



iFlow

VISION

June 29, 2022

2022 Macro Themes: Half-Time Assessment

Last November, we published our 2022 Macro Themes report outlining our views for the coming year. Now halfway through 2022, we follow up with an assessment of how we have fared and revisit our six key macro drivers. We also provide views for the remainder of the year.

[Click here to read our 2022 Macro Themes: Half-Time Assessment.](#)

US Tightening: Our expectation for an escalation in hawkish rhetoric from the Federal Reserve this summer has materialized. Indeed, several officials have been even more hawkish than envisioned. We see Fed funds at 4% in 2023.

China Easing: We have penciled in an acceleration of easing measures given the economic impacts of the government’s “dynamic-zero” Covid-19 policies. Bond outflows increased substantially after the onset of the war in Ukraine.

Europe Outperforming UK: Eurozone outperformance over the UK will likely continue, in



DANIEL TENENBAUM
Head of Markets Strategy



JOHN ARABADJI, PHD
Head of Markets Macro
Strategy Product & Analytics



JOHN WELLS, PHD
FX and Macro Strategist,
Americas, BNY Mellon



GALINA FIK
Senior EMEA Market Strategist



WILL KWONG CHONG
Senior APAC Market Strategist



JULIETTE EASTWOOD
Senior Analyst, Markets Macro Strategy
Product & Analytics

2022 Macro Themes

Wonderous Growth and Inflation

Growth and inflation overshoot consensus in 2021 thanks to the implementation of new technologies to fight the pandemic. Global inflation overshoot consensus by more than 100 basis points. BNY Mellon’s 2022 central scenario incorporates another year of global inflation and growth overshooting consensus on travel, lodging and entertainment recovery.

Six Key Macro Drivers

- **US Tightening:** US health duration, cross-border US Treasury flow in collapsing, policy risks if stance turns more hawkish. We expect lift-off in July 2022, with three rate hikes through year-end.
- **China Easing:** CGBs buying slowed significantly in recent months. The 2021 policy error of fiscal and monetary tightening will not be repeated in 2022. Investment and exports remain key as the “zero COVID” policy suppresses the consumer.
- **Europe Outperforming UK:** EUR FX holdings are very negative. GBP holdings much higher. Amid a difficult winter markets have factored weakness in the eurozone, while giving the UK recovery the benefit of the doubt.
- **Flow EM Recovery:** EM flow recovering but at only a fraction of historical patterns. Following a sudden stop in 2020, EM flows will continue to recover very gradually on FX valuations and higher carry.
- **Asia Zero Tolerance:** Asia FX hedging is happening despite equities buying. Steady vaccination rates, progressive reopening, accommodative fiscal and monetary policies support APAC growth in 2022, mainly in ASEAN.
- **Commodities and Inflation:** Profitability and holdings of commodities was extreme into the recent dip. Commodity prices have eased off in recent weeks, reopening and inflation should cause the rally to resume.

November 30, 2021

line with official forecasts. We expect above-target inflation forecasts to result in a 50bp rate hike from the ECB at its September meeting.

iFlow EM recovery: The carry trade is quickly morphing from an EM trade into something new because Asia central banks' policy stances are lagging.

Asia Zero Tolerance: Regional governments extended subsidies and tax breaks to curb higher living costs. The MAS and RBI surprised with intra-meeting rate hikes. Reopening should support upside growth surprises.

Commodities and Inflation: Commodity currencies are widely overheld, but US dollar strength has impacted their profitability. High food and energy prices as a consequence of the war raise the risk of social unrest, in our view.

Daniel Tenengauzer - Head of Markets Strategy

Geoffrey Yu - FX and Macro Strategist for EMEA

John Arabadjis, PHD - Head of Markets Macro & Strategy Product & Analytics

John Velis - FX & Macro Strategist for the Americas

Juliette Eastwood - Senior Analyst, Markets Macro Strategy Product & Analytics

Wee-Khoon Chong - Senior Markets Strategist for APAC

Disclaimer

bnymellon.com

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon SA/NV operates in England through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC029379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorised by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre ("DIFC"), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may not be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc ("WM") in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2020 The Bank of New York Mellon Corporation. All rights reserved.