

Morning Market Tidbits

The Russian invasion and the economy

In focus

While events are moving quickly, we offer some preliminary thoughts on the Russian shock. In particular, we look at the implications of a major Russian expansion into the Ukraine and major sanctions from the US and Europe but no military action between Russia and NATO and no major disruption to commodity supplies coming out of Russia. Here are four thoughts.

1. The shock to markets thus far is moderate, with a plunge in Russian markets and corrections elsewhere. Similarly the rise in oil prices is meaningful, but not huge. However, natural gas prices have surged in Europe, adding further pressure on those economies. Our base case is that the market impact of the shock will be short lived, but it is early days yet.
2. Outside of its commodity sector, Russia is a marginal player in the global economy. Unlike China, it plays little role in global supply chains. Even countries in Central and Eastern Europe only send 1-to-3% of their exports to Russia. US linkages are even smaller. For example, Savita Subramanian points out that only 0.1% of sales by S&P 500 companies go to Russia.
3. The US and global economy have strong momentum going into the crisis. We are forecasting well-above-trend growth this year for the US (3.6% vs 1.7% trend), the Euro Area (3.5% vs 1.0%) and the global economy (4.3% versus 3.0-3.5%).
4. The European economy is much more exposed than the US, particularly if there is disruption to natural gas supplies. The EU gets about a third of its natural gas from Russia and the UK about 5%. By contrast the US is energy independent. Rising prices cause a transfer of income from US energy consumers to US energy suppliers so the net effect on the economy is quite modest. In the past we have estimated that a \$10/bbl increase in oil prices (and similar increases in other energy prices) slices less than a tenth off US growth in the subsequent year. *(Continued on next page)*

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Market action

The Asian equity markets that we cover ended negative overnight. Looking at individual markets, the Indian Sensex plunged 4.7%, the Hang Seng dropped 3.2%, the Korean Kospi decreased 2.6%, the Nikkei contracted 1.8% and the Shanghai Composite index fell 1.7%.

As of 7:00 am ET, aggregate European stocks are down 3.8% and S&P500 futures are down 2.2%. In the bond markets, 10-year Treasury yields are down 10bp to 1.89% and German Bund yields are down 8bp to 0.15%. The dollar is strengthening against a basket of other major currencies with the DXY index up 0.9% to \$97.08. WTI crude oil prices are up \$7.44 to \$99.54/bbl, and gold prices are at \$1,961.80 /oz.

COVID-19 update

Cases are sharply declining in the US and globally, with US cases down 90% and E-5 cases down 60% from the January peak. However, cases are rising strongly in Southeast Asia (including the manufacturing hubs Malaysia and Vietnam), with daily cases in the region reaching new peaks, having tripled over the past month.

Today's events

Data deck for Feb 24

Claims, GDP, New home sales

Date	Time	Indicator	Period	BofA		Previous
				Estimate	Consensus	
2/24/22	8:30	Initial Jobless Claims	Feb 19	240k	—	248k
2/24/22	8:30	GDP (qoq saar)	4Q S	7.5%	7.0%	6.9%
2/24/22	8:30	Personal consumption (qoq saar)	4Q S	3.6%	—	3.3%
2/24/22	8:30	GDP Price Index (qoq saar)	4Q S	6.9%	6.9%	6.9%
2/24/22	8:30	Core PCE (qoq saar)	4Q S	4.9%	—	4.9%
2/24/22	10:00	New Home Sales	Jan	800k	813k	811k

Source: Bloomberg

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Jobless claims

Claims should continue to run at low levels as we look for initial jobless claims to decline by 8k to 240k in the week ending February 19. This would result in the 4-week moving average falling to 238k from 243.25k. Ongoing issues with labor supply has led companies to increase retention rates, which has contributed to the low level of jobless claims. We expect this to persist over the course of the year.

GDP

In the second release of 4Q GDP, we expect a notable revision upwards to 7.5% qoq saar growth from the preliminary estimate of 6.9%. Stronger real consumption will likely be one of the main drivers, as net positive revisions to retail sales lead us to track 3.6% qoq saar growth versus 3.3% initially. New construction should also be supportive with both residential and structures investment revised up. Imports were likely revised lower, but this means a smaller drag on growth. While growth is likely to come in stronger than previously reported, we expect inflation aggregates to be little changed with the GDP price index at 6.9% qoq saar and core PCE at 4.9% qoq saar.

New Home Sales

We expect new home sales to have moderated to 800k in January, from 811k in December. Housing starts have been inching down over the last few months, and adverse weather in January would have likely impacted homebuyers' activity. Rising home prices and mortgage rates are pushing out some buyers in the market, but we note some upside risks with mortgage applications having picked up 2.5% in January. We expect new home sales to be robust throughout 2022, so we will be monitoring starts and sales data as the winter weather effects clear.





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