



# European Economic Update



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# Baseload Electricity Prices More Than Double Since Feb 2022

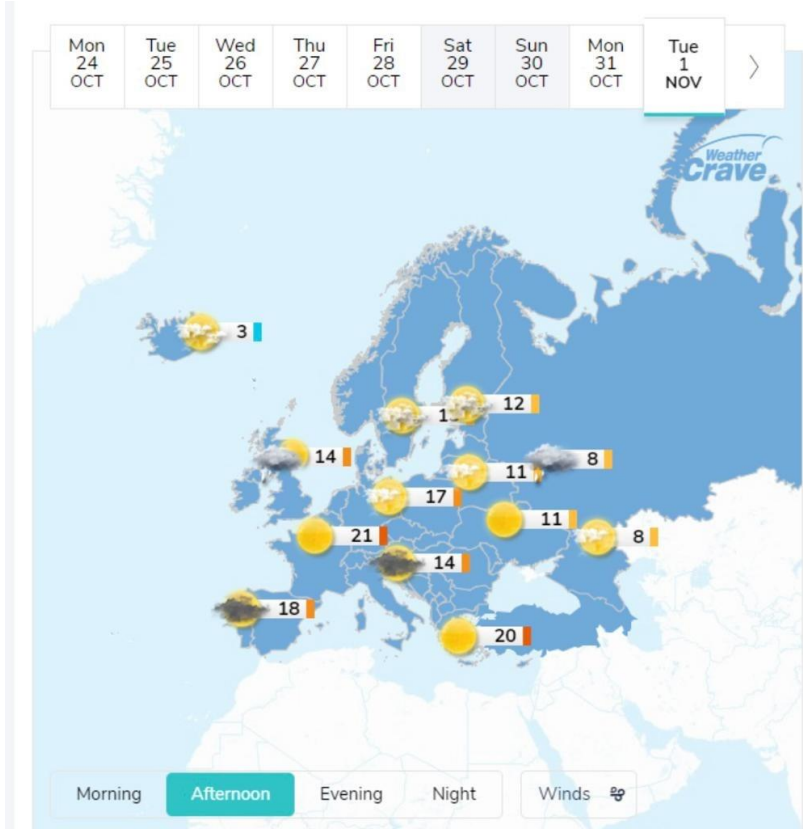
Baseload electricity prices (EUR/MWh):



Source: Bloomberg, Oct 2022. Baseload power is the minimum amount of electric power needed to be supplied to the electrical grid at any given time.

# Mild Winter Has Meant Collapsing Gas Demand

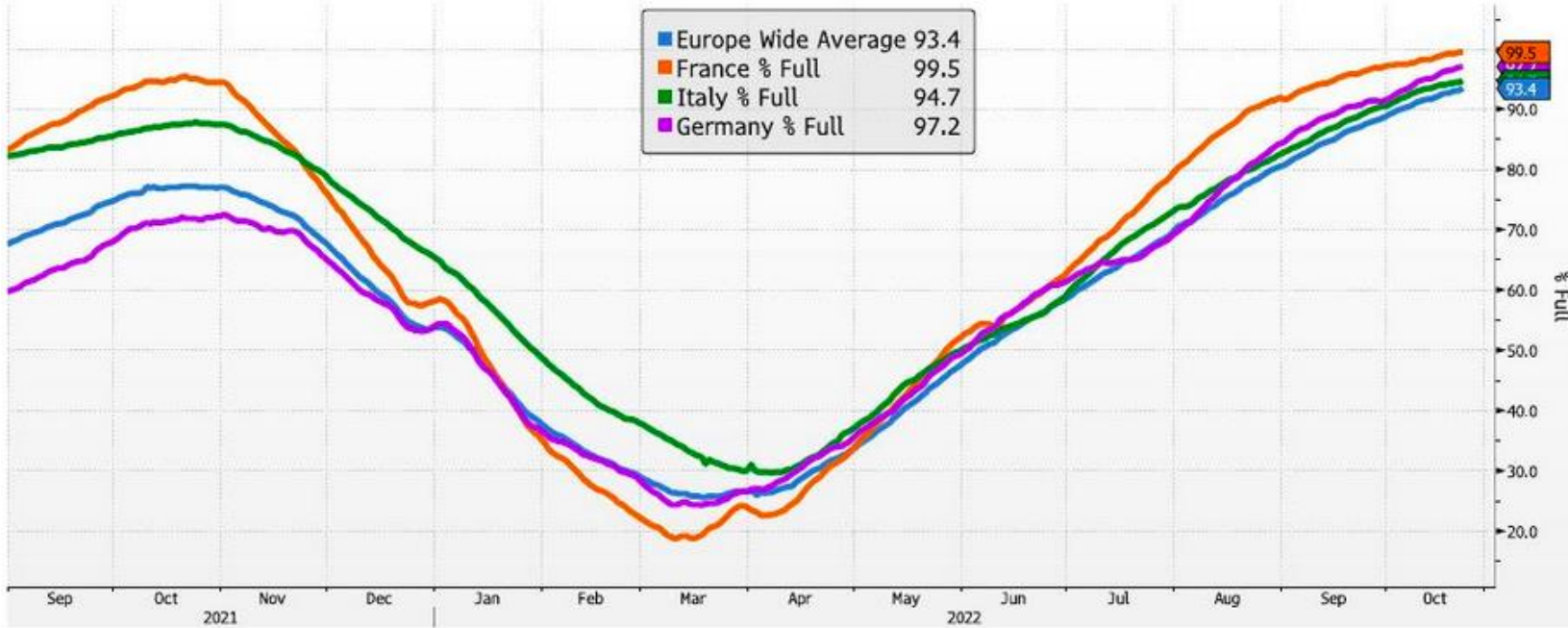
## Weather forecasts:



Source: weather.com

# LNG Storage Nearly Full

Storage capacity:



Source: Bloomberg.

# Will It Be Enough?

WSJ, Aug 26, 2022:

MARKETS | COMMODITIES | GAS MARKETS

## European Energy Rationing This Winter Is Looking Less Likely

Economic war with Russia is likely to keep prices high and send growth into reverse but specter of rationing is fading

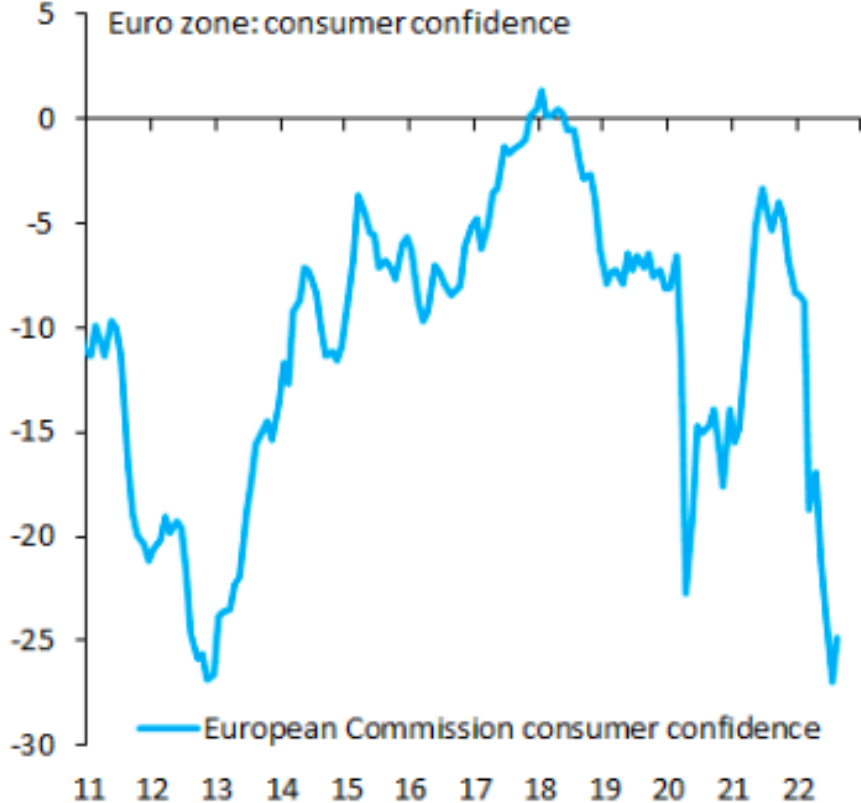
Bloomberg, Sep 4, 2022:

