

Leading Indicators

Key economic and financial metrics, updated weekly

1st August 2023

Another BoE rate hike expected, yet the peak is in sight

+25-50bps

Economist expectations vary for the BoE base rate decision on 3rd August 2023

+5.3%

Eurozone CPI Inflation rate, July 2023

c.40%

Discount at which UK carbon prices are trading compared to its EU counterpart

IS THE PEAK IN SIGHT?

Later this week, the Bank of England (BoE) will make its interest rate decision, with economists expecting an additional rate hike varying between 25 and 50bps, while money markets are predicting 25bps, lifting from its current rate of 5%. Meanwhile, both the US Federal Reserve (Fed) and European Central Bank (ECB) raised borrowing costs by a quarter-point last week, with rates reaching 5.25-5.50% and 4.25%, respectively. Although there was a downward surprise in the UK's latest CPI data, strong pay growth and a still tight labour market means we may see further tightening. However, indications are that the peak could be in sight, with money markets pricing in a peak of 5.75% by November and economists expecting UK rates to top out by Q3/Q4 this year between 5.50-5.75%. Despite higher interest rates, the UK remains relatively attractive globally, remaining second after the US as a destination for cross-border real estate capital this year, albeit on soft global volumes.

EUROZONE CORE INFLATION REMAINS STICKY

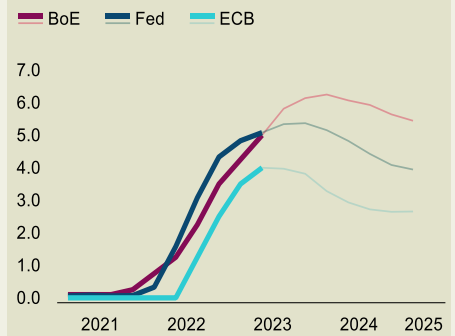
Eurozone headline inflation has moderated to 5.3%, according to preliminary figures, driven by lower food and energy inflation, although core inflation is holding steady at 5.5%. At the country level we continue to see inflation divergence across the bloc; Spain's inflation has moved back to just above the 2% target, while German inflation sits higher at 6.2%, albeit down from 6.4% in June. This divergence is also reflected in economic growth. While France and Spain saw sustained GDP growth rates in Q2, Germany's economy stagnated, and Italy experienced a contraction. The overall Eurozone growth outlook for 2023 is positive at 0.6%, a revision upwards from 0.4% in February, according to Oxford Economics.

REFORMS TO THE UK'S CARBON TRADING SCHEME

The UK's carbon trading scheme has been reformed contributing to a discount between UK carbon prices (£47 a tonne) compared to its European counterpart (£75.86 or €88.50 a tonne). Other carbon-related policy changes have also been announced, ranging from Scottish carbon capture to the granting of new North Sea oil and gas licences. The residential sector has also seen a delay to anticipated energy efficiency targets. Despite the mixed picture, policy is not the only driver of sustainability measures. For example, between 2017 and 2022, the US voluntary Taskforce for Climate-related Financial Disclosures (TCFD) saw the AUM of firms signed up increase from \$25tn to \$200tn.

Rates to peak this year in the UK?

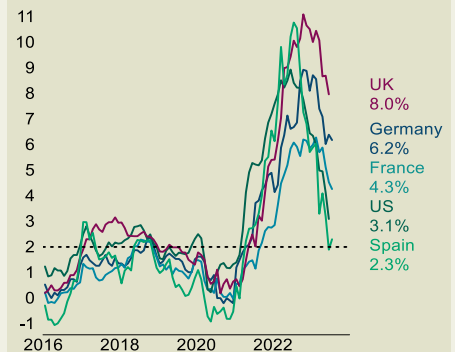
Market expectations of central bank base rate futures, %



Source: Knight Frank Research, Macrobond

Divergence in inflation continues

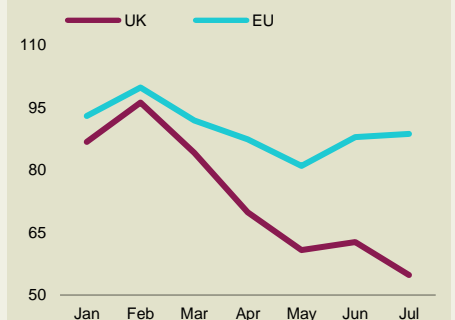
CPI Inflation, YoY % change



Sources: Knight Frank Research, Macrobond

UK carbon prices are trading at a steep discount compared to the EU

€ per tonne, 2023



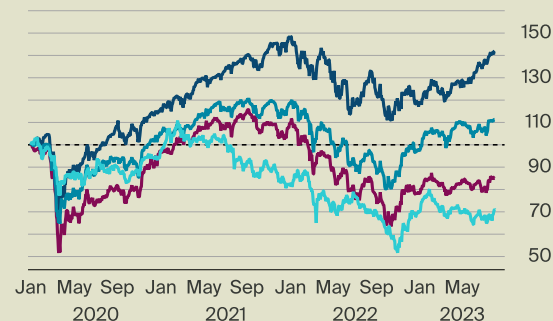
Source: Knight Frank Research, Financial Times

