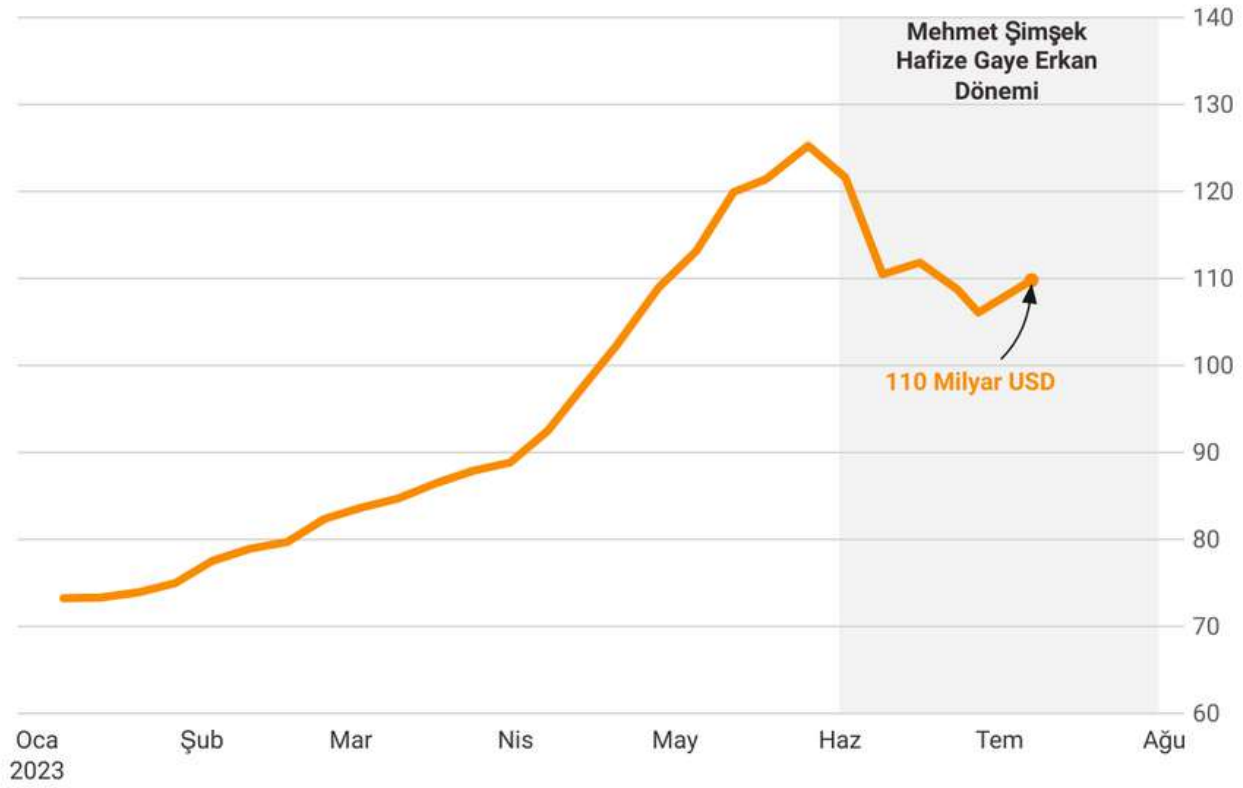
Since Erdogan won another five-year term in May, authorities have been reversing some of the unconventional policies that drove Turkey's trade balance deep into the red.

The central bank raised interest rates and scaled back its backdoor currency-market interventions that kept the lira relatively stable in the run-up to the vote at a huge cost to official reserves.

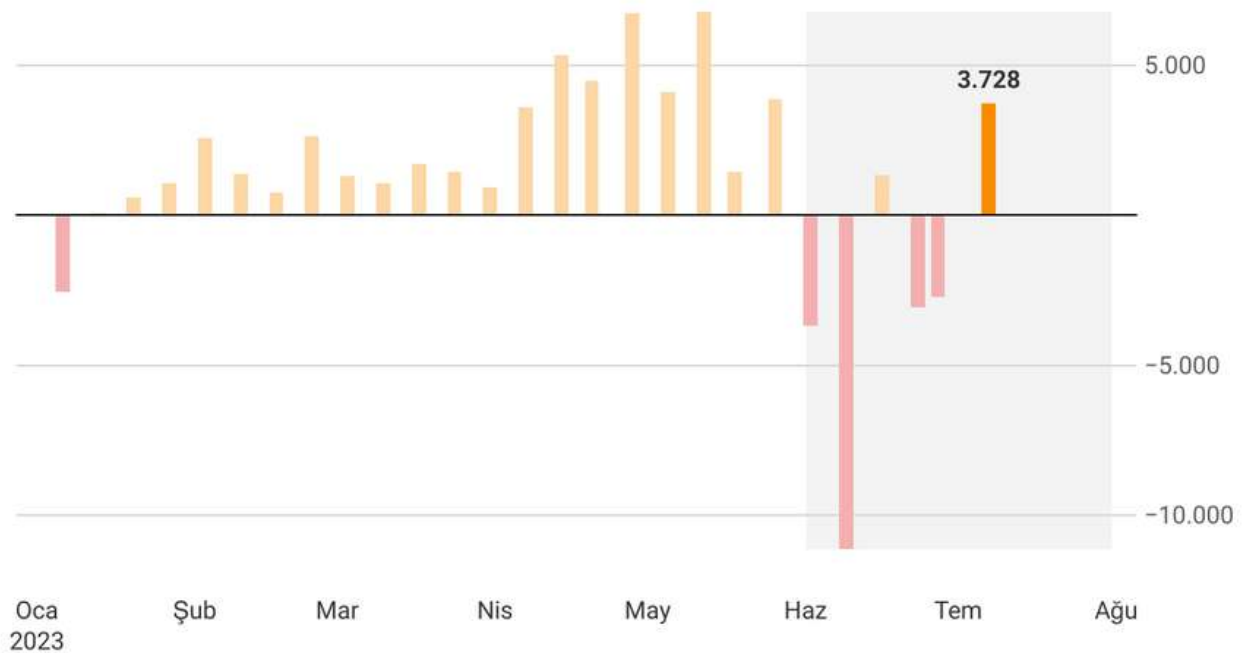
The lira has lost about a quarter of its value against the dollar since the ballot, helping Turkish exports become more competitive. The depreciation could limit risks for year- end estimates of the current-account deficit by cooling off imports, according to Istanbul- based economist Haluk Burumcekci.

The “quicken pace” of lira declines “after elections, and the tightening seen in monetary and fiscal policies, could slow down internal demand,” Burumcekci said.

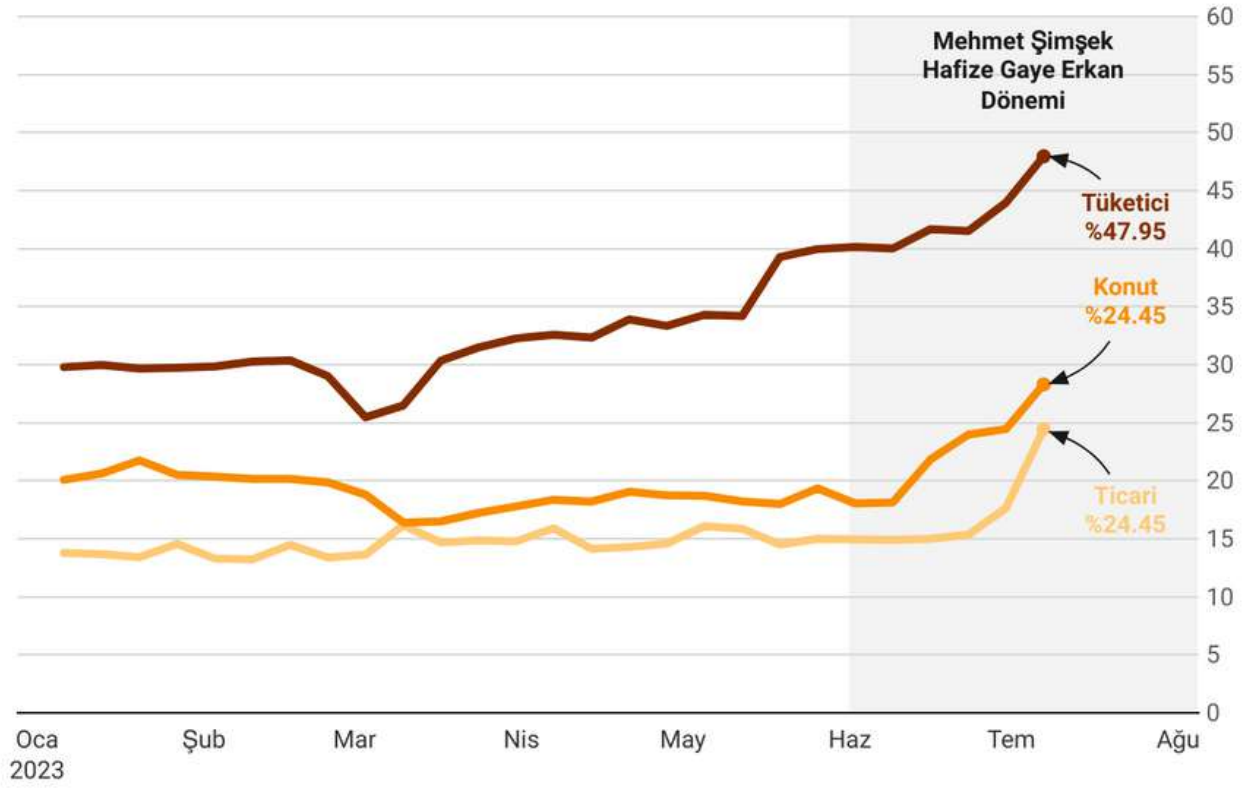
Kur Korumalı Mevduat (USD Cinsinden - 7 Temmuz)



