



Our Economy and The World

The Weekly Report

Issue: 279 Date: 3rd July 2022

This week's issue of "Our Economy and the World" includes:

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 - Reuters: Japan May Retail Sales Rise Faster than Expected as COVID Curbs Ease
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 - Bloomberg: Spanish Inflation Soars to 10% as ECB Gears Up for Hikes
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 - CNBC: Oil dips, snapping three-day win streak as recession fears weigh

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Key Global and Regional Developments over the Past Week

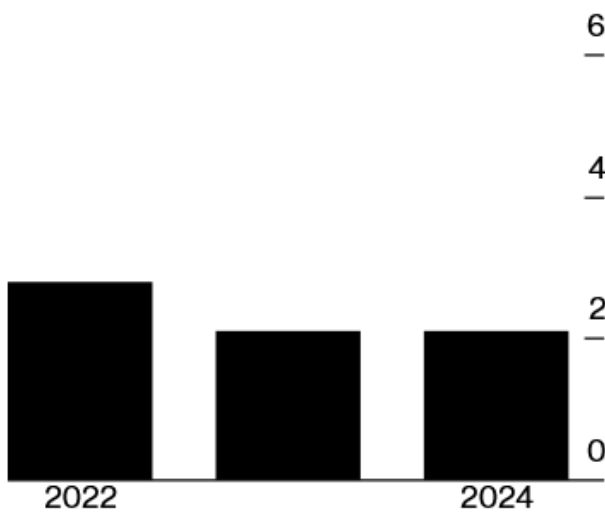
Bloomberg: ECB’s Simkus Wants Half-Point July Hike as Option If Data Worsen

The European Central Bank should consider raising interest rates by twice the planned amount next month if the inflation outlook deteriorates, according to Governing Council member Gediminas Simkus, as calls not to exclude an outsized initial move grow. Simkus joined his ECB colleague Martins Kazaks in arguing that the baseline option for a quarter-point hike at the July meeting -- when policy makers are set to lift borrowing costs for the first time in more than a decade -- isn't set in stone as record inflation must be fought "decisively."

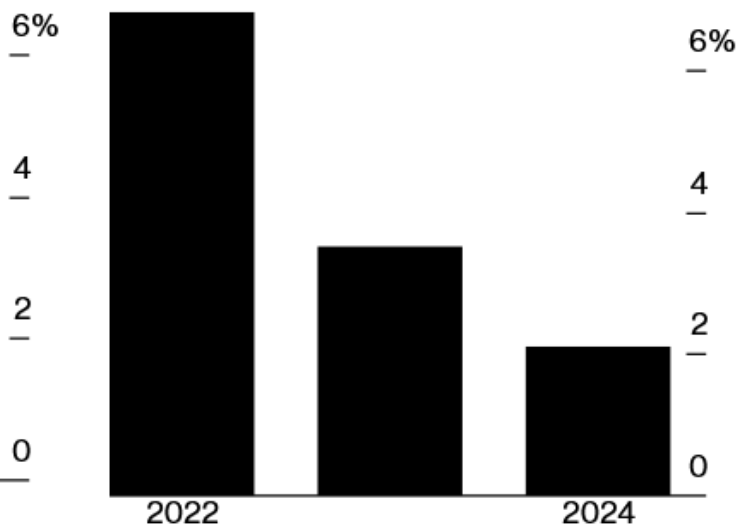
Economic Outlook

The ECB sees high inflation and continuing growth

GDP growth



Inflation



Source: ECB

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Reuters: Japan May Retail Sales Rise Faster than Expected as COVID Curbs Ease

Japanese retail sales rose for a third straight month in May, reinforcing views that strong consumption will lead an economic rebound this quarter, although rising inflation poses a risk to household spending for the rest of 2022. Retail sales rose 3.6% in May from a year earlier, government data showed on Wednesday, slightly higher than the median market forecast for a 3.3% gain. It followed an upwardly revised 3.1% increase in April and marked the third month of advancement since March, when the government lifted all coronavirus restrictions on face-to-face services. On a seasonally-adjusted month-on-month basis, retail sales advanced 0.6% in May, after a 1.0% growth in April.