Equities

Equity markets

Price return index, Jan 2020 = 100, US\$

— FTSE 250 — S&P 500 — STOXX 600 — Hang Seng



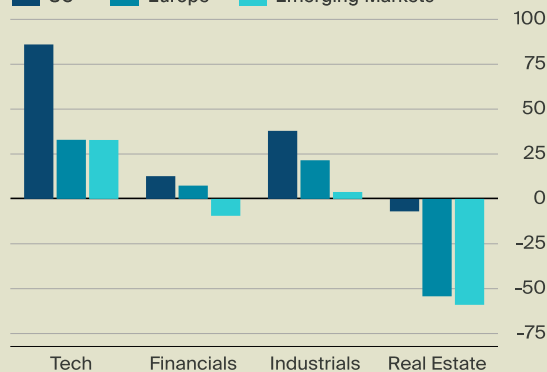
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	7,175	0.5	0.9	4.4	8.4
FTSE 250	24,625	-0.6	-0.1	6.8	-15.0
Hang Seng	2,566	0.5	7.4	6.2	-29.1
IBEX 35	10,629	-0.3	-0.1	2.6	-0.8
MIB	32,681	0.5	1.9	7.5	24.1
S&P 500	4,589	1.1	1.2	4.4	42.0
STOXX 600	520	0.2	0.5	4.5	11.3
TOPIX	16	0.8	1.8	3.6	4.2

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



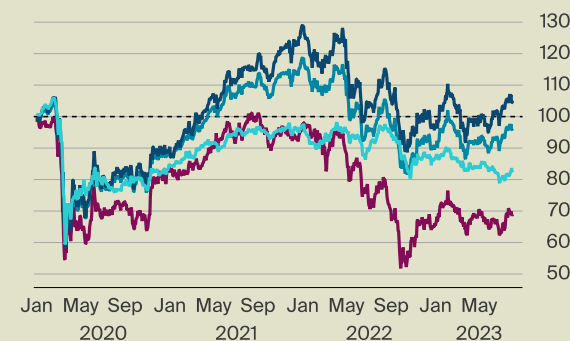
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	86.0%	32.9%	32.8%
Financials	12.7%	7.4%	-9.4%
Industrials	37.9%	21.5%	3.9%
Real Estate	-6.9%	-54.2%	-59.0%

REITs by region

EPRA/NAREIT total return index, Jan 2020 = 100, US\$

— World — Europe — US — Asia Pacific



Source: Knight Frank, Macrobond

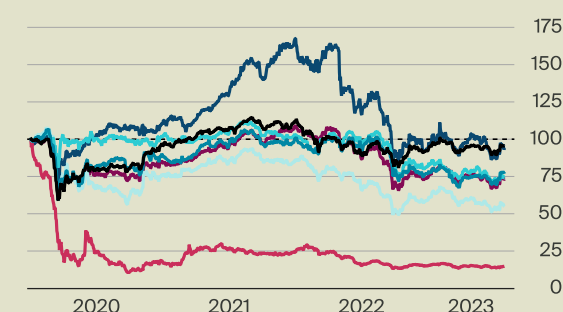
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,512	0.7	-1.3	3.4	5.1
Europe	1,964	-0.3	-1.7	9.4	-31.1
World	3,089	0.3	-0.9	4.0	-3.8
Asia Pacific	3,231	-1.6	1.5	2.5	-17.7

UK REITs by sector

UK EPRA gross total return index, Jan 2020 = 100, GBP£

— All REITs — Office — Industrial — Retail — Healthcare

— Residential — FTSE 250



Source: Knight Frank, Macrobond

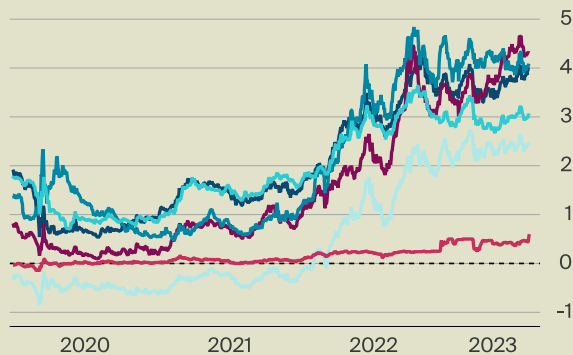
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	748	-1.0	-1.9	8.0	-26.9
Office	1,624	-2.6	-4.0	3.8	-45.2
Industrial	1,165	-1.2	-2.6	7.8	-6.0
Retail	53	-0.3	1.6	6.4	-85.3
Healthcare	1,678	-1.5	-3.9	3.2	-26.0
Residential	1,192	0.4	0.6	11.6	-21.9
FTSE 250	16,255	-0.7	-0.3	5.0	-4.6