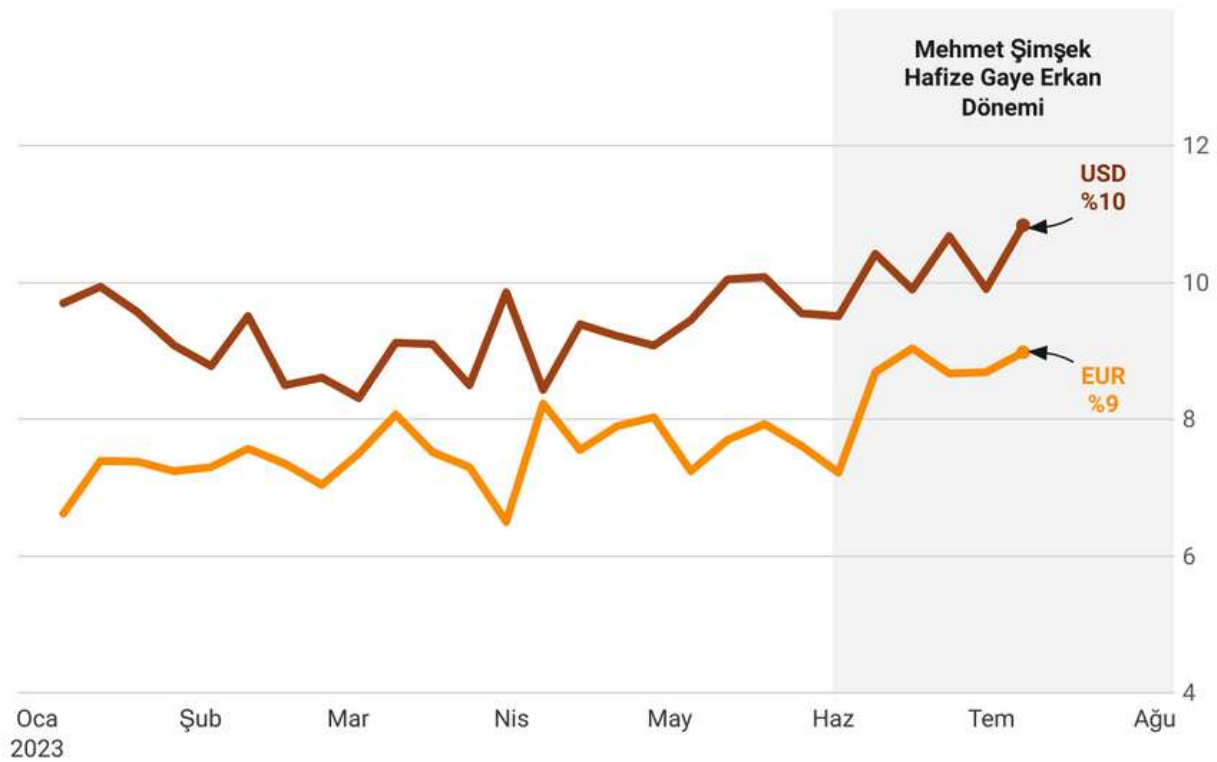
Haftalık Değişim



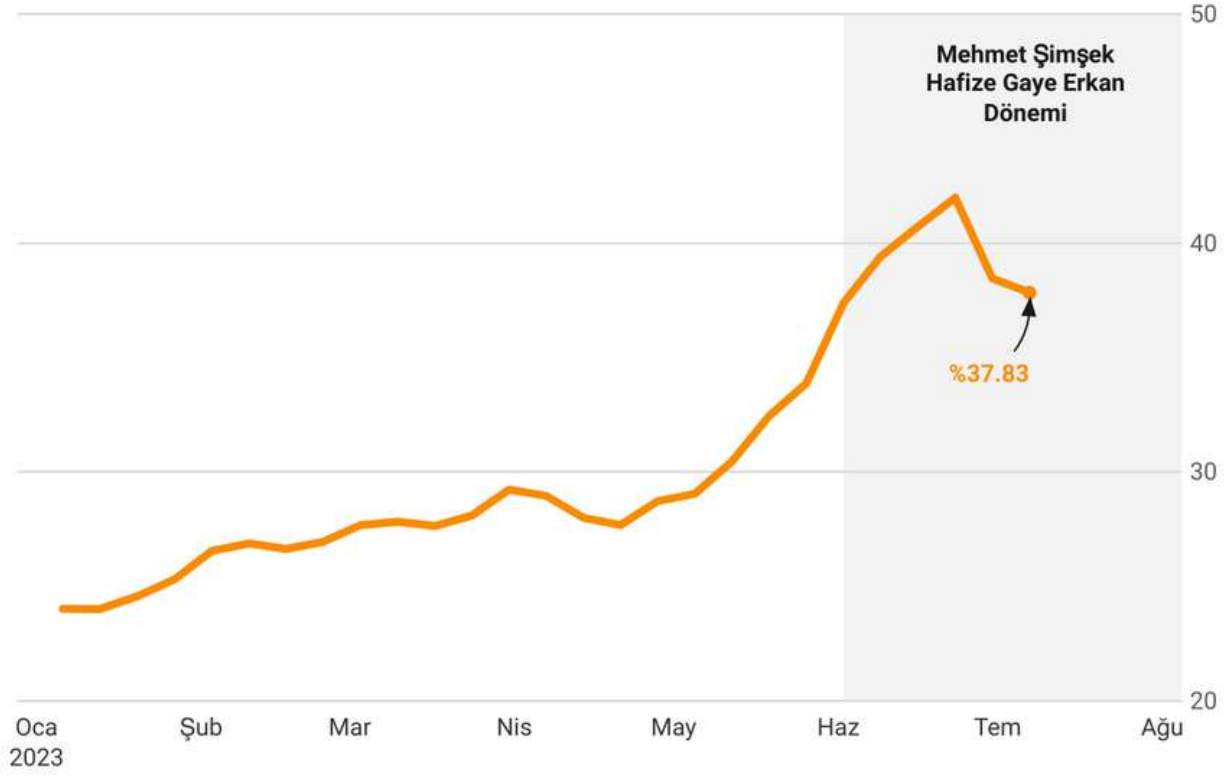
TL Kredi Faizleri (7 Temmuz)



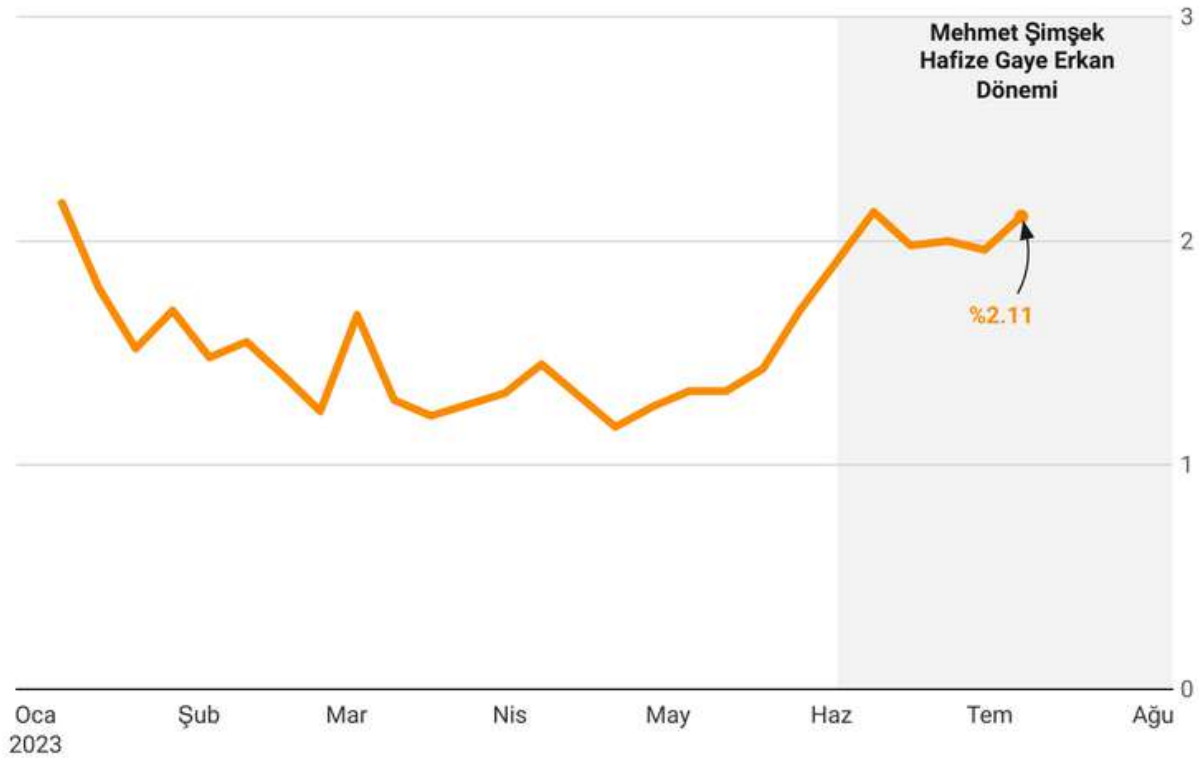
YP Kredi Faizleri (7 Temmuz)



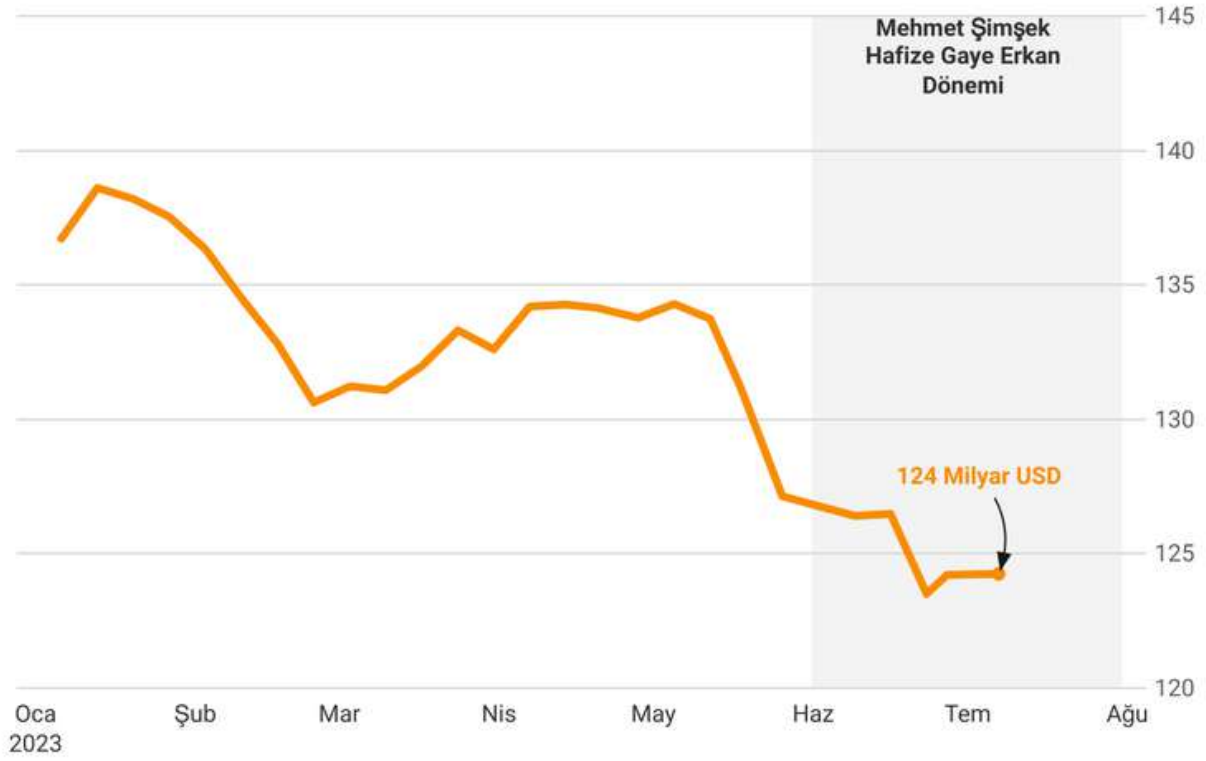
TL- 3 Aya Kadar Vadeli Mevduat Faizleri (7 Temmuz)