## Europe Looks Set for Energy Rationing After Russian Gas Cut

- Germany has built up storage, but it may not be enough
- Europe's ability to get through winter depends on the weather

# EZ Consumer Confidence Plummets

EZ consumer confidence:



Source: Haver, IIF

# German Business Confidence Plummets

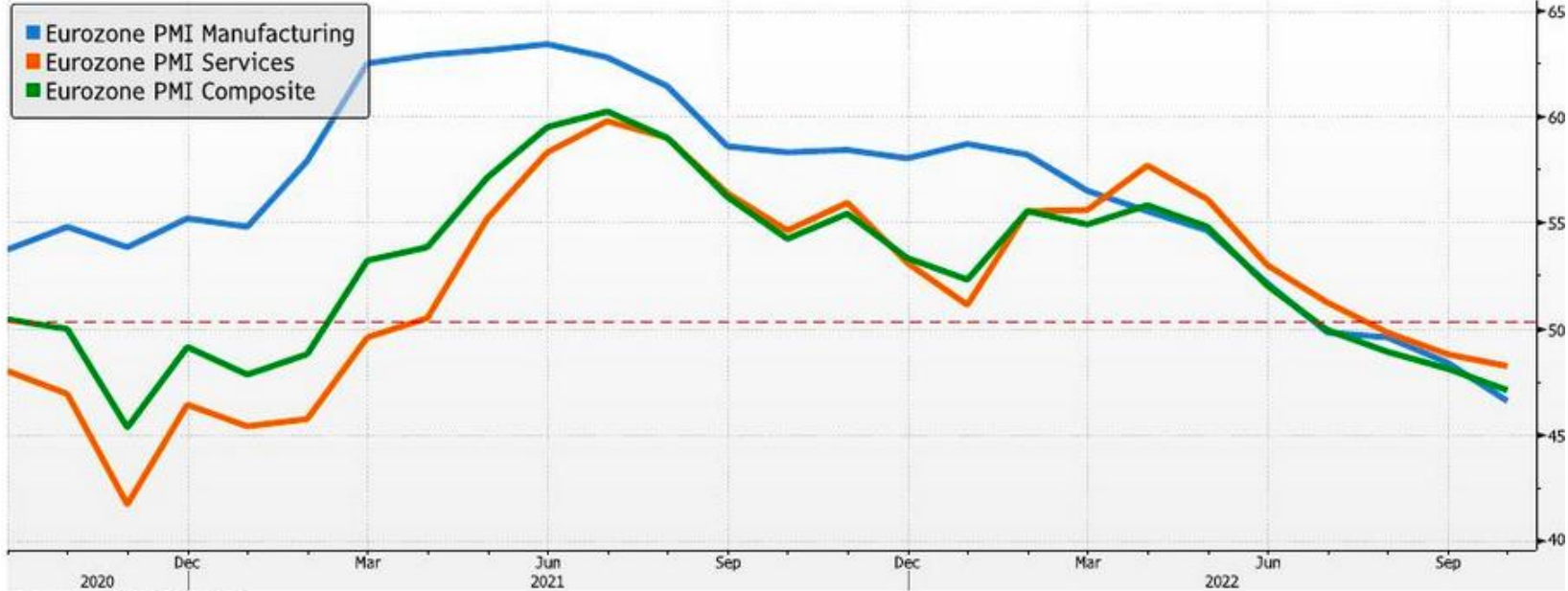
German business confidence:



Source: Bloomberg.

# Manufacturing and Services in Contraction

## EZ PMI, manufacturing and services



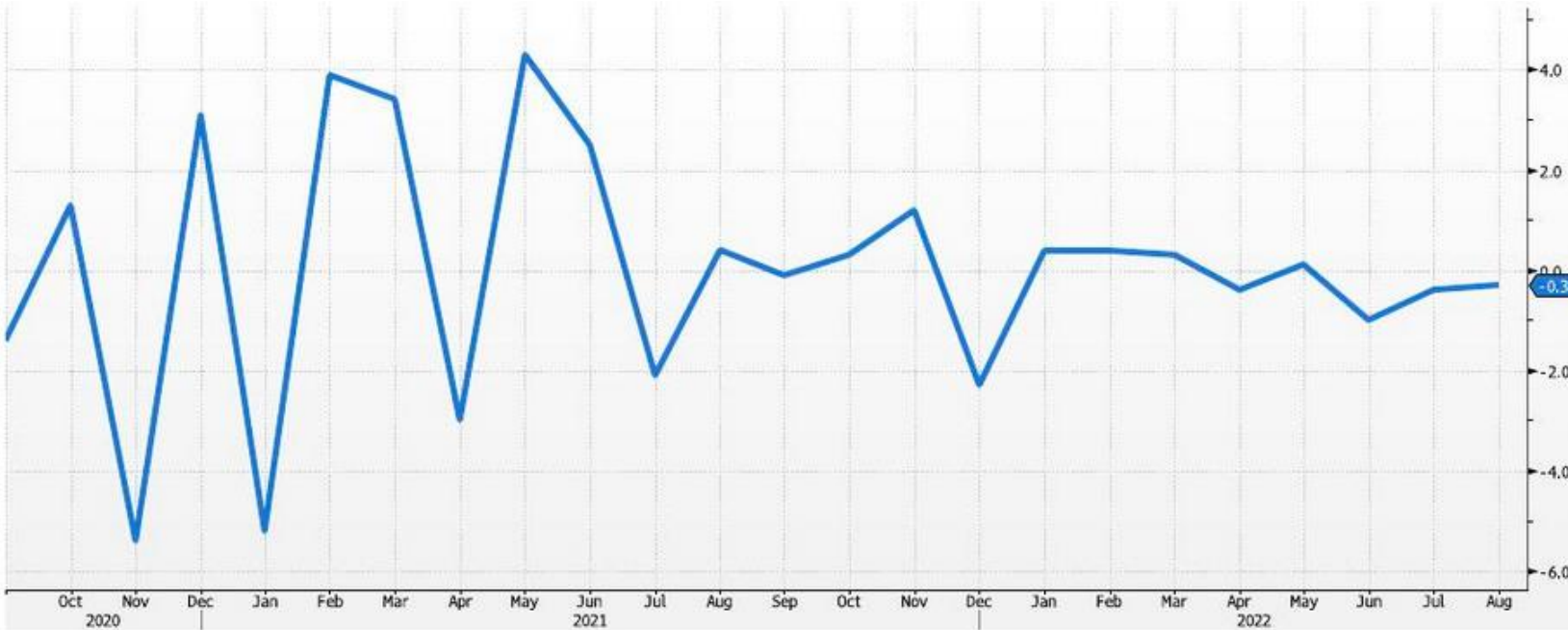
Source: S&P Global

Source: Bloomberg.