Bonds & Rates

Government bond yields

10 year government bond yields, %

— US — UK — Germany — Italy — Japan — Singapore



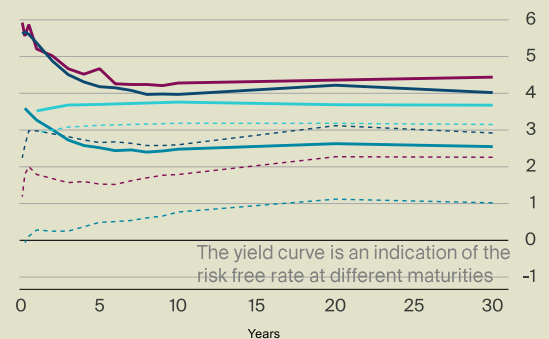
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.09	4.09	4.01	4.00	1.40
Japan	0.60	0.54	0.45	0.41	-0.03
Singapore	3.03	3.05	2.98	3.08	1.74
UK	4.31	4.31	4.27	4.39	0.82
US	3.97	3.97	3.91	3.81	1.92

Yield curves

Latest nominal yield curves vs one year ago, %

Today — US — UK — Germany — S. Korea — One year ago ...US ...UK ...Germany ...S. Korea

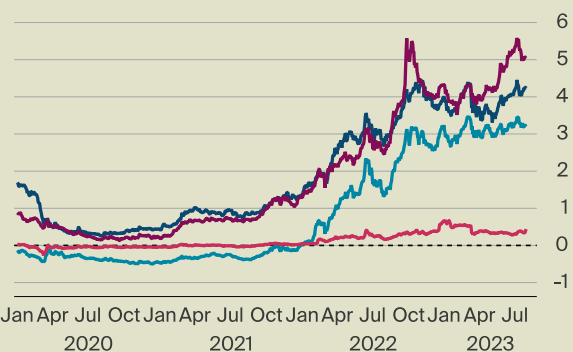


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



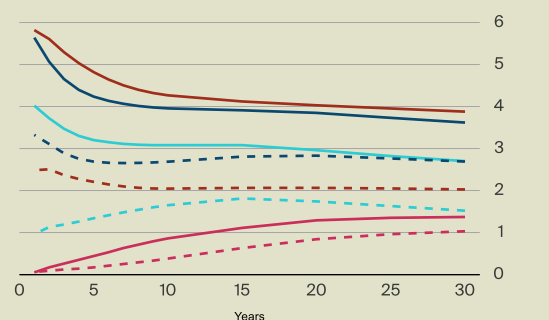
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.20	3.22	3.19	3.26	-0.13
Japan	0.44	0.40	0.34	0.31	0.03
Singapore	3.66	n/a	n/a	3.53	1.50
UK	5.04	5.05	5.00	5.31	0.88
US	4.24	4.26	4.16	4.17	1.70

Swap curves

Latest swap curves vs one year ago, %

Today — US — UK — Euro Area — Japan — One year ago ...US ...UK ...Euro Area ...Japan



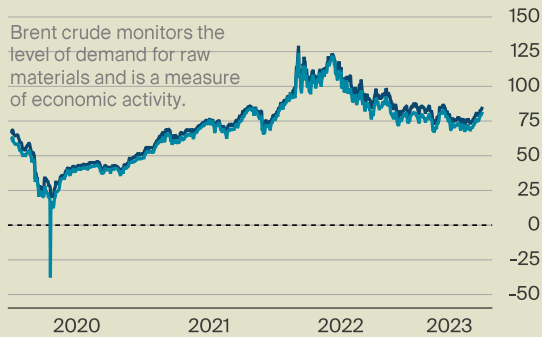
Source: Knight Frank, Macrobond

Commodities & Volatility

Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	85.2	85.2	82.9	75.1	66.0
WTI, \$ per barrel	81.7	81.7	79.6	70.6	61.1

Baltic dry index

Baltic Exchange, Shipping Dry index (BDI), US\$

— Baltic dry index



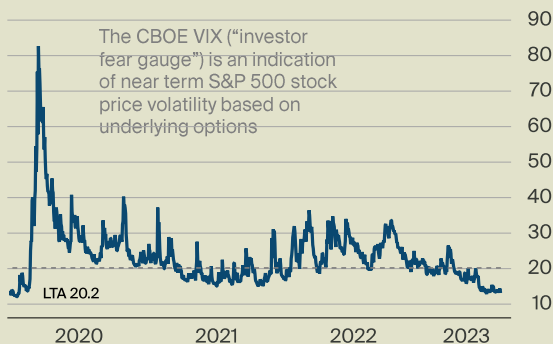
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1150	3.6	19.5	5.41	5.5