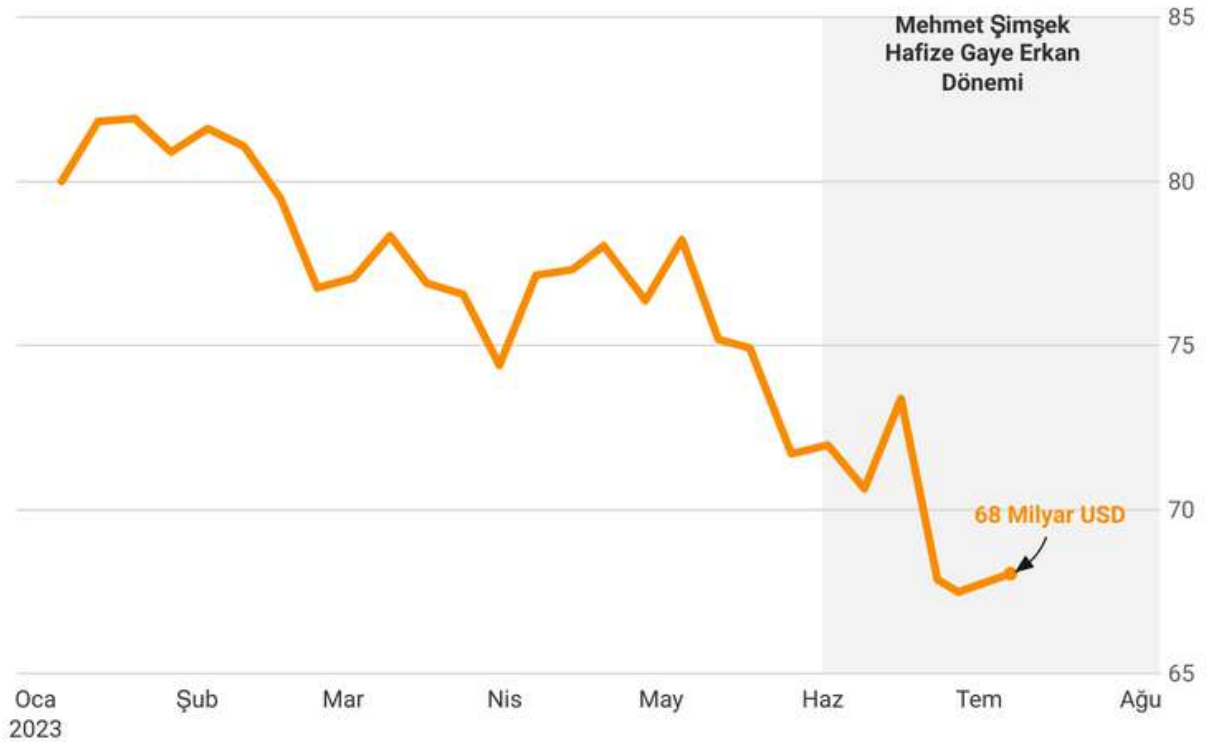
USD- 3 Aya Kadar Vadeli Mevduat Faizleri (7 Temmuz)



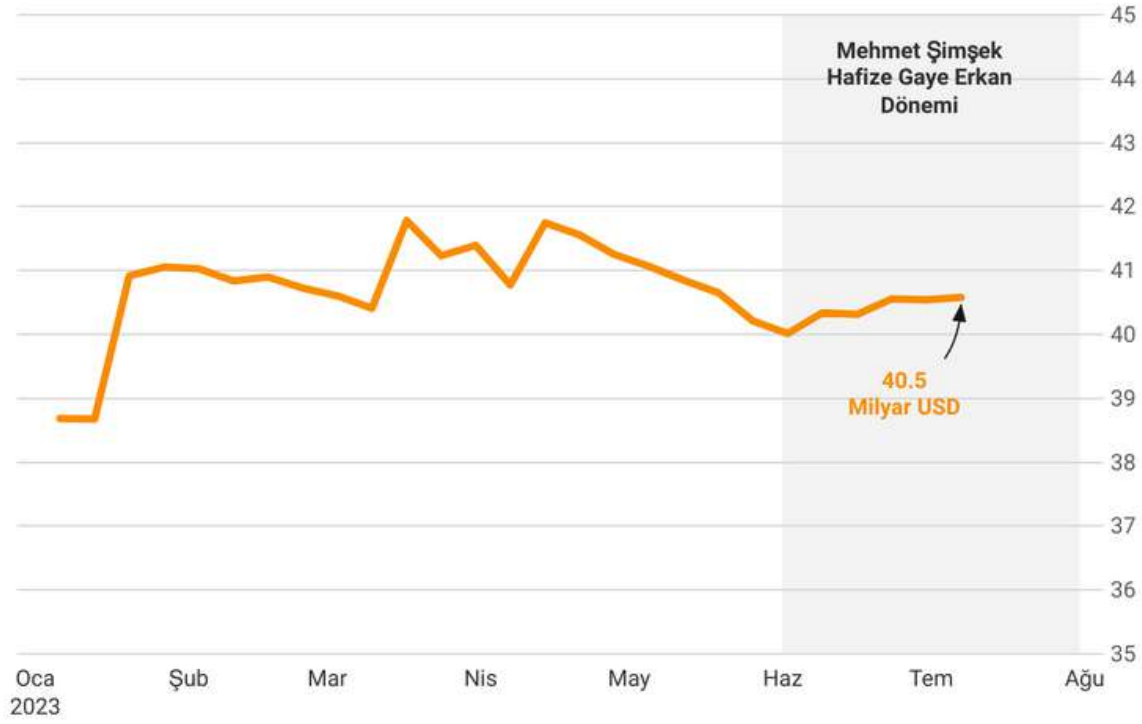
Gerçek Kişi YP Mevduat (7 Temmuz)



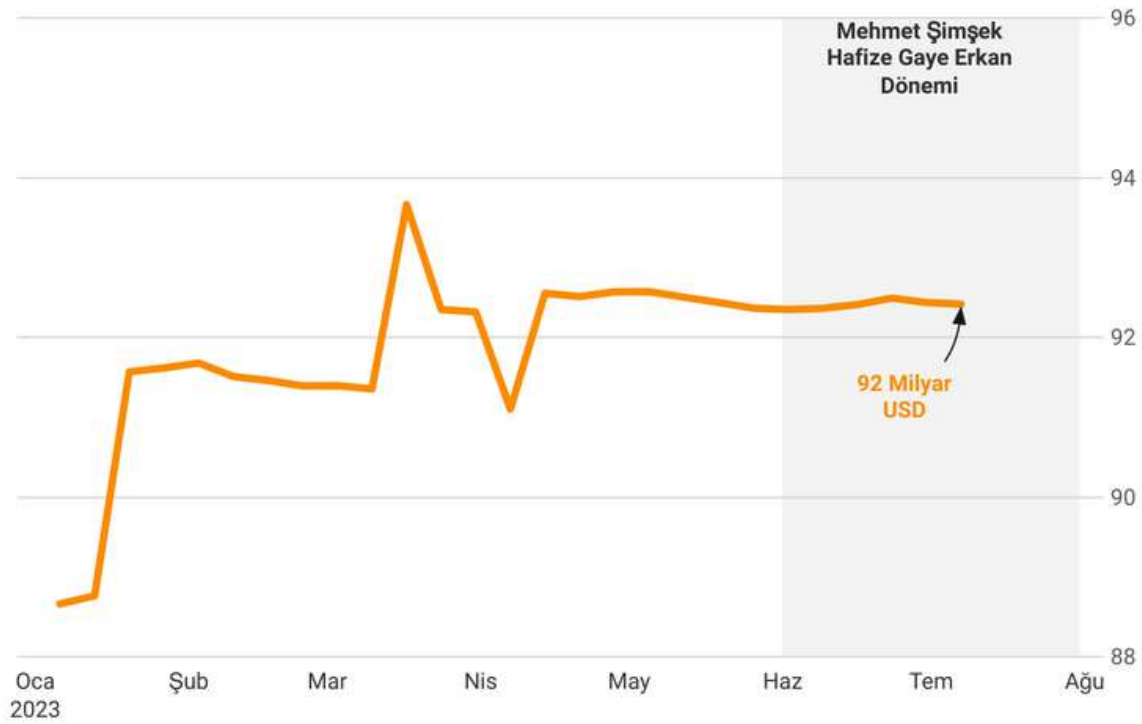
Ticari YP Mevduat (7 Temmuz)



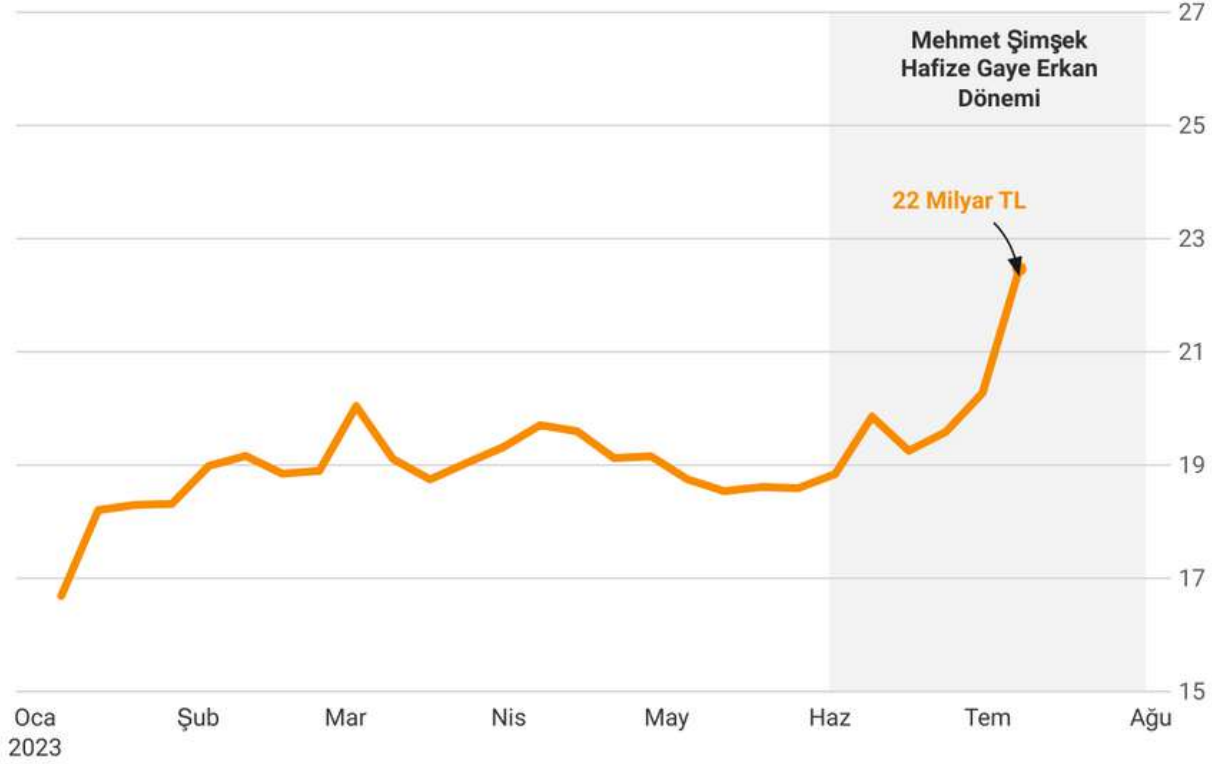
Eurobond- Yurtdışı Yerleşik (Nominal - 7 Temmuz)



