

United States: a long last mile in a resilient economy

January's figures for US inflation, including a bump in the services ex-rents component, suggest price pressures are still too hot for comfort for the Federal Reserve (Fed). What is more, January's activity and jobs figures show the economy is still in good shape. All of which confirms our scenario of a soft landing for both the economy and inflation and a gradual rate cuts cycle.

Services buck the trend on inflation. January's inflation figures broke with the recent string of positive surprises, up by 0.3% on the month (rather than the 0.2% consensus estimate), which put year-over-year inflation at 3.1%. The main culprit was core inflation, up 0.4% on the month compared to 0.3% expected, leaving its year-over-year rate stable at 3.9% (**chart 1**). And the main driver of this was services inflation, which continues to bowl along a pace incompatible with the Fed's 2% target. In part, this was due to housing costs (33% of the CPI) which are still rising faster than their pre-Covid average and will take a while to get back to normal given the way the index is designed. But the sting in the tail was non-rent services inflation, which had been heading toward normal but jumped back to its 2022 average month-on-month pace in January. It is one of the components most closely watched by the Fed, given its rigidity and sensitivity to monetary policy. These US figures do not alter our scenario for inflation, which we still think will continue to ease in 2024 but do confirm this will be a lengthy process.

Economic activity remains resilient. While the pace of disinflation has slowed, the pace of economic activity remains resilient. After ending the year with strong growth (4% in volume), retail sales fell by 0.8% over the month. However, this decline mainly reflects the vagaries of the weather in January. January's various survey and employment data still suggest that economic activity will remain buoyant in the first quarter of 2024. For the year, the US economy should post resilient growth, still underpinned by real growth in household incomes and firm investment growth, given the easing of financial conditions and a still expansionary fiscal policy in 2024.

Rates to fall gradually from late spring. Buoyant activity and January's negative surprise on inflation led markets to reassess their expectations for the Fed's rate cuts (**chart 2**). A March cut was broadly ruled out following the Fed January meeting and the chance of a rate cut at the May meeting was since significantly scaled back. Similarly, money markets had been expecting 6 cuts in 2024 but following January's data trimmed this back to 4, closer to our scenario of rate cuts starting in late Q2. In a scenario of persistently strong growth, with gradual disinflation of service prices and after two years of inflation above its 2% target, we think the Fed will keep its policy rate at 5.5% for the next few months and tread cautiously when it comes to starting its rate-cutting cycle.



Chart 1: Inflation in the United States (CPI; yoy)

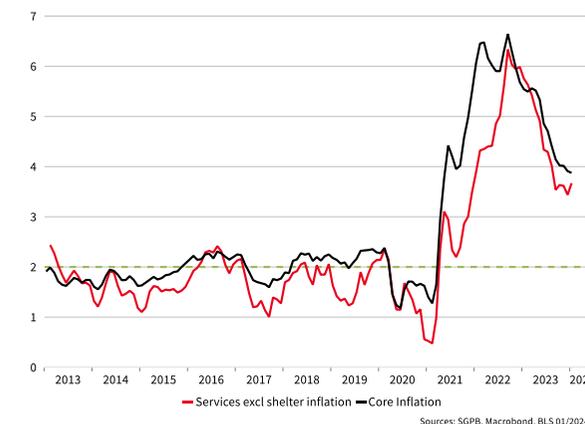
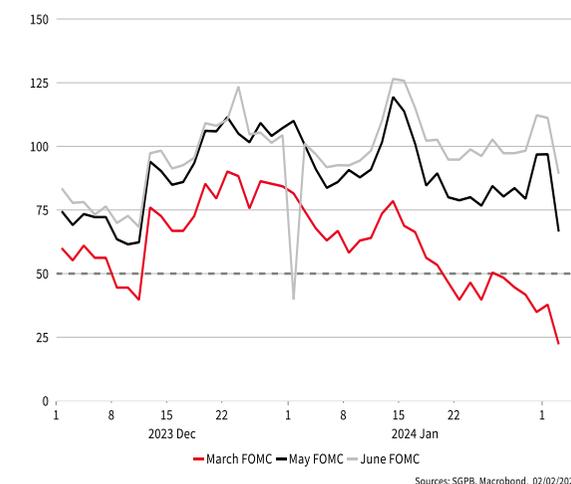


Chart 2: Fed: Implied probability of a 25pb rate cut at each meeting



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 16/02/2024, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

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Events of the week



Activity and inflation data show a UK economy close to stagflation. On the one hand, Q4-23 GDP contracted by 0.3% quarter-on-quarter (versus -0.1% expected by consensus), essentially reflecting weak household consumption. With GDP having contracted in Q3-23, the British economy is now in technical recession. On the other hand, inflation continues to only slow gradually, with headline and core inflation stable at 4% and 5.1% on a year-over-year basis in January. All in all, while these figures complicate the Bank of England's task, it is likely to maintain its key rate at 5.25% over the next few meetings, with the emphasis on keeping inflation under control. We expect the Bank of England's rate-cutting cycle to come into the second half of the year.



Unlike in the major developed economies, inflation in Switzerland is already below the Swiss National Bank's target. Indeed, disinflation has continued more rapidly than consensus expected, with total and core inflation for January coming in at 1.3% year-on-year. With this pleasant surprise, the Swiss Central Bank may be in a position to be amongst the first of the developed economies' central banks to cut rates this year.