# EZ Retail Sales Flatlining

EZ retail sales (% change, mom):



Source: Bloomberg.

# Germany Factory Orders Falling

Germany factory orders (% change, mom):



Source: Bloomberg.

# EZ Inflation Surprised to the Upside

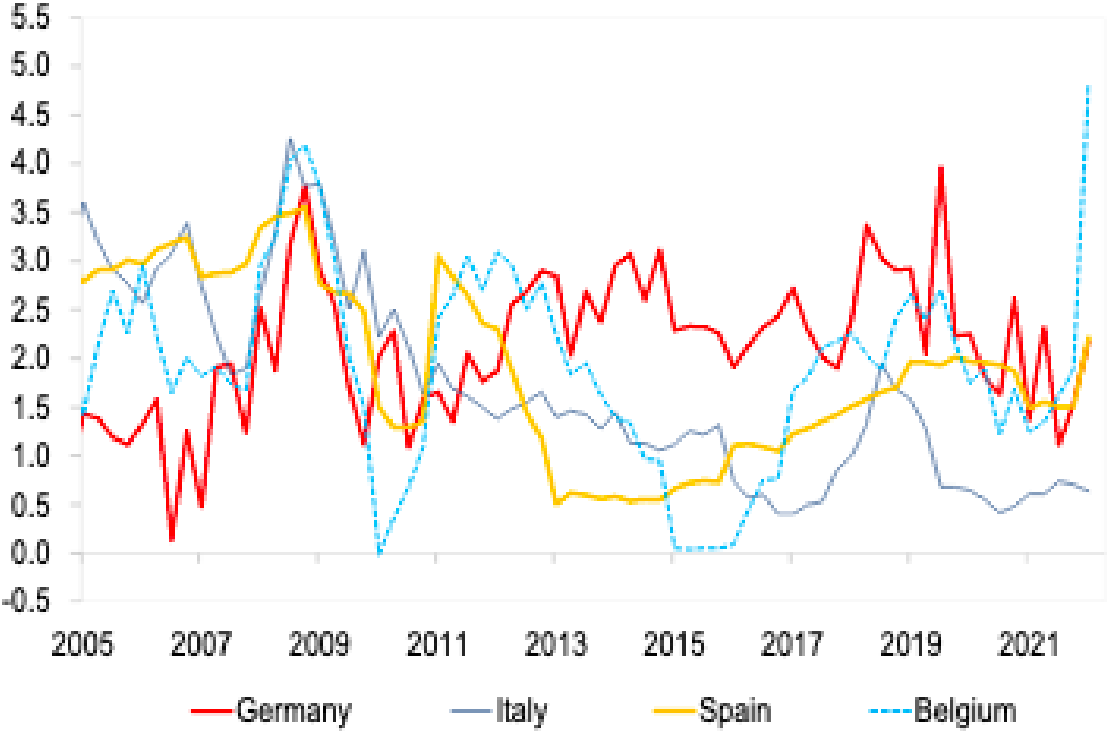
HICP inflation (% change, yoy):



Source: Eurostat, Bloomberg.

# Few Signs of Second Round Effects

Eurozone negotiated wages (% change, yoy):



Source: Haver, Citibank.

# ECB To Hike into a Recession

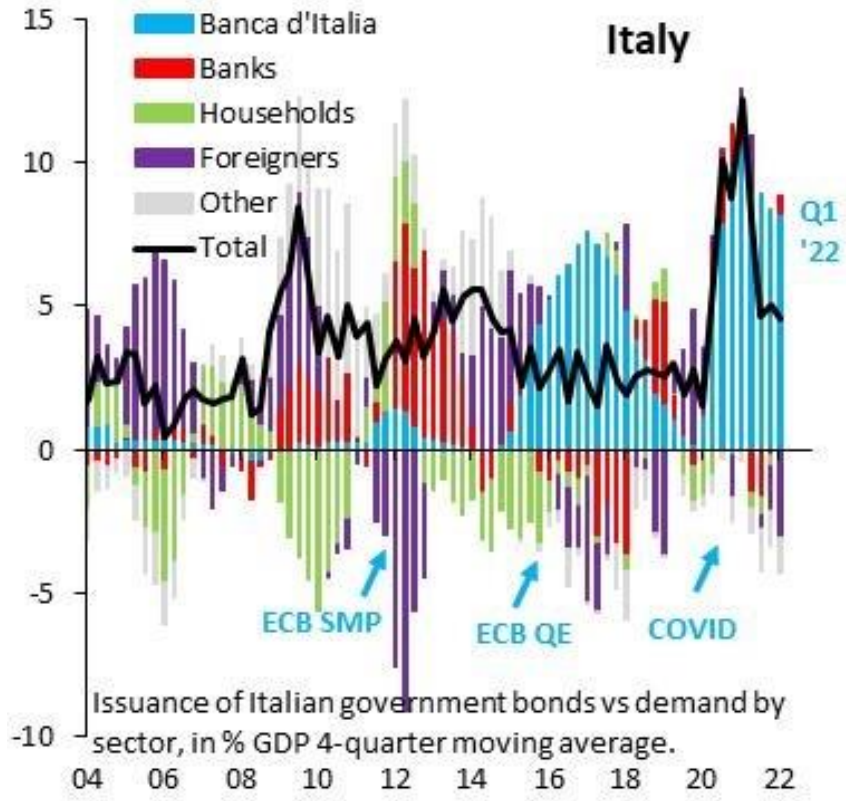
ECB market expectations of rates:



Source: Bloomberg.