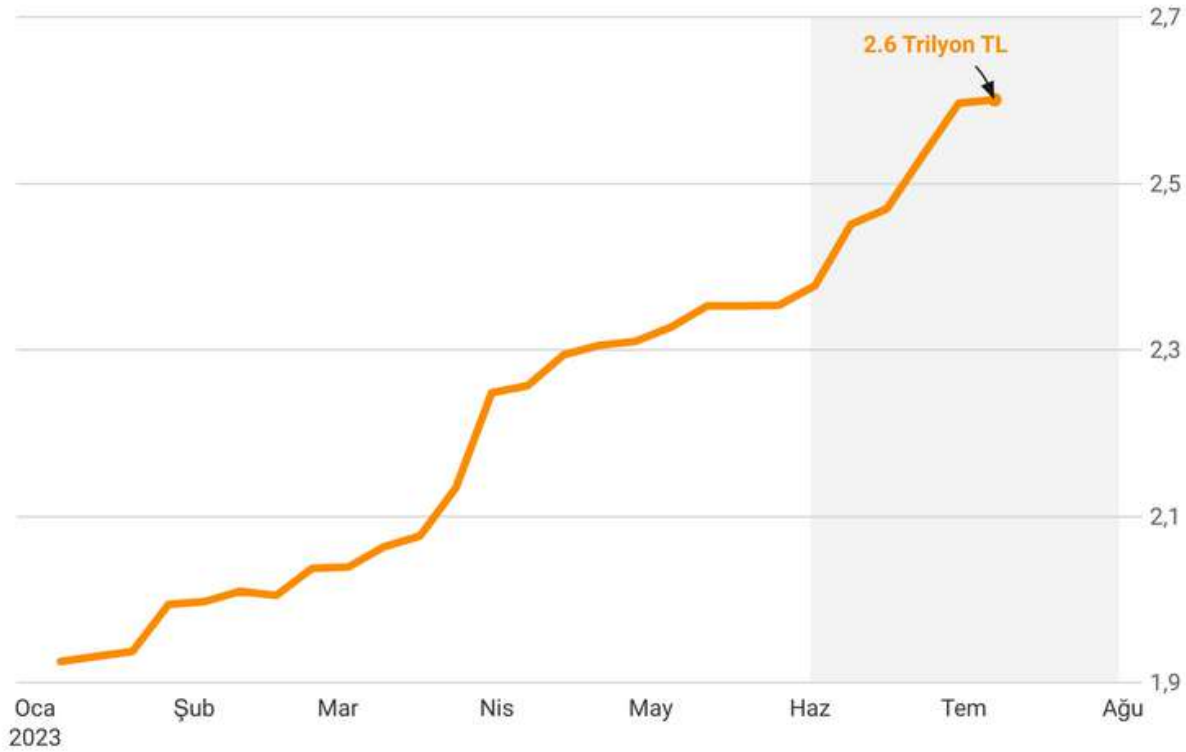
Eurobond- İhraç Edilmiş (Nominal - 7 Temmuz)



TL Tahvil - Yurtdışı Yerleşik (Nom, 7 Temmuz)

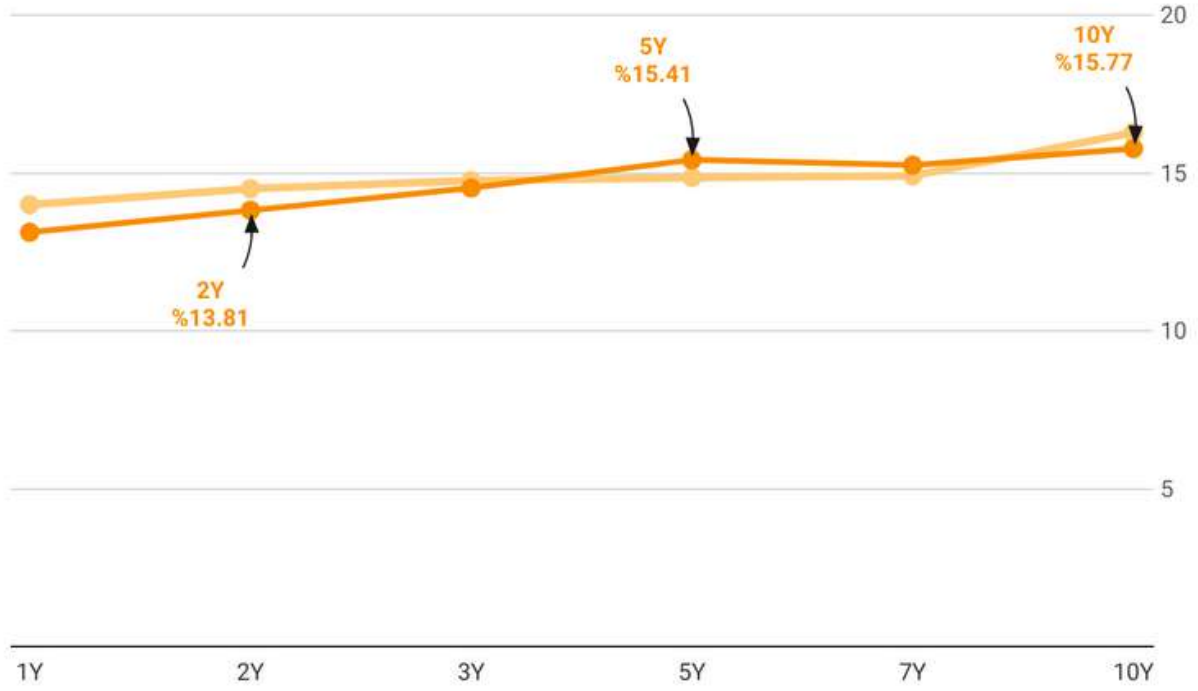


TL Tahvil - İhraç Edilmiş (Nom, 7 Temmuz)

