



Narrowing monetary policy differences lie ahead for G7

26 décembre 2022

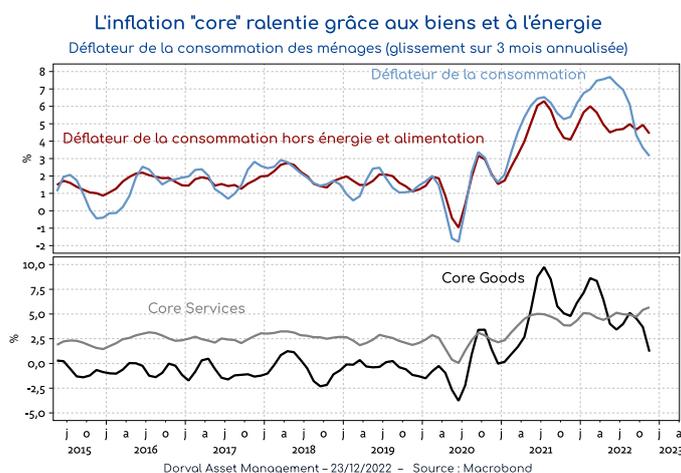
Dear Clients and Partners,

The Bank of Japan surprised investors when it extended the range of fluctuation around its target interest rate for 10-year sovereign bonds. This is a technical move, but has broadly been seen as an initial step on the path to ending the BOJ's ultra-expansionary policy. Meanwhile, central banks in Canada, Australia and the US seem to be coming to the end of their tightening cycle. It would therefore be natural to expect a narrowing in monetary policy differences in 2023, potentially leading to the end of the trend towards a rise in the dollar against most currencies.

Publication of November's household consumption deflator in the US confirms the trends seen in the CPI. The drop in energy prices and the very sharp slowdown in inflation on goods are helping push down overall inflation (cf. chart 1).

Core inflation slowing on the back of goods and energy

Household consumption deflator (3-month rolling basis, annualized)



- *Consumption deflator / Consumption deflator excl. energy and food*

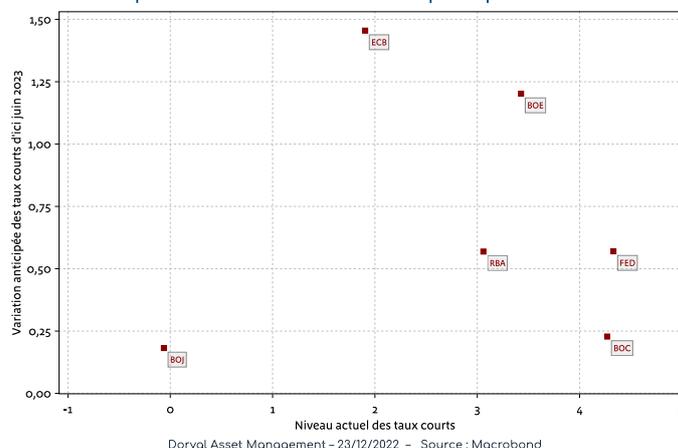
Meanwhile looking to economic activity, showings are very varied. In Europe, some economic indicators are improving from a very low point. In the US, the labor market remains buoyant, but the manufacturing sector is showing signs of weakness (manufacturing output and durable goods orders) while construction is clearly seeing a contraction. Household consumption is holding up for now against pressure from rising prices.

What about monetary policy in this environment? Apart from Japan, investors are expecting a hefty rate hike by June 2023, particularly as the central bank is lagging behind others (cf. chart 2).



Narrowing monetary policy differences ahead

Compression en vue des écarts de politique monétaire

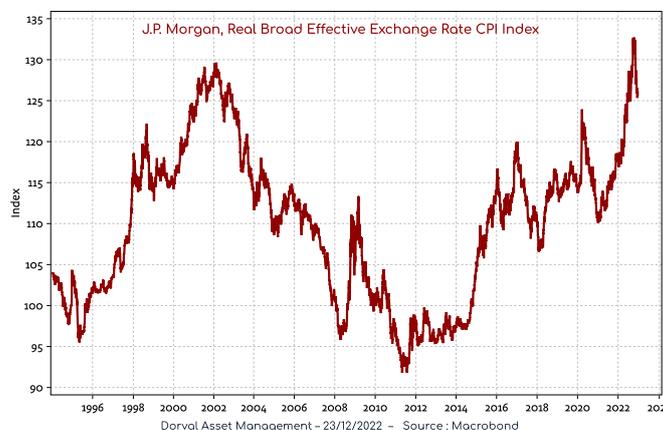


- *Change in short-term rates expected by June 2023 / Current short-term rates*

Bar a fresh asymmetrical shock, interest rate differentials are therefore poised to narrow in 2023, which should at least halt the dollar's uptrend (cf. chart 3).

Is the dollar set to stabilize?

Stabilisation du dollar en vue ?



We have broadly hedged currency risk in our international portfolios, particularly dollar vs. euro. We also maintain a relative long position on the US 5-year and short position on the German 5-year.

We wish you all a very happy holiday season.

Our exposure rates are as follows:

- Dorval Convictions: our exposure rate is 99%



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Public limited company with share capital of €303,025 Paris Trade and Companies
Register No. B 391392768 - APE 6630 Z - AMF accreditation no. GP 93-08
Registered office: 1 rue de Gramont - 75002 Paris
Tel +33 1 44 69 90 44 - Fax +33 1 42 94 18 37
www.dorval-am.com

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