# ECB the Only One Buying Italian Bonds

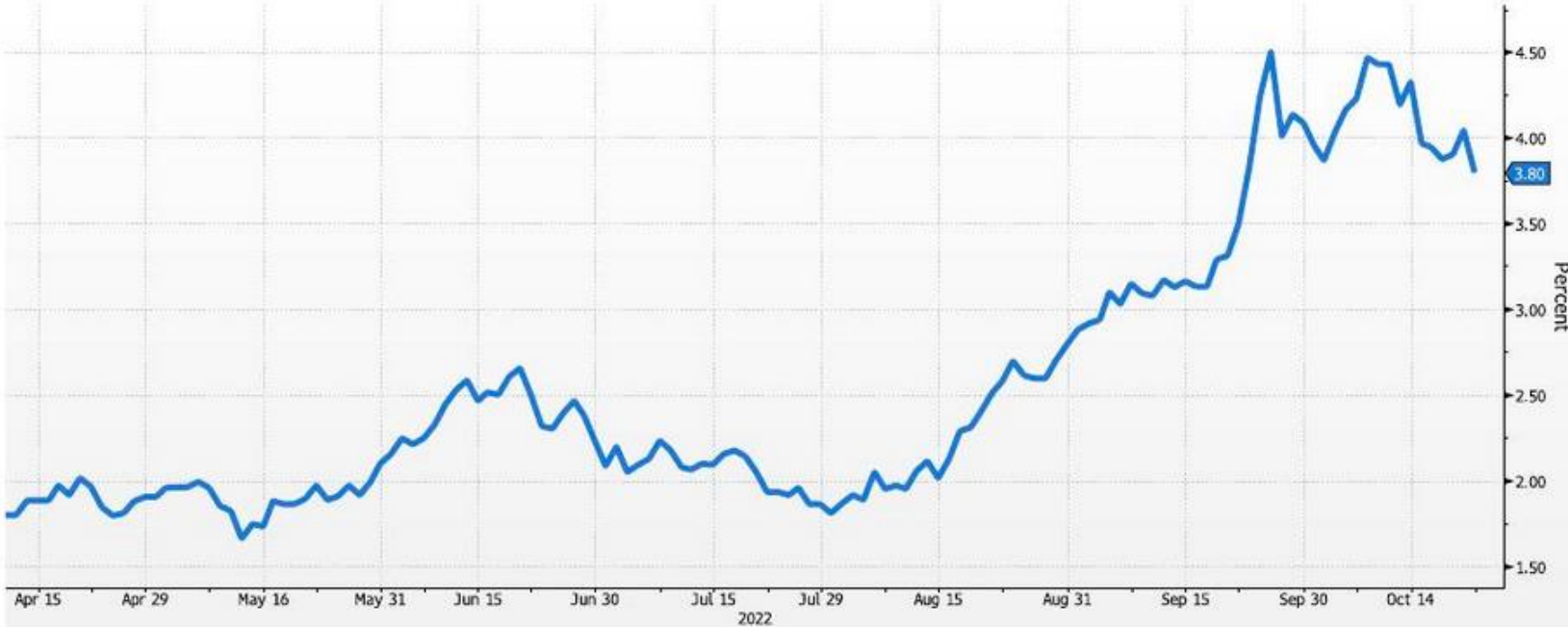
Italy bond buying:



Source: IIF.

# Gilt Market Has Calmed Down

10y Gilt yield:



Source: Bloomberg.

# GBP Hasn't Recovered

USD per GBP

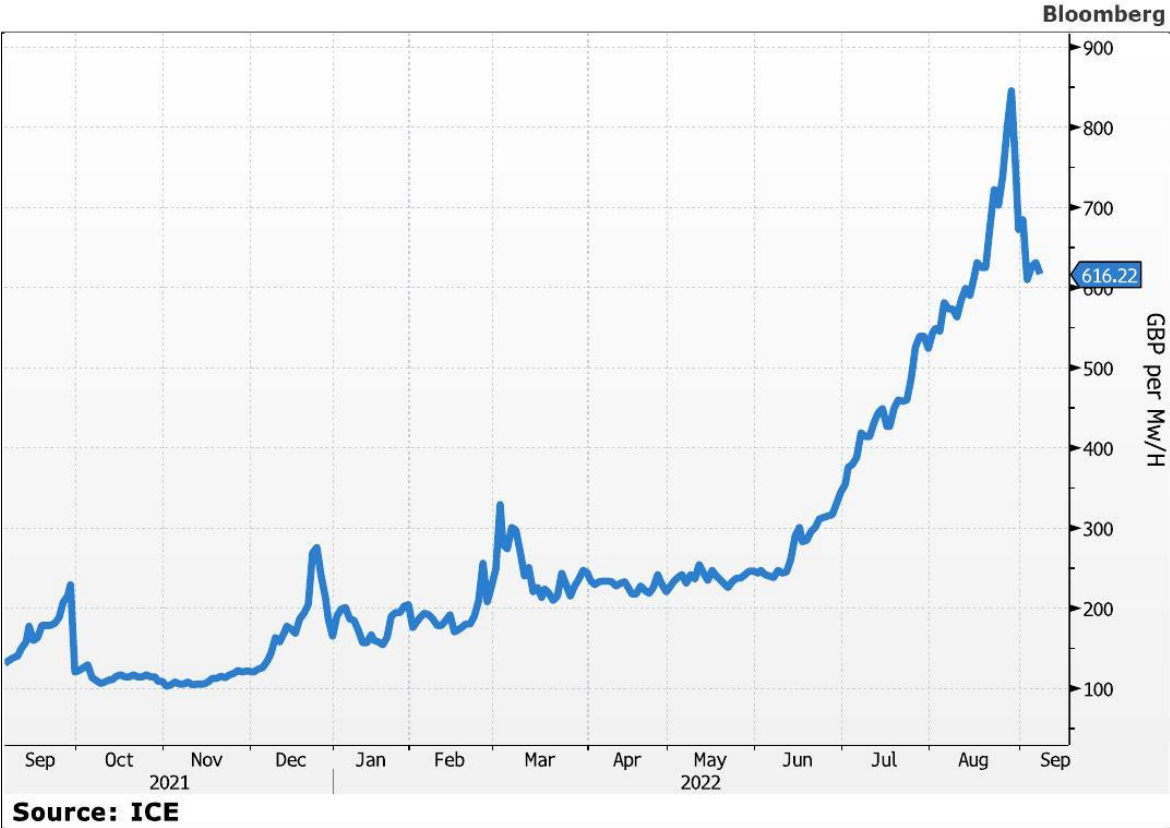


Source: Bloomberg.



# UK Electricity Prices Skyrocket

UK electricity prices (GBP per Mw/H):



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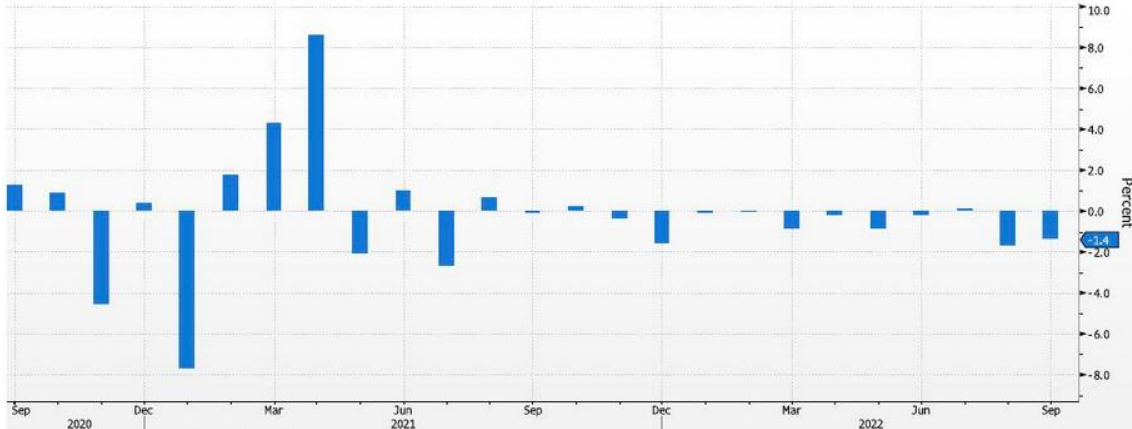
# UK Retail Sales Have Flatlined for the Past Year

Consumer confidence:



Source: GfK NOP

UK retail sales (% change, mom):



Source: Office for National Statistics

# UK Manufacturing and Services in Contraction

UK PMI indices:



Source: Bloomberg.

# UK Productivity Growth a Long-Term Problem

UK productivity growth (% change, yoy):



Source: Bloomberg.