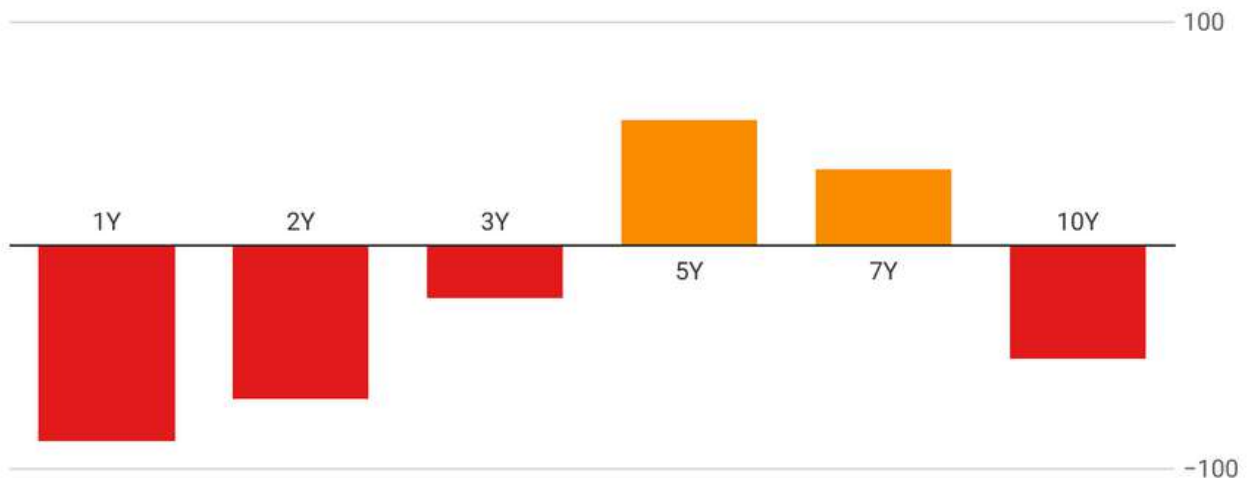


TL Tahvil Getiri Eğrisi

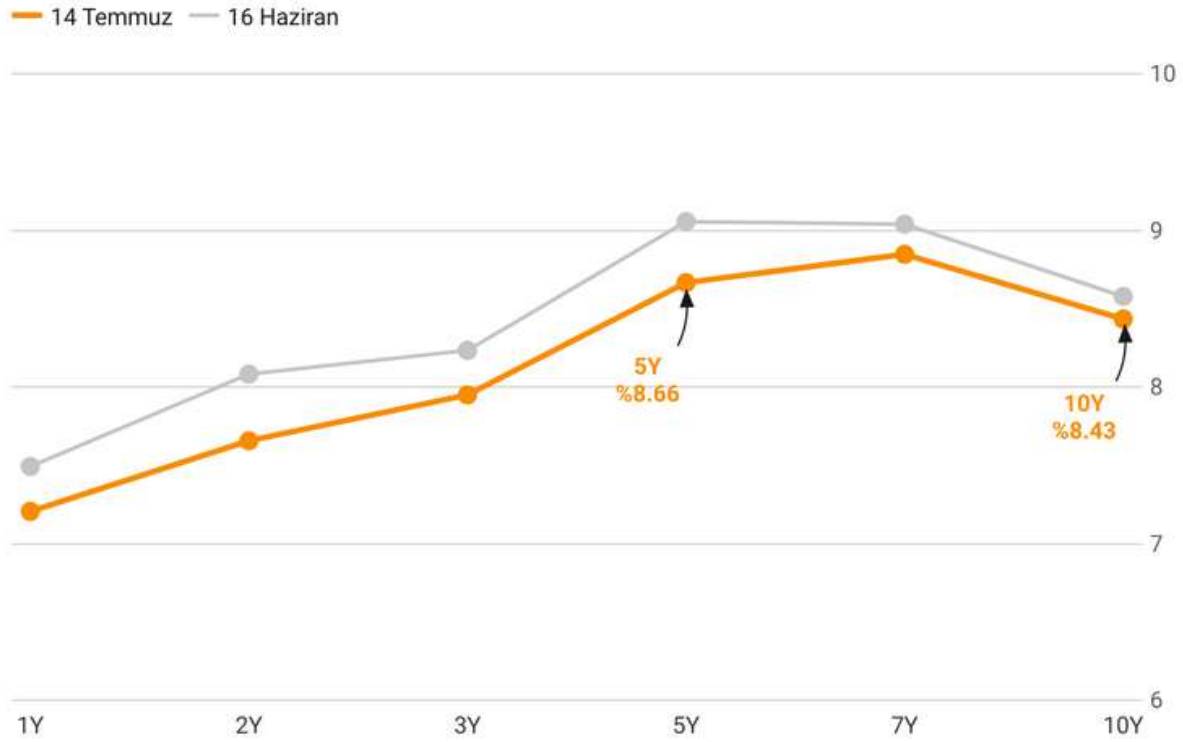
14 Temmuz 16 Haziran



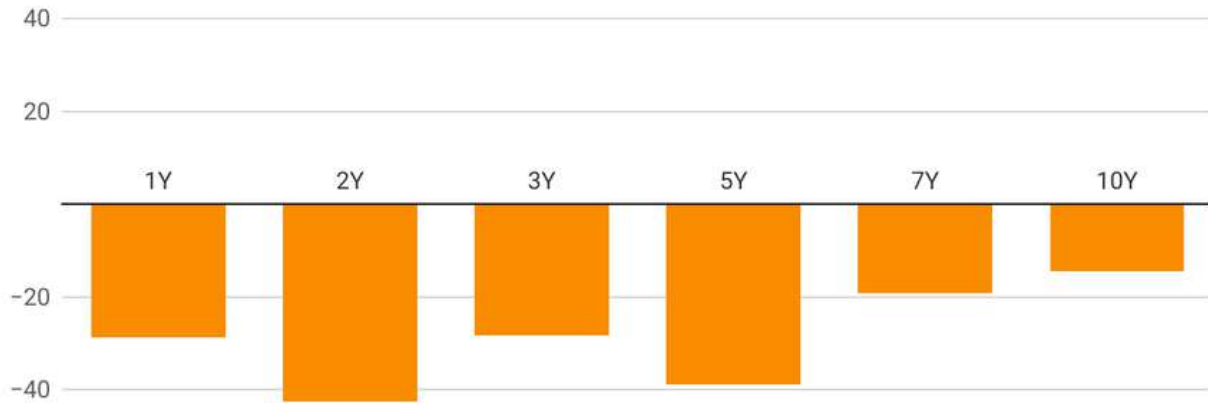
Aylık Değişim - baz puan



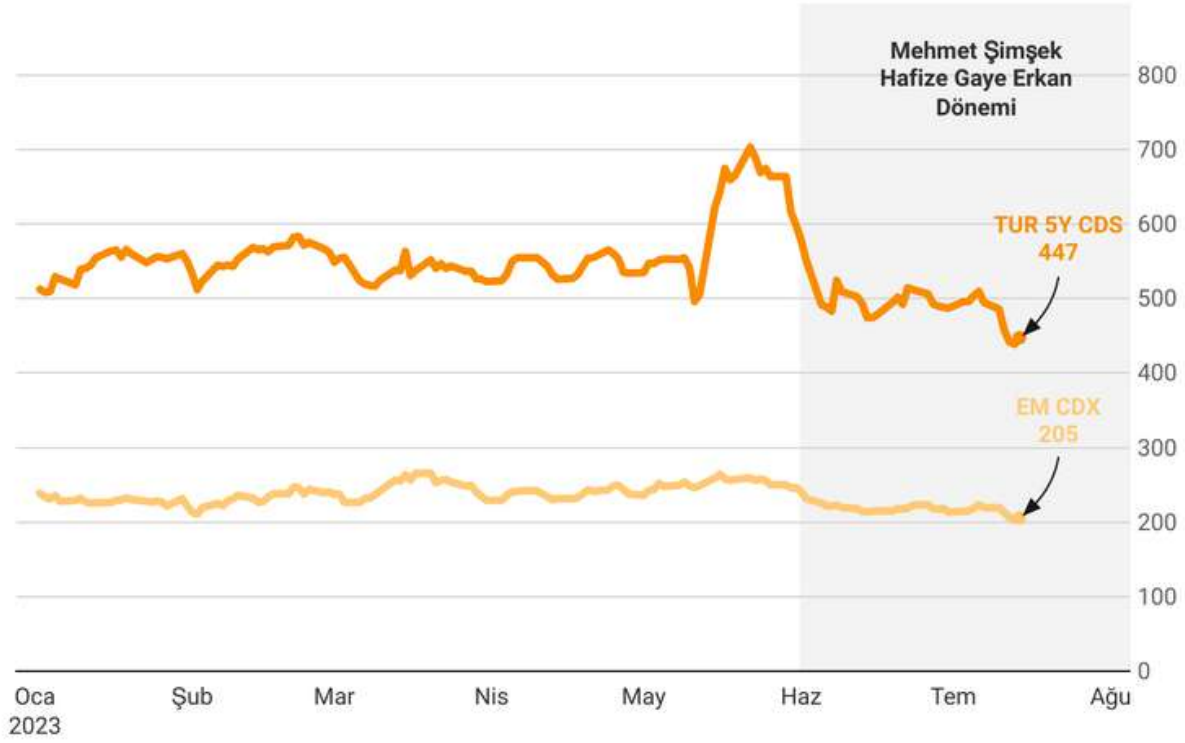
USD- Tahvil Getiri Eğrisi



Aylık Değişim- baz puan



Risk Primi (14 Temmuz)



Ishares TUR Hisse Senedi Fonu (Fon değeri, Milyon USD)



China's stuttering economy flirts with deflation

Beijing policymakers fear low investment and consumer spending will hamper the economy's post-Covid recovery.

While central banks in developed countries wrestle with stubbornly high inflation, China has the opposite problem – the world's second-largest economy is flirting with deflation.



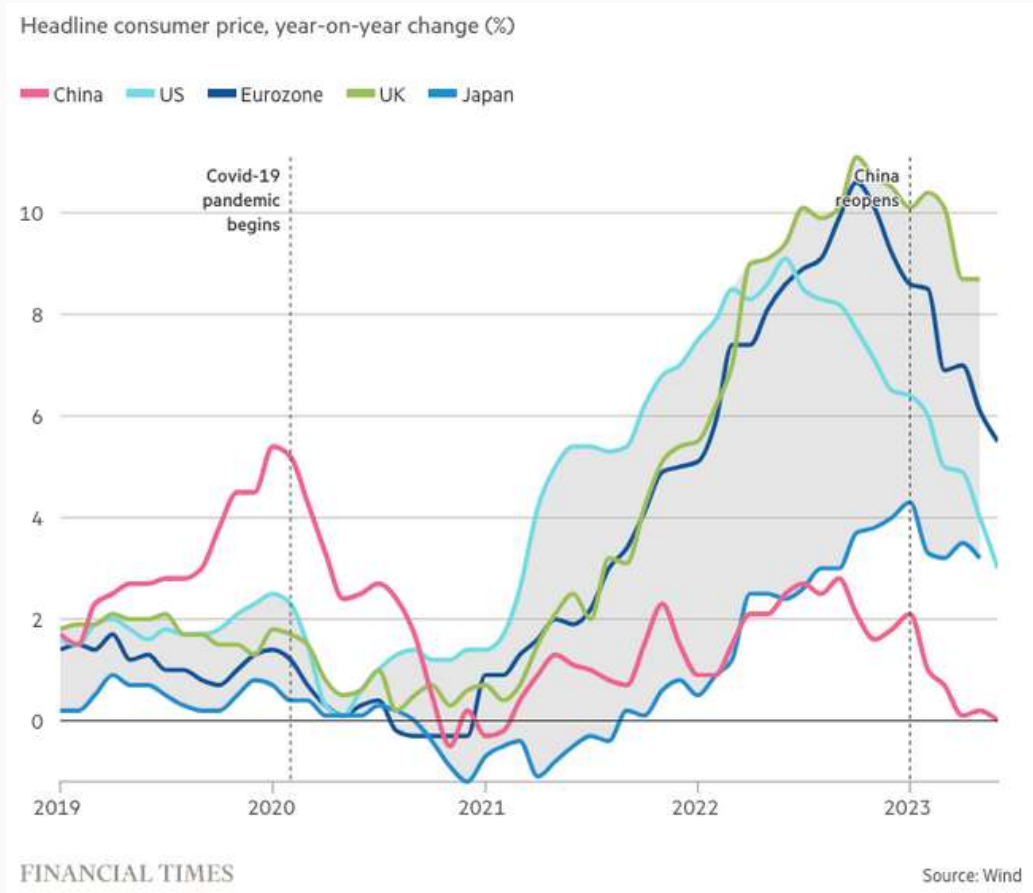
Beijing revealed this week that consumer prices were flat in June compared with a year earlier while producer prices plunged at the fastest pace since 2016. That compares with a US inflation rate that hit 9.1 per cent in June last year and was at 3 per cent last month despite multiple interest rate increases by the Federal Reserve. Even Japan, once almost a byword for deflation, boasted a relatively racy inflation figure of 3.2 per cent in May.

Developed economies were hit particularly hard by soaring energy and food prices as Russia launched its full-scale invasion of Ukraine last year, but price controls on energy in China shielded it from the worst of those fluctuations. Instead, the country is at risk of deflation because of low consumer demand and private investment as the economy emerges from draconian zero-Covid controls, economists said.

With China poised to unveil its second-quarter gross domestic product figures on Monday, economists will be closely watching for clues about the underlying health of the economy and what policymakers might do to keep the country's post-Covid recovery on track.

"The main point is that domestic demand is really weak and that explains the very negative sentiment," said Alicia Garcia Herrero, chief Asia-Pacific economist at Natixis.

China close to deflation while other large economies are fighting inflation.



Why is China bucking the global inflationary trend?

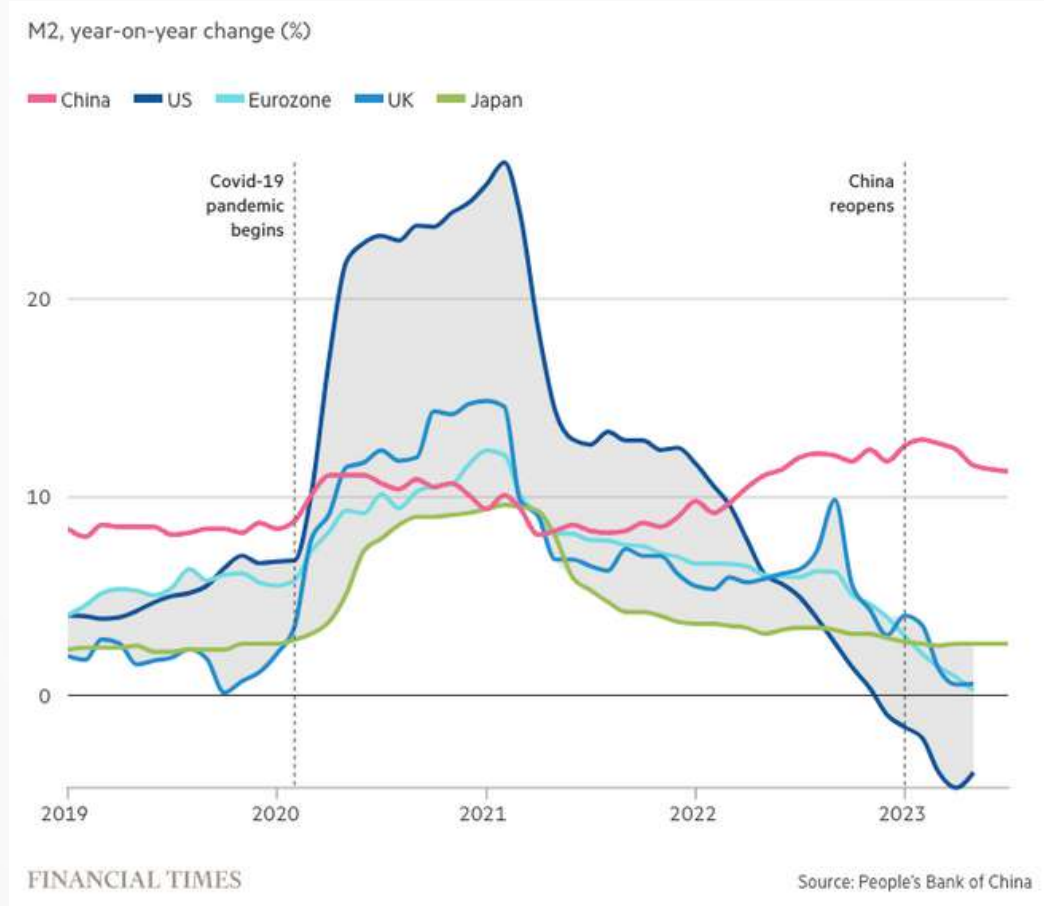
China was the last large economy to fully emerge from the pandemic, throwing off its Covid-19 controls in December last year.