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BBC: UK Joins Ban on Imports of Russian Gold

The UK, US, Canada and Japan will ban imports of Russian gold in an effort to hit Moscow's ability to fund the war in Ukraine. The UK PM said the move would "strike at the heart of Putin's war machine". Gold exports were worth £12.6bn (\$15.4bn) to Russia in 2021, and the UK says their importance has increased since the invasion as oligarchs rush to buy bullion to avoid sanctions. It comes as the G7 group of the world's richest nations meet in Germany. US President Biden suggested the other G7 nations - Germany, France and Italy - would also join the ban.

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Bloomberg: Spanish Inflation Soars to 10% as ECB Gears Up for Hikes

Spanish inflation unexpectedly surged to a record, defying government efforts to rein it in and signaling intensifying price pressure as the European Central Bank gears up to raise interest rates for the first time in more than a decade. The surprise 10% reading for June dashes hopes that inflation in the euro zone's fourth-biggest economy had peaked and highlights how a squeeze on consumers, once forecast to be transitory, is instead intensifying. The rate is up from 8.5% in May and exceeded all 15 estimates in a Bloomberg survey of economists.

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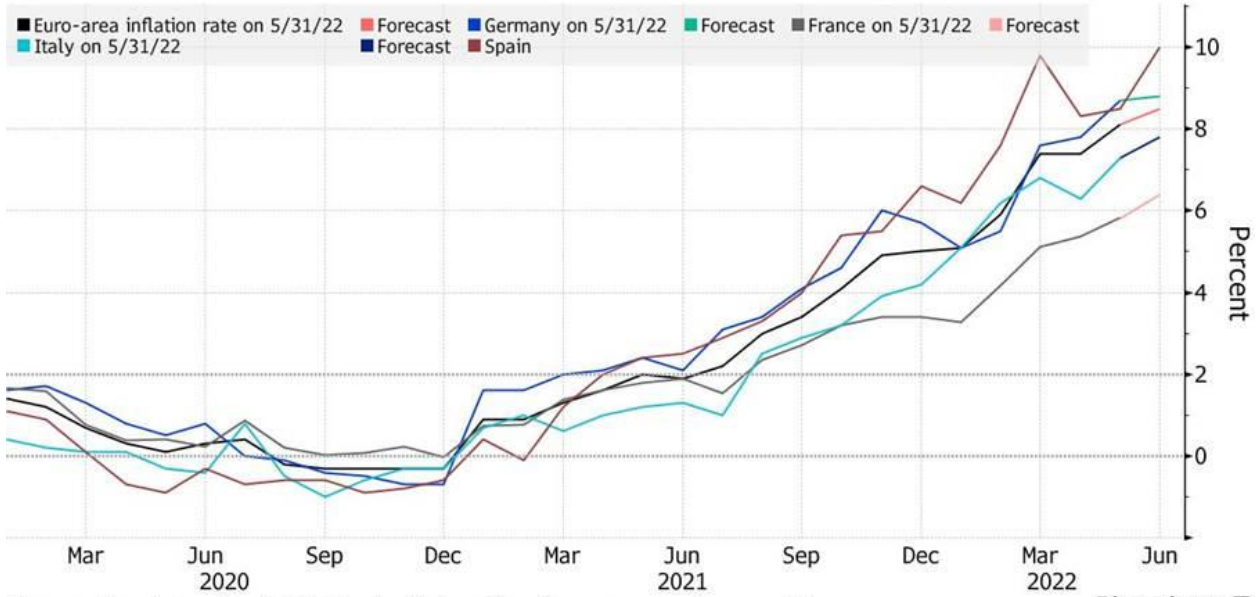