# UK CPI

UK CPI (EU Harmonized, NSA, % change yoy):



Source: Bloomberg.

# BoE To Tighten Aggressively

BoE expectations for rates:

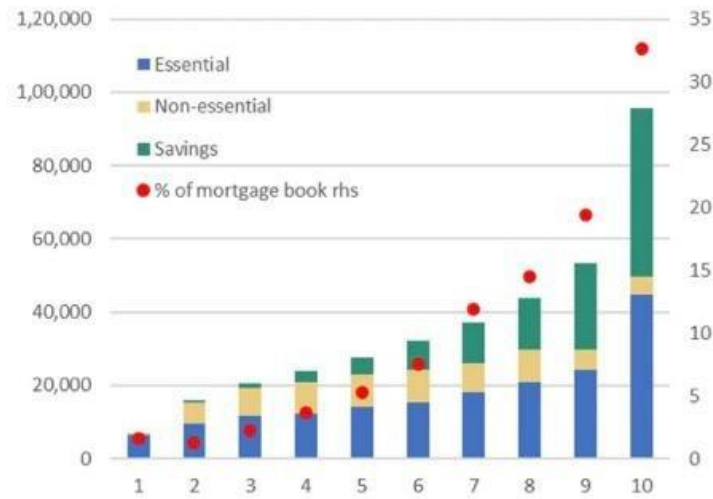


Source: Bloomberg.

# UK Mortgage Crisis Coming

## Impact on mortgage servicing of higher rates and utility bills:

Disposable income and mortgage book breakdown by income bracket



Source: Morgan Stanley.

If offered rates increase to >6%, we estimate 30-40% of households will struggle to pay their mortgage

Offered rates	Utility bills (£)					
	2,100	2,500	3,000	4,000	5,000	6,000
2.0%	10%	10%	20%	20%	20%	30%
3.0%	20%	20%	20%	20%	20%	30%
4.0%	20%	20%	20%	20%	30%	30%
5.0%	20%	20%	20%	30%	30%	40%
6.0%	20%	30%	30%	40%	40%	40%
7.0%	30%	30%	40%	40%	40%	50%
8.0%	30%	40%	40%	40%	50%	60%

# US Confidence Weak

Consumer confidence indices:

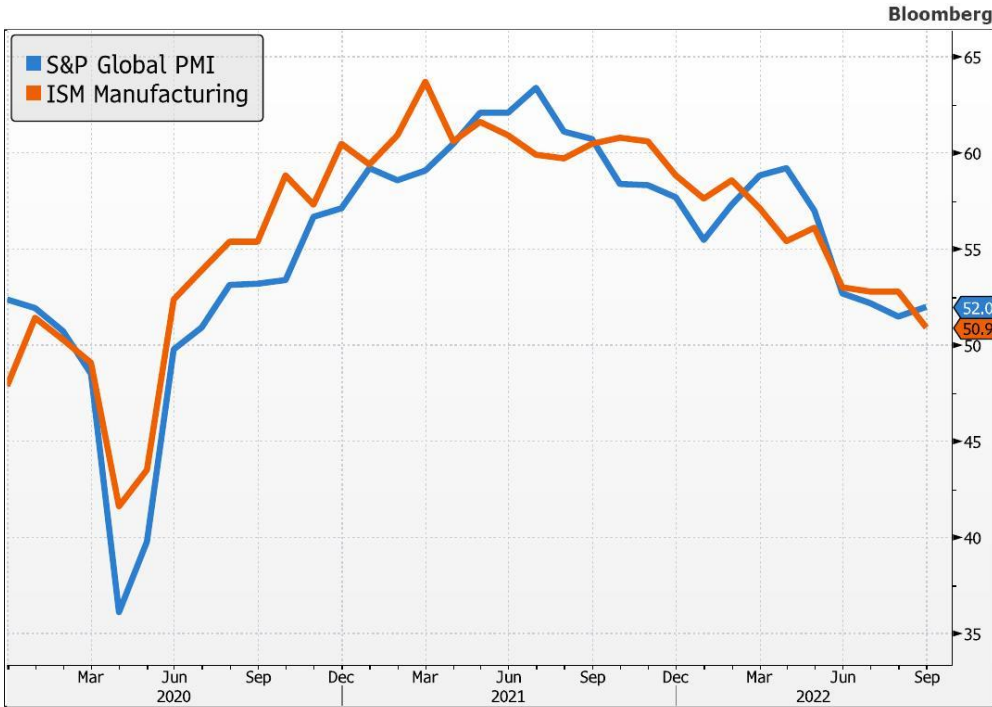


Source: Bloomberg.