Like other countries, China sought to counter the pandemic's negative economic effects by keeping monetary and fiscal policy accommodative. In 2020, the government issued bonds worth Rmb1tn (\$140bn), ran a fiscal deficit of 3.6 per cent of GDP and cut policy interest rates by 30 basis points. In 2022, it channelled another Rmb1.4tn in "quasi-fiscal funding" through state banks, according to Citi research. It also allowed greater local government bond issuances and cut rates by another 20bp.

Beijing's fiscal stimulus, however, was mostly channelled to areas such as infrastructure spending and businesses in the form of tax reductions, cuts to compulsory social security payments on salaries and other measures aimed at preventing job losses.

The US, by contrast, launched a much grander fiscal and monetary stimulus plan, with American consumers receiving part of the bounty in direct payments and jobless benefits.

China continues to pump money into the economy



The US and other western countries also suffered supply-side constraints as people left the workforce and supply chains were disrupted. In China, the world's factory, there were fewer supply chain problems. Chinese citizens were locked up for longer in their homes and businesses closed, leading to greater unemployment and deep damage to household balance sheets. The property collapse also hit commodity prices, reducing producer price inflation.

At the same time, many local governments emerged from the pandemic drowning in debt. The private sector was left with overcapacity and, sensing the weak consumer demand, an unwillingness to invest. "China is on the brink of a self-fulfilling 'confidence trap' as the initial reopening impulse starts to fade," Citi analysts wrote in a recent note.

What could deflation mean for China?

The danger for policymakers is if the deflationary trend becomes entrenched in consumer and business expectations, analysts said.

There is evidence that the property sector, after stabilising early in the year, is again on a downward track. Transaction volume by floor space contracted 19.2 per cent year on year in June from a decline of 3.5 per cent in May, Nomura said based on a sample of 330 cities covered by the data service Wind.

Even though China's headline inflation rate was flat in June, core inflation – which strips out volatile food and energy prices – declined 0.1 per cent compared with a month earlier, “which could point to a loss of momentum in the consumption recovery”, HSBC said. Food prices also remain volatile: falling pork prices, for instance, affected consumer prices in June as strong supply met weak demand.

“Domestic demand is really weak and that explains the very negative sentiment,”

What help is on the way?

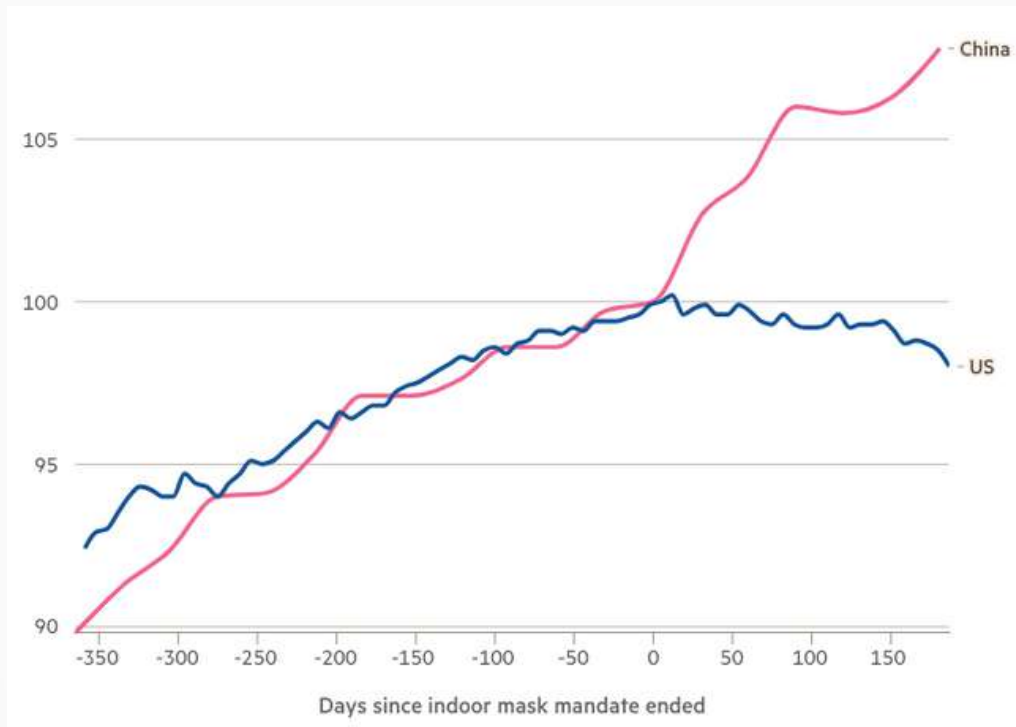
Almost on cue after the release of weak consumer price data this week, the government extended a package of credit-related measures for developers aimed at arresting the fall in housing prices.

The government has already reduced policy interest rates by 10bp this year, and many expect further cuts in the third quarter to sustain credit growth.

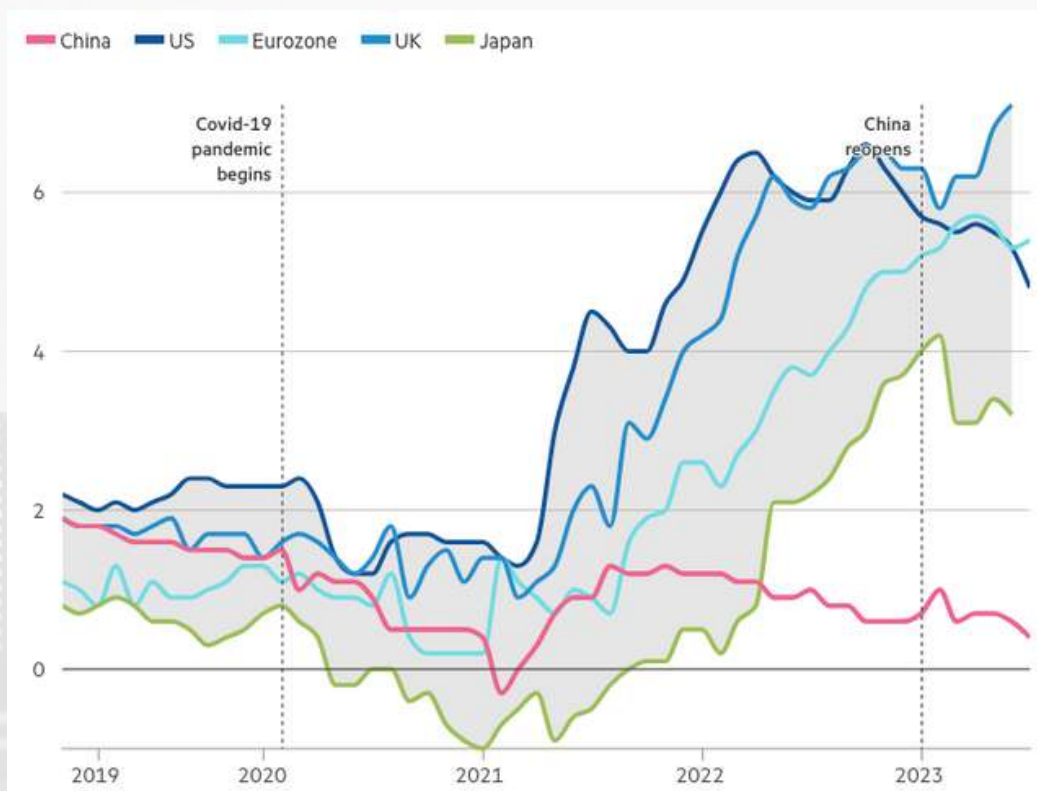
Beijing lacks the fiscal room and perhaps the inclination to launch the “bazooka” stimulus packages of the past. But there is a consensus even among some former government officials that more needs to be done.

Former finance minister Lou Jiwei said the government should expand this year's fiscal deficit by Rmb1.5tn-Rmb2tn in order to provide subsidies to small and medium-sized enterprises. The measures, along with the removal of restrictions related to mortgages and homebuying, were needed “to bring economic recovery back on a more solid track”, state media quoted him as saying.

Chinese bank deposits continue to rise as consumers remain reluctant to spend



China's inflation is far lower than that of peers even after excluding food and energy prices



Erdoğan makes overtures to the west with an eye on Turkey's economic ills

President's about-face on Sweden's Nato accession is of a purely transactional nature, say analysts

Turkey's Recep Tayyip Erdoğan has berated Sweden for harbouring "scoundrels and terrorists". He has called its government "evil" for allowing a Koran to be burned on the streets of Stockholm. The Turkish president at

Then, at a summit in Lithuania on Monday, Erdoğan said yes. To a peal of applause, he endorsed Sweden's membership of the military alliance, praised the negotiating skills of its prime minister, Ulf Kristersson, and in effect pledged to defend Sweden's borders like Turkey's own.

Firm friends: Recep Tayyip Erdogan, left, greets Ulf Kristersson, right with Jens Stoltenberg in Vilnius this week

Erdoğan's dexterous political manoeuvre was greeted with relief across the alliance and marked the latest in a series of decisions that have "de-escalated" tensions between Ankara and the west. "We're entering a new era of Turkey-western relations," said Murat Yeşiltaş, director of foreign policy studies at Seta, a Turkish think-tank with close links to Erdoğan and his government.

Yet deep scepticism lingers over whether Erdoğan sees this as part of a broader foreign policy shift, or simply as a political transaction in Ankara's immediate interest. Turkey's change of tone comes as it is desperate to lure back foreign investors who have fled during a years-long economic crisis.

"If the west and Turkey can open a new page, the economy will be number one topic"

Turkey's current account deficit reached \$37.7bn in the first five months of 2023, a record level. Erdoğan's government is hoping international inflows will help finance the yawning gap.

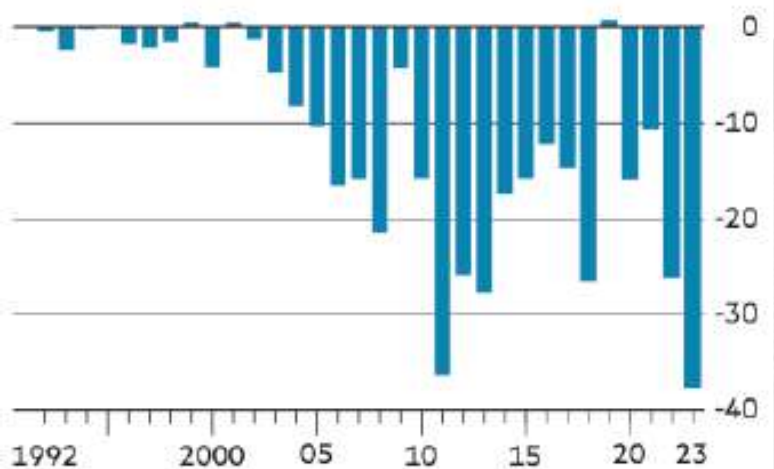
While Russia and Gulf countries have provided financial support over recent years, Erdoğan's newly appointed economic team is also hoping to secure investments from the US and Europe.