Figures of the week				
Country	Data	Actual	Last	Forecast
Euro Zone	ZEW Economic Sentiment Index FEB	25	22,7	20,1
Euro Zone	GDP Growth Rate YoY 2nd Est Q4	0,10%	0,0%	0,10%
Euro Zone	Industrial Production MoM DEC	2,60%	0,4% [®]	-0,20%
France	Unemployment Rate Q4	7,50%	7,5% [®]	7,40%
Japan	GDP Growth Annualized Prel Q4	-0,40%	-3,3% [®]	1,40%
Switzerland	Inflation Rate YoY JAN	1,30%	1,70%	1,70%
United Kingdom	Unemployment Rate DEC	3,80%	3,90%	0,04
United Kingdom	Inflation Rate YoY JAN	0,04	0,04	4,20%
United Kingdom	Core Inflation Rate YoY JAN	5,10%	5,10%	5,20%
United Kingdom	GDP Growth Rate YoY Prel Q4	-0,20%	0,2% [®]	0,10%
United Kingdom	Industrial Production MoM DEC	0,60%	0,5% [®]	-0,10%
United Kingdom	Retail Sales MoM JAN	3,40%	-3,3% [®]	1,50%
United States	Monthly Budget Statement JAN	\$-22B	\$-129B	\$-21B
United States	Core Inflation Rate YoY JAN	3,90%	3,90%	3,70%
United States	Inflation Rate YoY JAN	3,10%	3,40%	2,90%
United States	CPI JAN	308 417	306 746	307 986
United States	Retail Sales MoM JAN	-0,80%	0,4% [®]	-0,10%
United States	Industrial Production MoM JAN	-0,10%	0% [®]	0,30%
United States	PPI MoM JAN	0,30%	-0,10%	0,10%

Source: Macrobond, 16th February 2024

Color in the 'Actual' column corresponds to the difference from the forecast



Key events next week

Monday	
Spain	Balance of Trade DEC
United States	Markets closed for president day
Tuesday	
Euro Area	ECB negotiated wage growth indicator
Euro Area	New car registration JAN
Wednesday	
Japan	Balance of Trade JAN
United States	FOMC minutes
United Kingdom	CBI Industrial Trends Orders FEB
Euro Area	Consumer Confidence Flash FEB
Thursday	
Euro Area	ECB minutes
G20	Finance ministers meeting
Japan	Jibun Bank PMI Flash FEB
France	HCOB PMI Flash FEB
Germany	HCOB PMI Flash FEB
Euro Area	HCOB PMI Flash FEB
United Kingdom	HCOB PMI Flash FEB
United States	NVIDIA reports earnings Q4
Friday	
United Kingdom	Gfk Consumer Confidence FEB
Germany	IFO Business Climate FEB
Euro Area	Consumer Inflation Expectations JAN

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,91	3,90	1,91	2,41
USD SOFR O/N	5,30	5,31	5,32	4,30	4,55
JPY TONAR O/N	-0,01	-0,01	-0,01	-0,02	-0,03
GBP SONIA O/N	5,19	5,19	5,19	3,43	3,93
CHF O/N	1,59	1,64	1,70	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,83	2,80	3,18	2,98	2,93
10Y Bund	2,34	2,29	2,62	2,44	2,47
10Y BTP	3,85	3,86	4,36	4,55	4,21
10Y JGB	0,72	0,71	0,85	0,41	0,50
10Y Bonos	3,27	3,27	3,65	3,51	3,43
10Y Swiss	0,86	0,88	1,00	1,57	1,38
10Y Gilt	4,12	4,03	4,28	3,66	3,58
10Y USNote	4,27	4,09	4,53	3,88	3,81

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,07	2,98	3,35	3,12	3,23
EUR Corporate Baa	3,99	3,92	4,51	4,65	4,31
GBP Corporate Baa	4,78	4,71	4,90	4,59	4,36
USD Corporate Aaa	4,81	4,66	5,13	4,62	4,57
USD Corporate Baa	5,61	5,46	6,21	5,70	5,57
USD EM aggregate	7,32	7,21	7,98	7,52	7,37

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	81,13	2,3%	0,1%	-5,6%	-4,9%
Or, USD/oz	1 992	-2,1%	1,7%	9,1%	8,5%
Copper, USD/metric ton	8 234	-1,9%	-0,4%	-2,0%	-7,1%
Platinum, USD/oz	881	-1,8%	-1,1%	-17,3%	-5,0%
Palladium, USD/oz	875	-6,6%	-14,6%	-51,1%	-40,7%
Silver, USD/oz	22,09	-0,9%	-5,7%	-7,8%	2,9%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	-0,6%	-1,4%	0,3%	0,1%
EUR/CHF	0,95	1,3%	-1,3%	-3,7%	-3,8%
USD/GBP	0,80	0,6%	-0,8%	-4,0%	-4,4%
USD/JPY	150,55	1,8%	-0,2%	15,1%	12,1%
USD/BRL	4,97	0,2%	2,2%	-6,9%	-5,0%
USD/CNY	7,18	0,9%	-0,9%	4,1%	4,8%
USD/RUB	91,65	1,2%	2,8%	25,5%	22,8%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-0,5%	6,5%	8,4%	4,8%
Euro area	0,6%	9,1%	22,1%	10,0%
Germany	0,1%	7,6%	20,4%	9,3%
France	0,9%	6,5%	16,4%	5,2%
United Kingdom	-0,8%	1,1%	1,6%	-5,4%
Switzerland	0,0%	4,7%	4,5%	-0,5%
United States	0,1%	11,1%	30,2%	20,6%
Japan	1,4%	8,9%	36,6%	30,0%
Brazil	-2,3%	3,1%	19,4%	15,9%
Hong Kong	-1,3%	-12,2%	-19,7%	-23,7%
India	-0,5%	9,4%	17,4%	17,2%

Source : Bloomberg, au 16/02/2024. -1S = variation sur 1 semaine, -3M = variation sur 3 mois, -12M= variation sur 12 mois, Début d'année = variation depuis le début de l'année. Actions ; rendement total en devise locale. Obligations souveraines = rendement à 10 ans. Les chiffres sont arrondis.

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