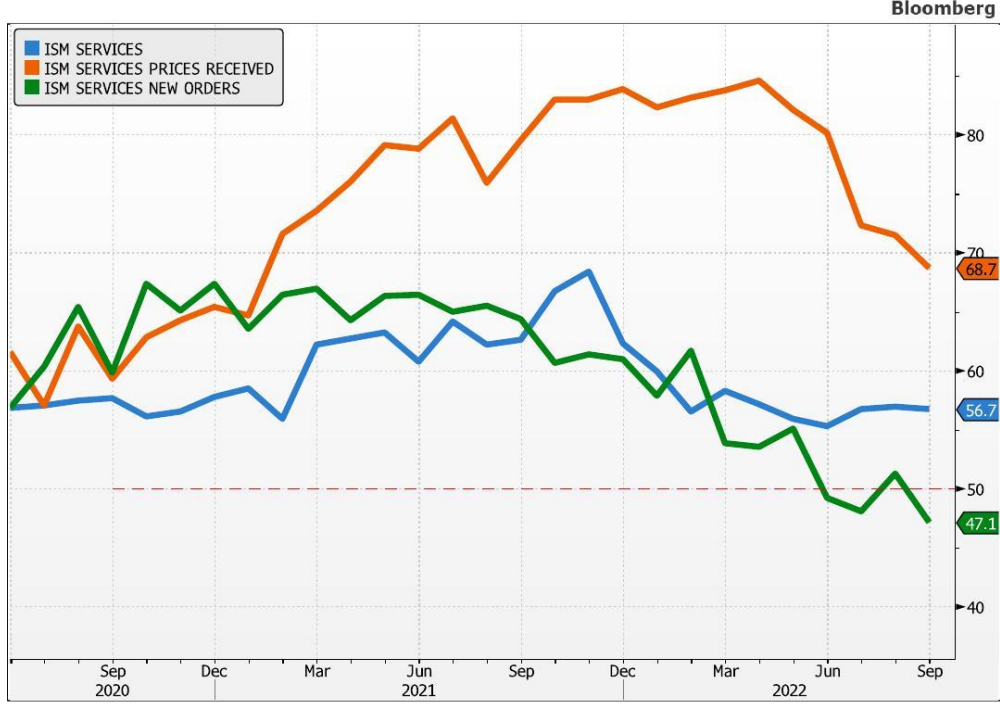
# US Services Outperforming

## PMI Manufacturing:



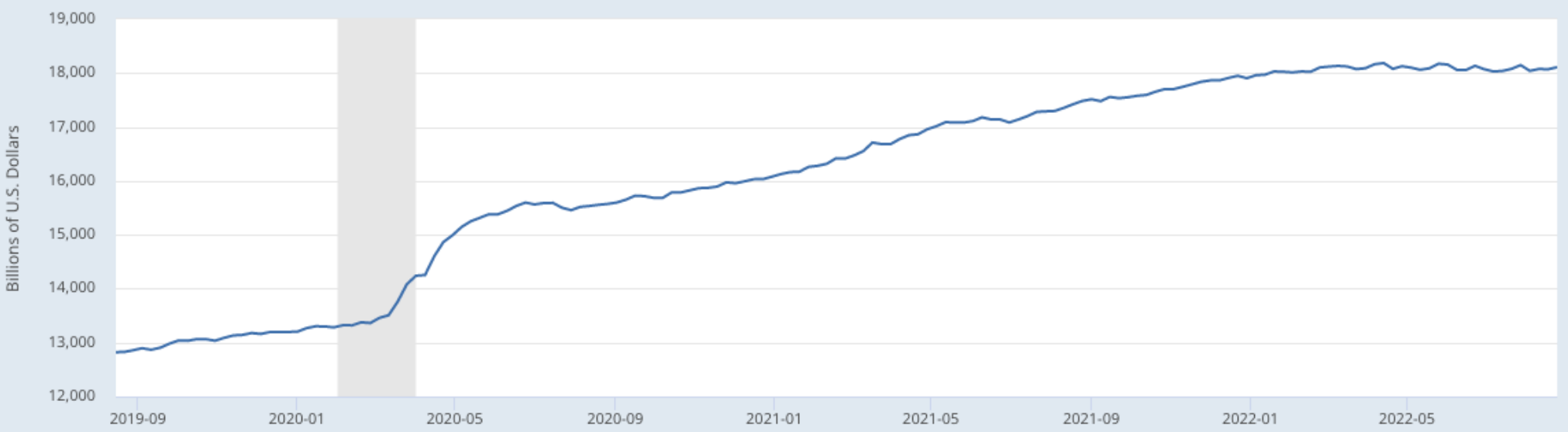
Source: Bloomberg.

## PMI Services:



# In Aggregate, Consumers Flush with Cash

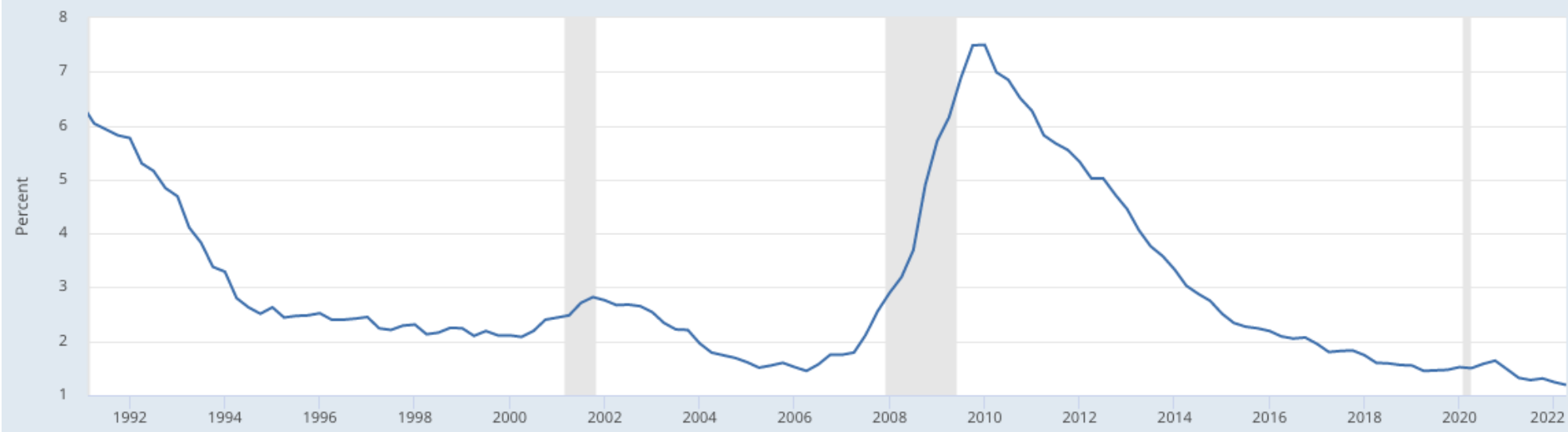
Deposits, all commercial banks:



Source: FRED.

# Loan Defaults at Historically Low Levels

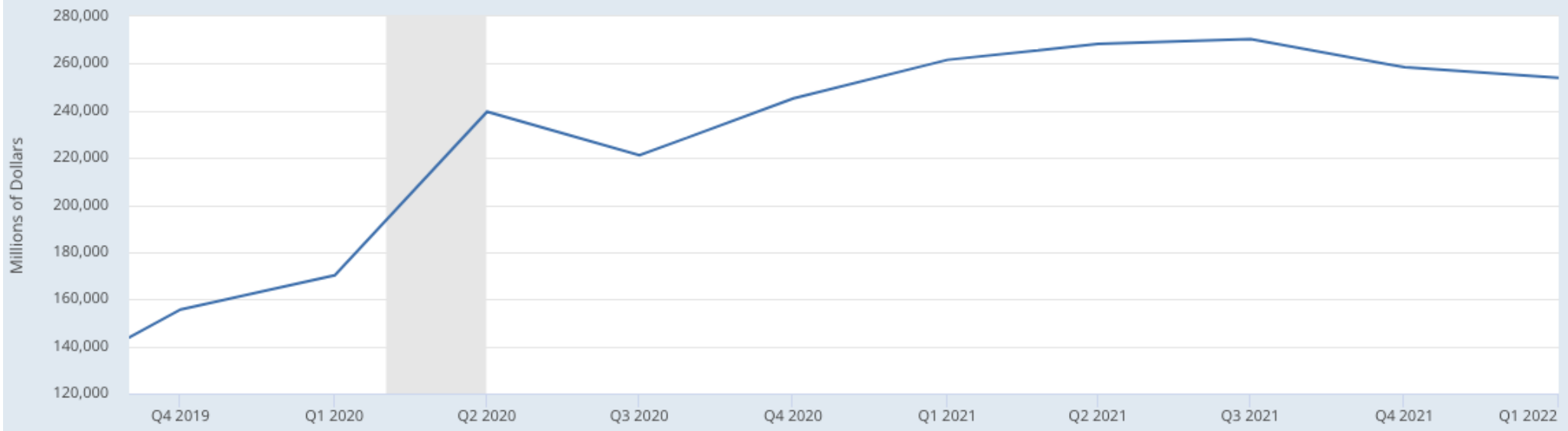
Delinquency rate on all loans, all commercial banks:



Source: FRED.