"Foreign policy is directly influenced by economic relations. So if the west and Turkey can open a new page, the economy will be the number one topic," Yeşiltaş said, adding that Erdoğan was recalibrating his foreign policy after winning May's elections.



Turkey's current account deficit

Current account balance, Jan-May (\$bn)



Source: Central Bank of the Republic of Turkey

Relations with the west had soured badly since Erdoğan first came to power in 2002, with US and European leaders increasingly worried about the Turkish president's slide towards autocracy. Turkey's decision to deepen its economic ties with Moscow after Russian president Vladimir Putin's full-scale invasion of Ukraine last year has also rankled Turkey's western partners. Erdoğan earlier this year said Turkey was closer to Putin than Washington.

The effort to convince Erdoğan to back Sweden's Nato bid has taken months of painstaking diplomacy. After Turkey demanded a crackdown on Kurdish militant groups, Sweden agreed this week to establish a "road map" for its battle against terrorism, a fresh concession after Sweden earlier this year passed new anti-terrorism legislation.

Parallel discussions were also held with US president Joe Biden over Turkey's plans to complete a multibillion-dollar deal to buy F-16 fighter jets, which has been held up in Congress. Jake Sullivan, US national security adviser, on Tuesday said Biden was "interested in getting these F-16s to Turkey", placed "no caveats and conditions" on the transfer and would work with Congress to secure approval.

Talks were also held with Brussels over closer EU-Turkey relations. Charles Michel, the European Council president, told Erdoğan that agreeing to Sweden's accession was crucial. "If you move now, you have an opportunity to create a good atmosphere among people who want to help you," Michel told him.

One senior EU official said the breakthrough over Sweden would "open space for work in a multitude of areas", adding that "for Erdoğan, it is all about the economy". Turkey has long sought an upgrade to Turkey's customs union with the EU, visa liberalisation and extensions of its multibillion-euro migration deal with the bloc; Erdoğan raised all these topics in his meeting.

Besides Erdoğan's rapid turnaround on Sweden's Nato bid, there have also been other nascent signs that Turkey is seeking a more constructive approach with the US and Europe.

When Ukrainian president Volodymyr Zelenskyy visited Turkey last week, he was allowed to leave with a group of Ukrainian soldiers who were transferred to Istanbul under a prisoner swap deal with Moscow – much to the annoyance of the Kremlin. Erdoğan also voiced strong support for Ukraine's ambitions to join Nato.

Selim Koru, an analyst at the Ankara-based Tepav think-tank, said Erdoğan-aligned television stations also "disparaged" Moscow as they reported last month on Yevgeny Prigozhin's coup attempt, potentially in an indication that "the Erdoğan palace in general is disenchanted with the Russians a little bit".

Still, many analysts see Turkey's efforts to revitalise relations with the west as more of a tactical move: "I don't buy into the western pivot," said Wolfango Piccoli at consultancy Teneo. "At best now we can hope for a better relationship than the past five years...[but] the relationship remains largely transactional."

Ankara is expected to retain its warm relations with Russia because of Turkey's reliance on oil and gas imports and because Moscow is an important actor in Syria, which is also a strategic priority for the Erdoğan administration.

Any foreign policy moves also need to be seen through the prism of Erdoğan's wider push to carve Turkey into a more influential player on the regional and global stage, analysts said.

"Ankara's priority is maintaining its balancing act to expand its manoeuvring room and leverage as a regional power and global actor," said Emre Peker at Eurasia Group. "Erdoğan's Nato moves and overtures to the EU are tactical, and in line with Turkey's broader geopolitical ambitions – not a pivot, and certainly not a U-turn."

Appetite for European bond ETFs hits record high in first half on rising yields

Bonanza comes as inflows help push the industry's total assets to \$10.3tn

Demand for European fixed income exchange traded funds hit record levels in the first six months of 2023, as investors rushed to take advantage of higher bond yields.

Investors poured a net \$36bn into bond funds listed in the Europe, Middle East and Africa region in the first half of the year, according to data from BlackRock, surpassing the previous record of \$33.8bn set in the first half of 2019.

On a global basis, fixed income ETFs have pulled in a net \$165.4bn so far this year, a record start to the year, although just shy of the tally recorded in the second half of 2022.

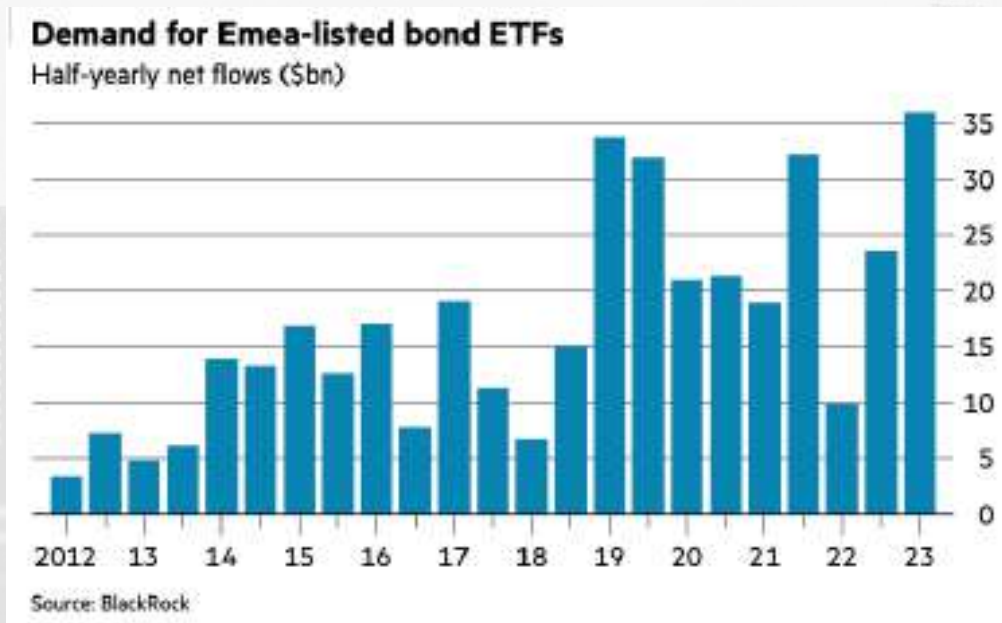
The bond bonanza comes as inflows and rising markets have pushed the total assets of the ETF industry to \$10.3tn, surpassing the prior peak of \$10.2tn set in December 2021, just as markets were starting to head south.

Karim Chedid, head of investment strategy for BlackRock's iShares arm in the Emea region, said rising bond yields were luring investors into the fixed income market.

The yield on the 10-year Treasury, for instance, has risen from less than 1.5 per cent at the start of last year to nearly 4 per cent, as the Federal Reserve has raised interest rates aggressively.

"[Investors] want to lock in yields at these levels before they drop," said Chedid.

"European investors had even lower yields for a long time, so it's an even bigger trend [than in the US]," he said, adding that he believed it had longer to run.



He also thought that some investors were looking for a “diversifier from equities”, with the eurozone already in a technical recession and fears that this could spread.

Julien Scatena, head of marketplace at Trackinsight, said that while in the Americas the bulk of ETF money was flowing into equity funds, “in Europe, fixed income strategies continue to be attractive from the perspective of a [potential] pivot point in the monetary policy conducted by central banks”.

Looking more broadly, Deborah Fuhr, managing partner of ETFGI, a consultancy, pointed to enthusiasm for European-domiciled ETFs overall, after they pulled in a “fairly phenomenal” net \$87.3bn in the first six months of 2023, compared to \$89bn in the whole of last year.

“In general people are preferring the ETF wrapper,” with retail investors becoming increasingly active in a European market that has long been dominated by institutional money, Fuhr said.

“[Investors] have become slightly more positive and the markets are rallying, which has caused people to put more money to work,” she added.

Overall, net flows into global ETFs hit \$98.3bn in June, according to BlackRock, up from \$78bn in May and the highest monthly figure this year.

Equity funds accounted for \$75.8bn of this, with US-listed funds soaking up \$45.2bn, their strongest inflows since October.

“In the second quarter of 2023, ETF investors in the US rotated heavily back into funds that provide exposure to domestic US equities,” said Aniket Ullal, head of ETF data and analytics at CFRA Research.

Looking purely at US-listed funds, Ullal said US equity ETFs took in \$64bn in net flows in Q2, “a sharp reversal from a dismal Q1 where these ETFs had outflows of \$2.5bn”.

Ullal also noted the popularity of actively managed ETFs, which helped JPMorgan take second place behind Vanguard in the US H1 ETF flows leaderboard, despite it only ranking seventh in assets. Dimensional Fund Advisors and Avantis Investors also punched above their weight.

“Throughout 2023, assets flowing into actively managed strategies surged by over 20 per cent in the Americas, underscoring the growing popularity and confidence in the active management approach,” said Scatena.

Enthusiasm for equities was not universal, however, as for the first time this year US investors “meaningfully sold” European equity ETFs, potentially signalling the end of a period where “international investor flows into European equities have been stickier versus history,” Chedid said.

He attributed this repatriation to performance differentials, with European bourses' erstwhile outperformance of Wall Street having "faltered since the third week of May".

"The European growth picture that was better than expected for the last six months is starting to lose steam," added Chedid. He noted that year-to-date 25 per cent of all US equity ETF inflows have gone into ETFs targeting "quality" stocks, compared to just 1 per cent in Europe, a figure that "has scope to increase from here".

Gold also appears to be losing its shine, with the net outflows of \$3.8bn from gold funds, the largest monthly exodus since September 2022, unwinding much of the \$4.2bn that was added during March and April.

Gold is often seen as an inflation hedge, so as "disinflation has gathered steam", demand has fallen, Chedid said.

More positively, and very unusually, emerging market debt benefited from net buying by investors in all three major regions: the US, Emea and Asia Pacific.

Chedid said optimism around EM local currency debt was a "high conviction view" for BlackRock and that this trade "has further to run".

Even after the latest flows, foreign ownership of EM bonds (ex-China) is just 20-30 per cent, he said, compared to close to 50 per cent in 2017, "suggesting there is room for further buying".

ECB hawks keep interest rate rises on table

Concern inflation may stay 'too high for too long' dominated June meeting

Some eurozone rate-setters believe more interest rate rises will be necessary after the summer amid concerns that inflation was staying “too high for too long”, according to an account of last month’s monetary policy decision.

The minutes of the June meeting of the 25-member governing council, which the European Central Bank disclosed on Thursday, support economists’ expectations that interest rates could need to keep rising to tame persistent inflation.

“It was seen as essential to communicate that monetary policy had still more ground to cover to bring inflation back to target in a timely manner,” the document stated, adding that “interest rates beyond July” could be considered “if necessary”.

The central bank last month increased borrowing costs by 25 basis points to 3.5 per cent, the highest level in 22 years – and signalled that an increase of a similar magnitude was likely at its next meeting on July 27.

Recent indicators suggest that the eurozone economy is slowing down while inflationary pressures are easing. However, Isabel Schnabel, an ECB executive board member, said this development was at odds with the expectations of financial markets, where inflation-linked swap forward rates and option prices still pointed to “rising upside risks to inflation”.