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Ominous Sign

Spanish inflation accelerated to 10% in June -- much stronger than anticipated



Source: Eurostat, national statistics institutes, Bloomberg surveys of economists Bloomberg

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Financial Times: UK Plans to Cut Pipelines to EU if Russia Gas Crisis Intensifies

The UK will cut off gas supplies to mainland Europe if it is hit by severe shortages under an emergency plan that energy companies warn risks exacerbating a crisis on the continent. With European countries facing the prospect of Russia severing gas exports, the British plan to shut off pipelines to the Netherlands and Belgium risks undermining a push for international co-operation on energy. A cut off of so-called interconnector pipelines would be among the early measures under the UK's emergency gas plan, which could be triggered by National Grid if supplies fall short in the coming months.

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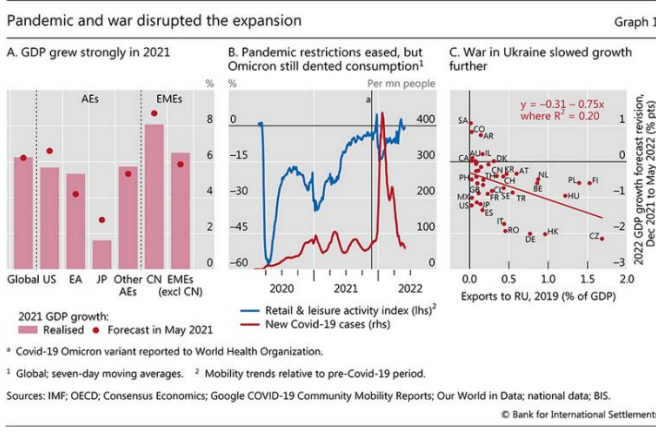
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The Weekly Report

Special Analysis

Bank of International Settlements: Annual Economic Report

There is no respite for the global economy. Two years ago, it was shaken by the onset of the pandemic, as an overwhelming health crisis turned into an overwhelming economic crisis. While the after-tremors of the pandemic still reverberate, two new shocks hit home in the year under review: the unexpected resurgence of inflation and the tragic war in Ukraine. Last year's Annual Economic Report (AER) raised the prospect of a bumpy pandexit; bumps have turned out to be a one-two punch. These tumultuous events are bound to have far-reaching consequences. Are we perhaps witnessing a regime change, from a low- to a high-inflation regime? Is the global economy flirting with stagflation? And are we seeing signs of an end to the post-World War II globalisation era? Meanwhile, the crypto universe is in turmoil, reminding us that there are important developments in the monetary system that we cannot neglect. On the macro front, policy is facing daunting challenges. In some ways, they are not new; but in others, they are unique. As Mark Twain quipped, "History does not repeat itself, but it often rhymes." The world economy experienced stagflation in the 1970s, following a shift away from a low-inflation regime. The new element is that, against the backdrop of historically low interest rates, debt levels – private and public – have never been as high. This is far from inconsequential. Moreover, the monetary and financial system is in the throes of the digital revolution. This, too, albeit in a different way, is far from immaterial.



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Developments in Financial and Commodity Markets in the Past Week

[CNBC: Gold range-bound as rate hike bets and recession fears collide](#)

Gold prices were hemmed in a tight range on Tuesday as prospects of higher interest rates challenged bullion's safe-haven appeal while recession risks boosted it. Spot gold dipped slightly to \$1,819.94 per ounce. U.S. gold futures fell 0.2% to \$1,821.3.



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[CNBC: Oil dips, snapping three-day win streak as recession fears weigh](#)

Oil prices declined on Wednesday with tight supply worries not enough to outweigh concerns about a weaker global economy.

[Brent crude futures](#) for August settled 1.46% lower at \$116.26. U.S. [West Texas Intermediate \(WTI\) crude futures](#) settled 1.77% lower at \$109.78.

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