# Companies Flush with Cash Too

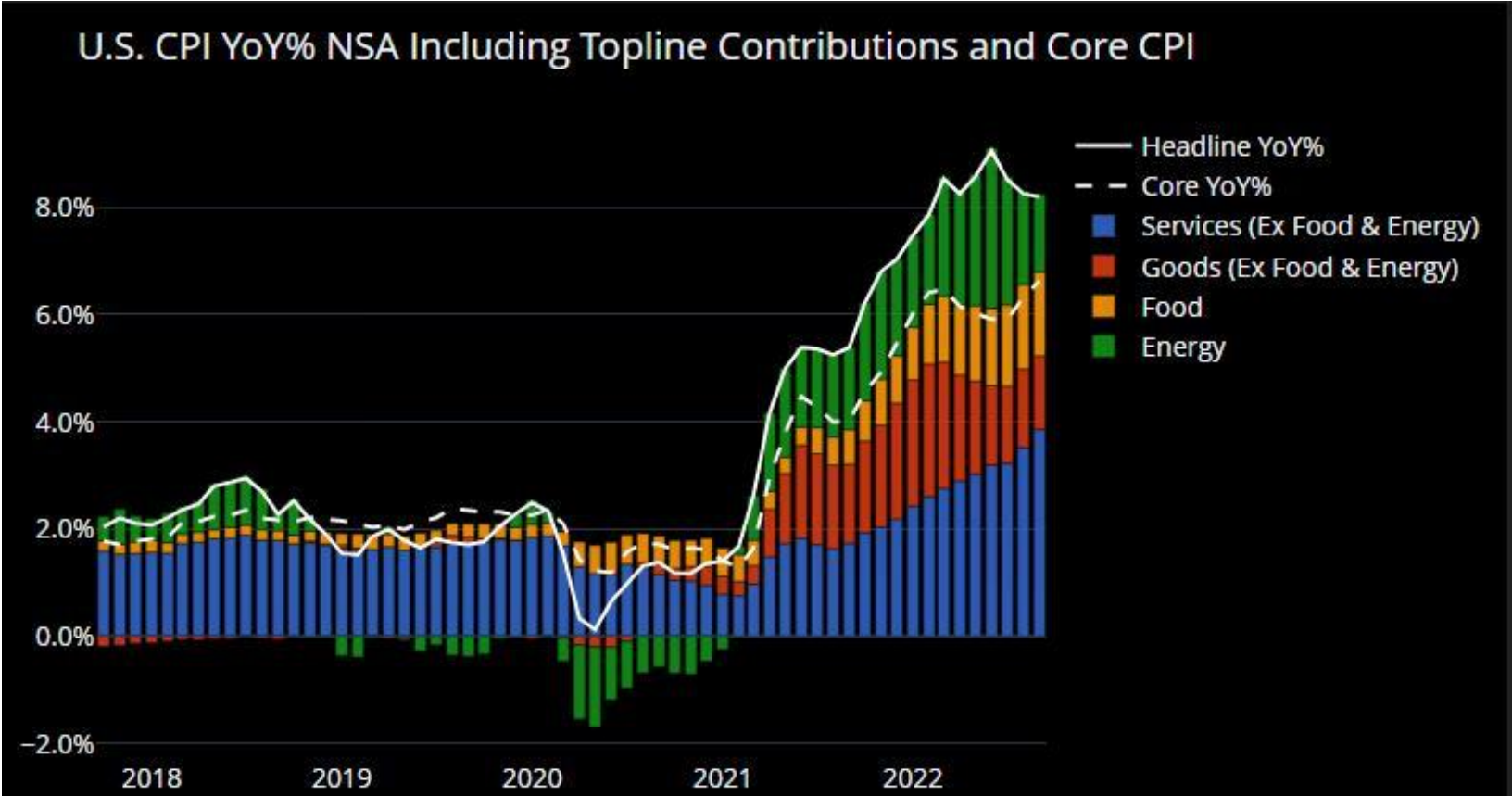
US Corporations, Total Cash on Hand and in US Banks:



Source: FRED.

# US Inflation Both Demand and Supply Driven

Contributions to US inflation (% change, yoy, NSA):



Source: Bloomberg.

# Fed To Continue Tightening (No Pivot Yet)

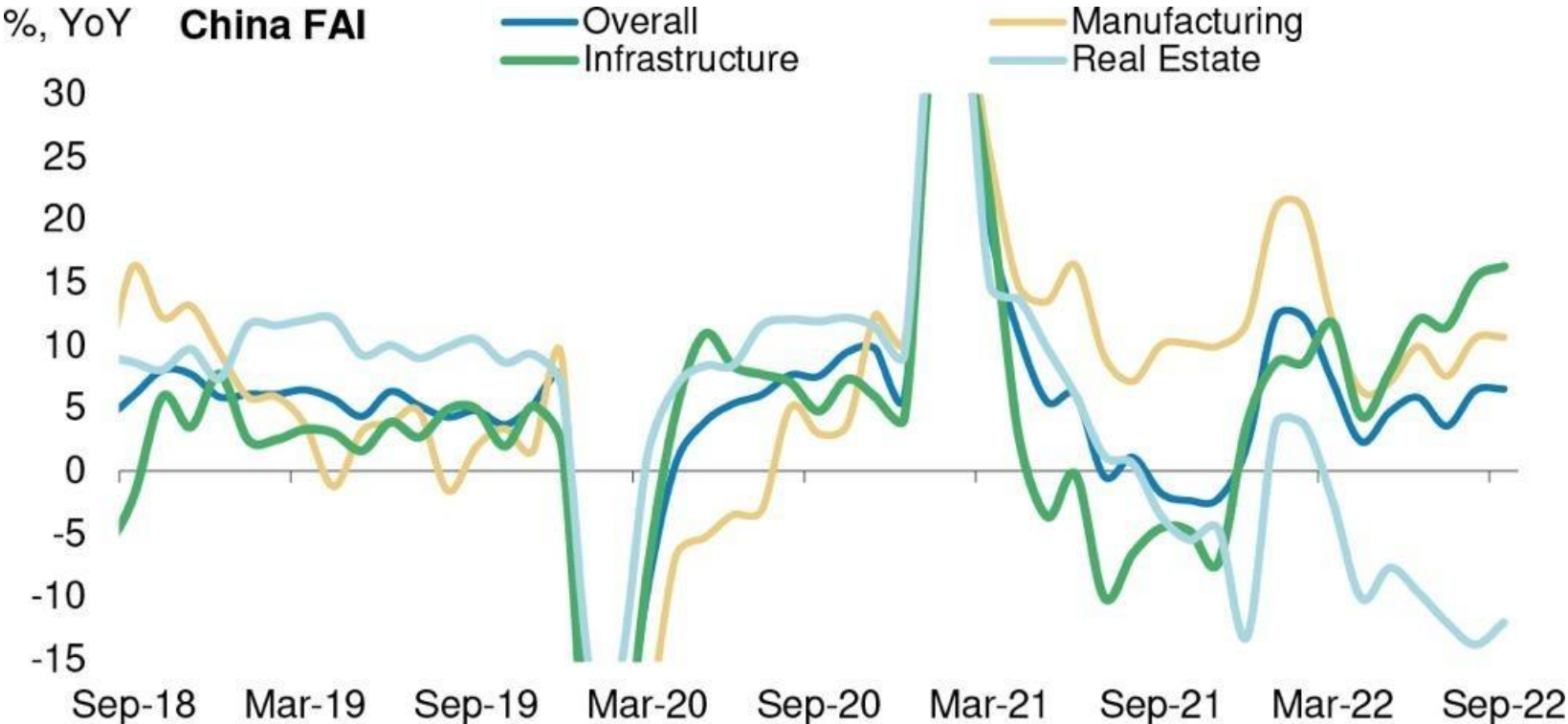
Market expectations for Fed Funds rate:



Source: Bloomberg.

# China Growth Driven by Infrastructure

China fixed asset investment (% change, yoy):



Source: Morgan Stanley.