Volatility index

Near term stock price volatility indicator

— CBOE Volatility Index (VIX) --- Long term average



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	13.6	13.6	13.9	13.6	13.8
Euro Stoxx 50 VIX	16.2	16.2	15.5	13.6	14.0
Nikkei VIX	18.0	18.3	19.2	19.1	14.8
KOSPI VIX	14.1	14.2	14.1	12.6	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



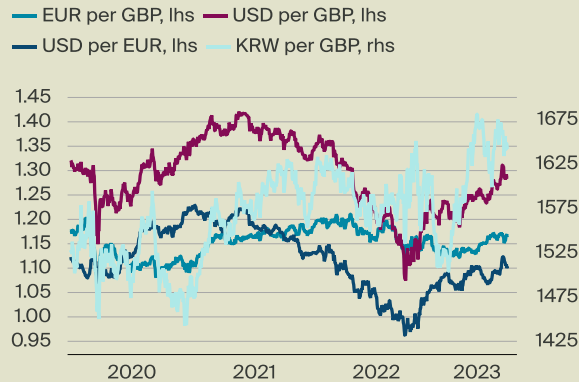
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.178	0.223	0.307	0.023
Equity markets stress sub index	0.068	0.051	0.109	0.009
Bond markets stress sub index	0.074	0.080	0.096	0.02
FX markets stress sub index	0.054	0.019	0.038	0.004

Currencies & Monetary Policy

Currencies

Spot prices



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.167	1.166	1.157	1.165	1.177
KOR per GBP	1,642	1,642	1,640	1,675	1,525
USD per GBP	1.286	1.286	1.282	1.271	1.321
USD per EUR	1.104	1.104	1.108	1.092	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	1.36	1.39	1.32	1.25	2.32
USD to GBP	-0.72	-0.69	-0.71	-1.10	1.12

Inflation and monetary policy

Inflation rate (%)

	July	June	May	Apr
Australia	n/a	6.1	6.1	6.1
Canada	n/a	2.8	3.4	4.4
China	n/a	0.1	0.3	0.3
Euro Area	5.3	5.5	6.1	7.0
France	4.3	4.5	5.1	5.9
Germany	6.2	6.4	6.0	7.1
India	n/a	4.8	4.3	4.7
Italy	6.0	6.4	7.6	8.2
Japan	n/a	3.3	3.2	3.5
Saudi Arabia	n/a	2.7	2.8	2.7
South Korea	n/a	2.7	3.3	3.7
Spain	n/a	1.9	3.2	4.0
Sweden	n/a	9.3	9.7	10.5
UK	n/a	7.9	8.7	8.7
US	n/a	3.1	4.1	5.0

1. Australia Inflation rate is only available on a quarterly basis.

Interest rates (%)

	Last	Jan '21
	4.10	0.10
	5.00	0.25
	4.35	4.35
	4.00	0.00
	4.00	0.00
	4.00	0.00
	6.50	4.00
	4.00	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.00	0.00
	3.75	0.00
	5.00	0.10
	5.50	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.40 tn	-1.4
	270 bn	-2.5
	5.77 tn	2.8
	7.94 tn	-2.3
	1.83 tn	-6.0
	2.83 tn	-4.5
	360 bn	2.6
	1.43 tn	-10.0
	5.24 tn	-0.1
	489 bn	-2.1
	411 bn	-2.1
	487 bn	-5.3
	134 bn	0.8
	1.38 tn	-0.5
	8.24 tn	-1.2

Source: Knight Frank, Macrobond



Active Capital 2022/2023

Our flagship capital markets research programme, Active Capital, will guide you through the complexities and challenges of global real estate, whilst highlighting the opportunities that lie ahead over the next 18 months.

[Watch the launch](#)



(Y)OURSACE 2023

Knight Frank | Cresa's research indicates that corporate real estate leaders are increasingly challenged by managing complexity across their business, with real estate playing a critical strategic role in supporting business transformation. (Y)OUR SPACE investigates how the future of the workplace is likely to unfold over the next three years.

[View Report](#)

Recent research



Quantifying ESG in real estate

This report covers a selection of our recent analytical projects, as well as practical applications and considerations for clients. It offers clear messages that we hope will inform decision-makers as they make decisions against a rapidly evolving backdrop. We also hope the ideas will spark debate and unlock new areas of investigation.



Retail Property Market Outlook 2023

The 2023 Retail market outlook discusses predictions for the Retail market, providing in-depth commentary on retail sub-sectors and occupier activity amidst economic distress.

We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



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