Schnabel warned that this could reflect investors’ concerns over “whether the currently priced-in ECB policy rate path was sufficient to rein in inflation in a timely manner”

At least one member initially favoured a 50bp increase in June. Hawks on the governing council argued that the inflation outlook required a “strong signal” from the ECB, and that it had sometimes been too timid in its response to changing price pressures.

However, the majority supported the argument of ECB chief economist Philip Lane that the central bank should follow a “meeting-by-meeting approach” rather than signalling any definite intentions.

Lane implicitly warned that the ECB otherwise risked borrowing costs rising too much, arguing that “rates were moving closer to a possible peak level”.

Bank of Italy governor Ignazio Visco said on Thursday in a TV interview that the ECB was “not very far” from the peak of its tightening cycle, adding that rates will have peaked by the end of the year.

Some policymakers seem to be losing faith in the ECB’s own quarterly inflation projections which consistently underestimated upward pressure on prices, the minutes said.

“It was argued that the governing council should focus more on data than on the projections,” the statement said, adding that a higher focus on “observable data” could result in better decisions.

More dovish policymakers argued that higher borrowing costs were already slowing down economic activity “as expected”, saying this effect “thus far [had] been concealed by tailwinds for growth” from pent-up savings and supply-side bottlenecks which are now beginning to fade.



CAPITAL ACCOUNT | By Greg Ip

Cooler Inflation Lifts Hope of Soft Landing

Americans' two biggest economic worries are recession and inflation. The two are connected: the more stubborn inflation remains, the more likely it will take a recession to get it down.

The latest data suggest the risk is diminishing. Headline inflation has slid from 9.1% in June last year to 4% in May and 3% in June of this year. Much of the latest month's drop was technical: a surge in prices in June 2022 finally dropped out of the 12-month calculation. Because that won't be repeated, headline inflation could rise in coming months.

More encouraging is that underlying inflation has edged lower in recent months, even though the labor market has yet to weaken significantly. This suggests the odds of a soft landing, in which inflation returns close to the Fed's 2% target without a recession, are improving.

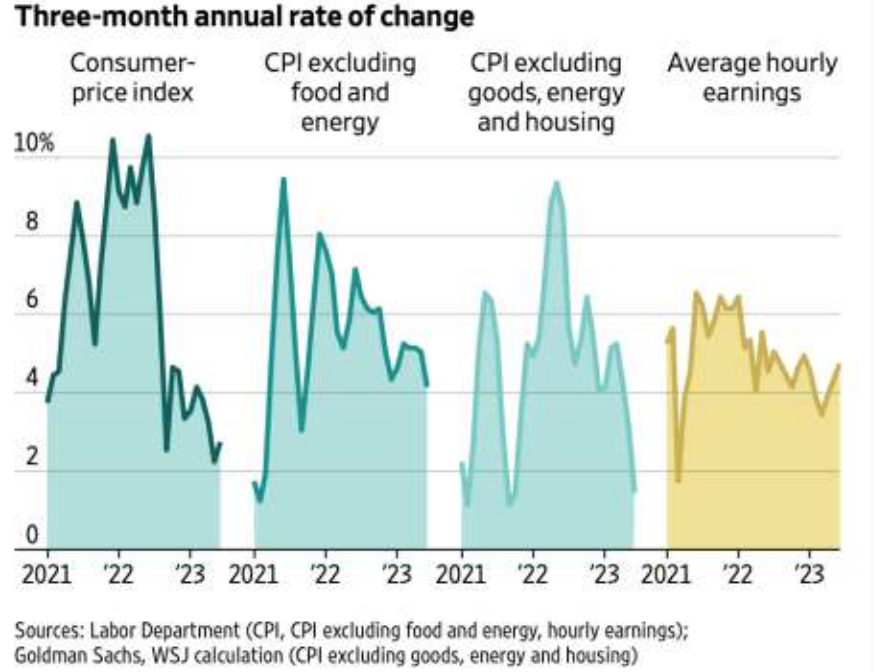
Two forces have been at work since inflation bubbled up in 2021. The first is transitory shocks to supply chains, energy, real estate and the labor force brought on by the pandemic, stimulus and war. The second is the underlying forces of supply, demand and expectations. Only once the transitory effects recede will we know where those underlying forces have left inflation.

It took longer than expected, but those transitory forces have mostly subsided now. Gasoline prices are roughly back to where they were before Russia invaded Ukraine. Airfares shot up 20% between the start of the pandemic and June 2022; they've fallen 19% since, including 8% last month. Between the start of the pandemic and January 2022, used car prices shot up 55%. They've fallen 8% since, including 0.5% last month. Auction data suggest further declines are in store.

The cost of housing, one of the biggest components of the consumer-price index, soared during the pandemic thanks to low mortgage rates, pandemic-driven migration, and construction material shortages. But private measures of rent increases have slowed dramatically in the last year, and that, too, should nudge official inflation rates lower in coming months.

So where does that leave underlying inflation? For that, economists turn to indexes that strip out the components most subject to unusual shocks. Excluding food and energy, the core CPI was up 4.8% in June compared with 6.6% nine months earlier. Excluding all goods, energy and housing, the CPI was up just 4% in the last 12 months, and a mere 1.4% at annual rate in the last three months.

Harvard University economist Jason Furman looks at seven different underlying inflation indexes over three-, six- and 12-month periods, then adjusts them to mimic the price index of personal-consumption expenditures, the basis for the Fed's 2% target. The median of all those measures had fallen to 2.8% in June from 4% in April.



“I’m nervous about the euphoria” around the June CPI, Furman said. That said, he was “pleasantly surprised” at the progress on underlying inflation. He thinks that without a rise in unemployment, inflation will end the year around 3.5%; he expected 4% several months ago. He thinks that is still too high for the Fed: “A full-on soft landing would still require a decent amount of luck.”

But perhaps not as much luck as before. The high inflation rate had exaggerated the imbalance between supply and demand and thus the need for a recession to restore balance, said Goldman Sachs chief economist Jan Hatzius. “But if you are only modestly away (from balance), you can realistically rectify the situation through a period of below trend growth. That is what we’ve been doing.”

While unemployment remains low at 3.6%, vacancies and voluntary quits have steadily dropped, according to government and private data. That is a sign that, between slowing sales and robust hiring, businesses are no longer desperately short of workers. Another good sign: consumers’ expectations of inflation in the coming year have dropped a lot. High inflation expectations can be self-fulfilling.

None of this means the inflation battle has been won. Even though the Fed has raised interest rates 5 percentage points since early 2022, the impact seems to have faded. The stock market isn’t far from a record high, and housing activity has rebounded. Wages are still growing at 4% to 5% a year, a percentage point faster than is consistent with 2% inflation.

And one clear lesson of the economic roller coaster of the last three years is be careful about extrapolating a few pieces of data. Euphoria one month can easily turn to despair the next.



Russia to Top Saudis in Oil Output

Kingdom's cuts in production set to shift balance among OPEC+ members

By WILL HORNER

Saudi Arabia is set to fall below Russia and lose its spot as the largest oil producer in the OPEC+ alliance as its production cuts begin to bite, tightening the oil market just as prices appear to be turning higher, the International Energy Agency said.

The Gulf kingdom, the de facto leader of the Organization of the Petroleum Exporting Countries, has in recent months slashed its oil output, sacrificing its market share within the oil producers' group in an attempt to buoy low oil prices that have crimped its revenue.

The cuts, which have largely not included other members of the oil cartel or its allies in a wider group known as OPEC+, have so far been undermined by stronger output from non-OPEC+ producers such as the U.S.

But those rival supply increases look set to come to an end, just as a unilateral production cut by the Saudis is set to begin this month while Russian output also appears to be declining, though at a slower pace, the IEA said in its monthly market report.



Moscow appears to be slowing oil production, although at a slower pace than Saudi Arabia has. Drilling in Tatarstan, Russia.

The 1 million-barrel-a-day cut, which Riyadh said last week that it would extend into August too, will see the major oil producer's output slip to a two-year low of nine million barrels a day, and make it the second-largest producer in the OPEC+ alliance, below Russia for the first time since early 2022.

Barring the artificially low production levels during the Covid-19 pandemic, the cuts will see Saudi production slip to its lowest level since 2011.

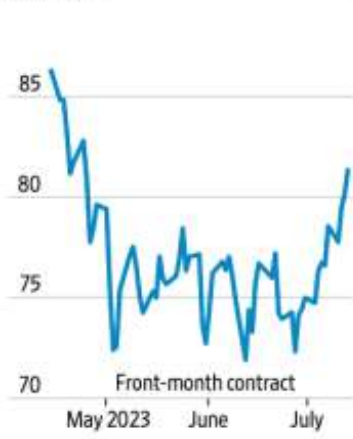
In bearing the brunt of the supply cuts, Saudi Arabia and its Energy Minister Abdulaziz bin Salman have gone all in on a risky strategy to support the kingdom's oil revenue at the expense of its share of the market. Analysts estimate Riyadh needs oil prices of around \$80 a barrel to balance its state budget and fund lavish infrastructure projects.

Russia too has pledged to cut its oil output but has been slow to implement the measures. That appears to be changing, the IEA said, with the nation's oil exports slumping by 600,000 barrels a day in June to 7.3 million barrels a day, its lowest level since March 2021. However, Russia could be keeping its production levels steady to satisfy domestic consumers while reducing its exports, the IEA said.

The Saudis' unilateral move came after cuts undertaken in concert with the wider OPEC+ group largely failed to have any impact on declining oil prices. The group agreed in April to slash output by around 1.6 million barrels a day, adding to a 2-million-barrel-a-day cut in October 2022.

Brent crude-oil futures price

\$90 a barrel



Source: FactSet

U.S. oil output has risen by 610,000 barrels a day since those cuts first came into effect, while Iran, an OPEC member which is bound by the group production targets, has used the opportunity to boost its output by 530,000 barrels a day, the IEA said.

With those supply increases likely to have peaked, analysts say the Saudi cuts and Russia's declining oil exports now appear to be having the desired effect: tightening the market and lifting oil prices. Brent crude, the international oil benchmark, has in recent days risen back above \$80 a barrel for the first time since late April.

The IEA said demand for OPEC+ crude is set to exceed the group's supply by 2 million barrels a day this month, and rise to 3 million barrels a day in August. Meanwhile, oil reserves are declining, leaving limited spare barrels to meet demand.

Oil demand is expected to grow by 2.2 million barrels a day this year to 102.1 million barrels a day and expand by a further 1.1 million barrels a day next year, the IEA said.

The IEA expects available supplies to lag behind this increase in oil demand, leading to a 2-million-barrel-a-day deficit this quarter. The IEA expects oil supplies to rise by 1.6 million barrels a day this year to 101.5 million barrels a day, and increase by 1.2 million barrels a day next year.

Separately, OPEC said in its monthly market report also published Thursday that it expects oil demand to grow by 2.2 million barrels a day next year, a far larger amount than the IEA is expecting.

The two forecasters have taken increasingly diverging views on the outlook for longterm oil demand. The IEA last month said it expected oil demand to peak this decade due largely to the rollout of electric vehicles. OPEC has argued oil demand will remain strong in the coming years thanks to the appetite of powerhouse Asian economies such as China and India.



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