# Deep Housing Recession

Chinese house prices (%change mom):

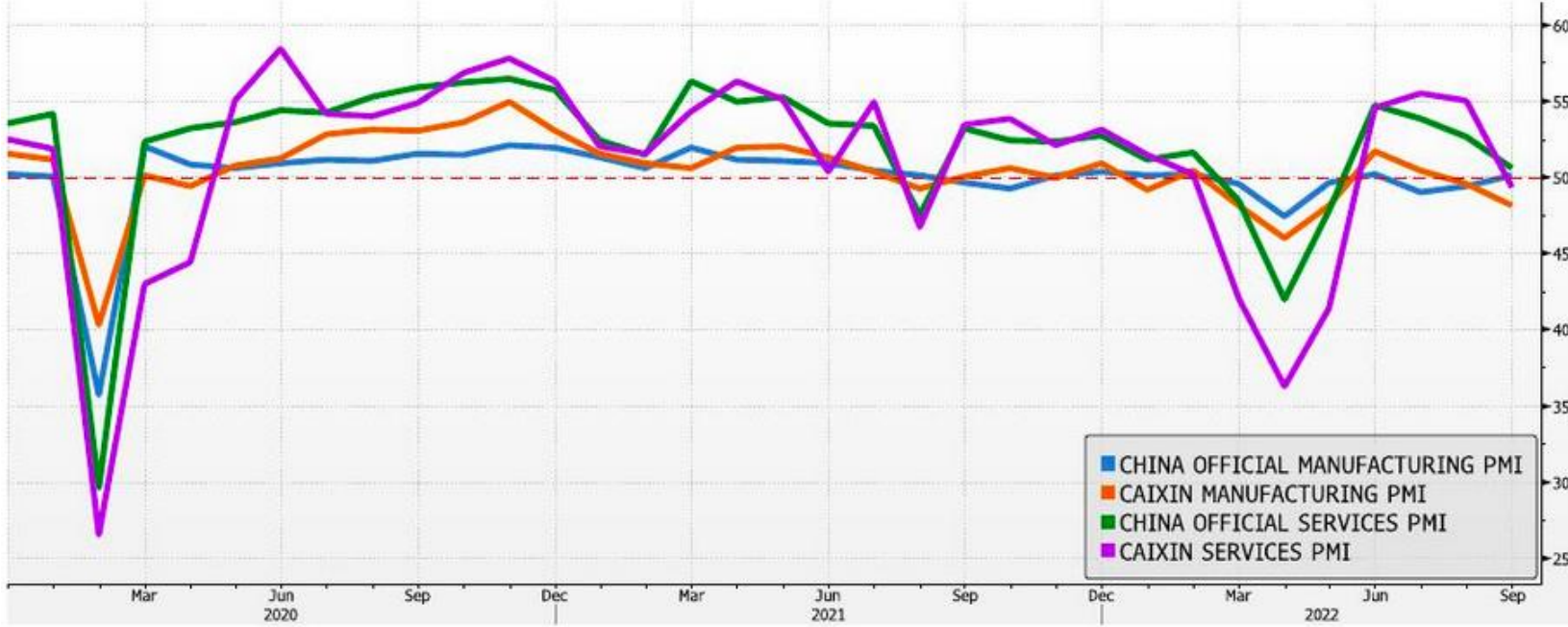


Source: Bloomberg.



# China Manufacturing and Services in Contraction

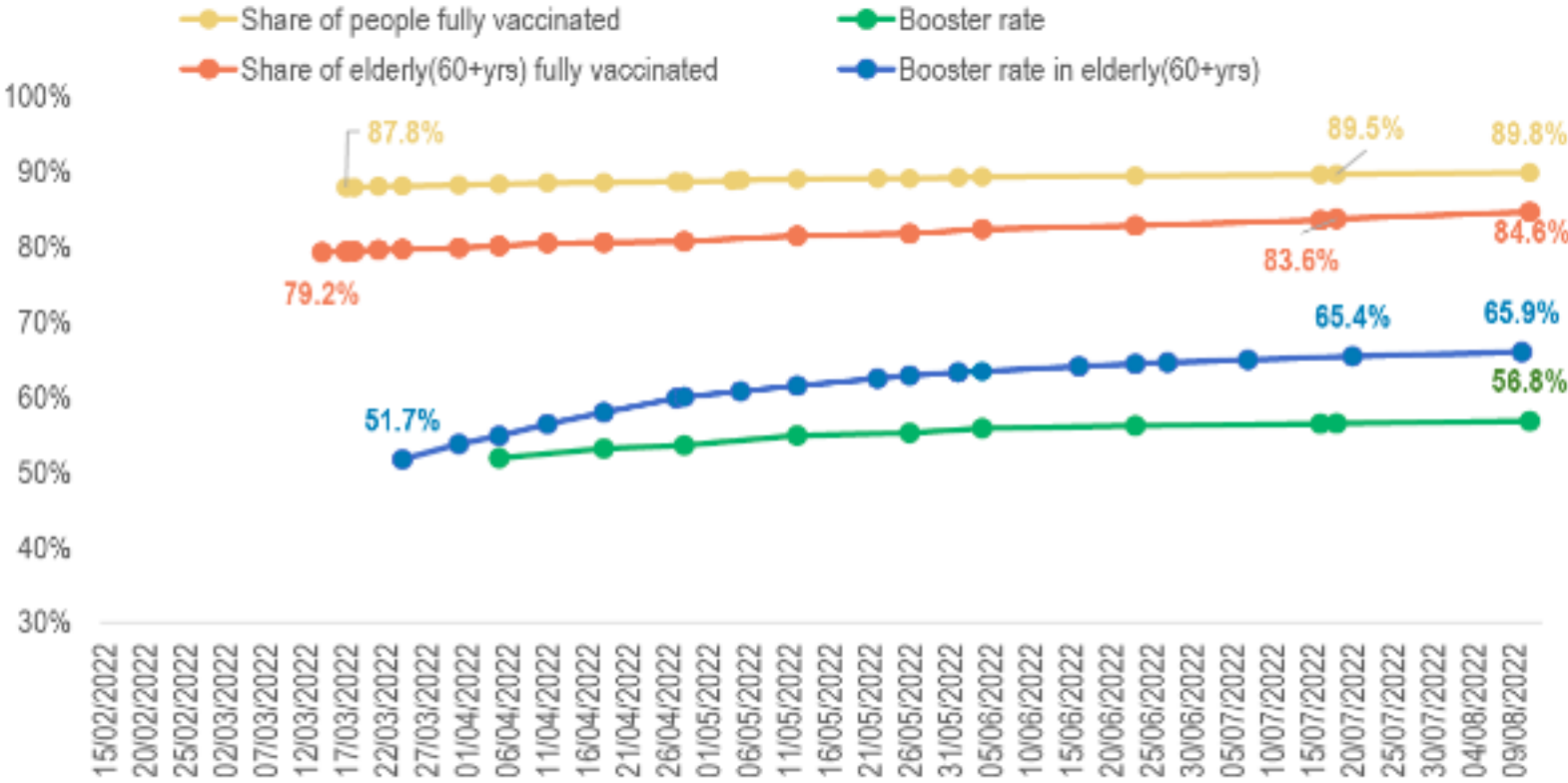
PMI data, manufacturing and services:



Source: Bloomberg.

# Learning To Live with COVID Won't Be Easy

## Vaccination rates:



Source: NHC, CEIC, Morgan Stanley Research.

# Q&A

**Thank You**



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#### About Kroll

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