

Central banks fueled pivot expectations and an end-of-year market rally

The main central banks met this week. Although they did not change their key rates, the European Central Bank (ECB) and especially the Federal Reserve System (Fed) took a more dovish stance. Markets' rate cuts expectations for 2024 have increased, helping a sharp recovery in major equity and bond markets.

A clear pivot in the Fed's communication. Unsurprisingly, the Fed left rates at 5.25-5.5%, unchanged from late July, but surprised markets with a more dovish stance. At the press conference, Jerome Powell did not refute the markets' rate cut expectations for the coming year. In addition, the Fed revised its forecasts for 2024, still projecting a positive growth scenario, but with core inflation revised down slightly and, more importantly, the "dot-plot" – a visual representation of members' rate expectations over the coming years – indicating up to 75 basis points rate cuts in 2024. Markets have adjusted their expectations and are now foreseeing the first rate cut in March and up to 150 basis points of cuts for the year as a whole.

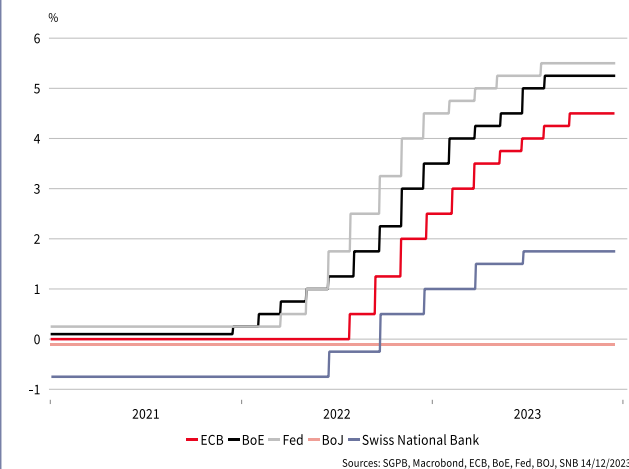
The ECB is softening its stance, but only slightly. The ECB keeps its refinancing rate at 4.5%, unchanged since mid-September but decided to move forward by six months one of the ways in which it will reduce its balance sheet. This may seem a restrictive move, but it only represents a relatively small part of its balance sheet policy. The tone of the press conference changed but was clearly much less dovish than the Fed's. Christine Lagarde did not mention as explicitly as before that the ECB has no intention of cutting rates in the next two quarters. At the same time, the bank's new forecasts assume that inflation will continue to moderate in 2024, although they do not yet take into account the November inflation figures, which surprised many to the downside. Markets now expect the ECB to cut rates by up to 100 basis points in 2024.

The Bank of England (BoE) stands out for its less dovish stance. The BoE left its rate unchanged at 5.25%, unchanged since early August. On the other hand, it maintained a rather hawkish stance, as several members of the monetary policy committee still voted for another increase (3 to 6 for stability). The committee also continues to "assess that monetary policy will need to remain restrictive for an extended period of time." The market expects up to 75 basis points of cuts in 2024.

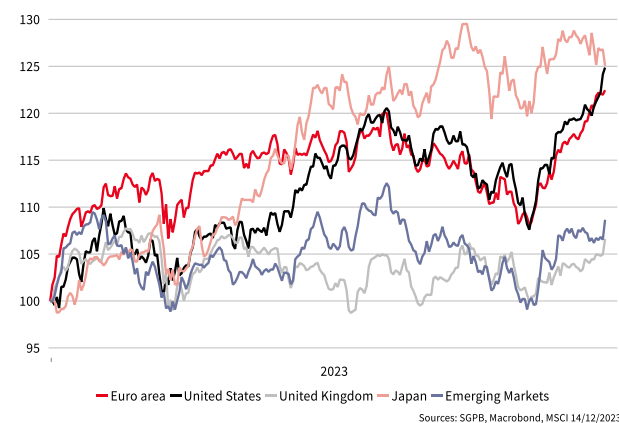
Markets expect faster and deeper key rate cuts. 10-year government bond yields have dropped by nearly 100 basis points from their peak in mid-October to 3.9% in the United States, 3.8% in the United Kingdom and 2.6% in France. Against this backdrop, markets rallied further, both on the equity and (public and private) bond fronts. We can certainly welcome this rebound, which reinforces the good performance of our allocation since the beginning of the year. However, we must remain vigilant regarding potential inflation surprises that may continue to generate interest rate volatility in the early months of 2024.



Policy rates of main central banks



Equity Market Performances (100=01/01/2023)



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

All data taken from Bloomberg and Macrobond on the 15/12/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

OUR MACRO COMMENTS

Events of the week



The US consumer price index came in line with the consensus, at 0,1% month-on-month for the headline and 0,3% for the core. This gives a 3,1% year-over-year for the headline and 4% for the core. Lower energy prices as well as lower prices for durable goods, including used cars, are contributing to lower inflation. The weak spot of the inflation report is the reacceleration of the shelter component and some other services. The producer price index rose by just 2% year-over-year in November. These two indicators suggest that the private consumption deflator (a measure targeted by the Fed) is close to 2%.



The PMI survey (HCOB) remained disappointing in the euro area, with a composite index of 47 for December, against 48 expected. As a reminder, a figure above 50 corresponds to an expansion, and below 50 corresponds to a contraction. This is the seventh consecutive month of activity contraction according to this survey. This is mainly due to the manufacturing sector, with a PMI index for the sector at 44.2 – weakness confirmed by industrial production data (decrease of 0.7% month-on-month in October after -1%, or -6.6% year-over-year). The services sector also contracted, but proved more resilient, with an index at 48.1. At the national level, the French figures are at the lowest since the end of 2020 with an index at 43.7, and Germany is holding up slightly better, with a PMI at 46.7.

Figures of the week



Inflation (November, YoY)
Core inflation (November, YoY)
Retail sales (November, MoM)



Industrial production (November, YoY)
Retail sales (November, YoY)



Zew Economic sentiment index (December)
HCOB Composite (December, PMI)
Industrial production (October, MoM)



HCOB Composite (December, PMI)

	Actual	Forecast	Last
Inflation (November, YoY)	3.1% →*	3.1%	-3.2%
Core inflation (November, YoY)	4% →	4%	4%
Retail sales (November, MoM)	-0.1% →	-0.1%	-0.1%
Industrial production (November, YoY)	6.6% ↑	5.6%	4.6%
Retail sales (November, YoY)	10.1% ↓	12.5%	7.6%
Zew Economic sentiment index (December)	23 ↑	11.2	13.8
HCOB Composite (December, PMI)	47 ↓	48	47.6
Industrial production (October, MoM)	-0.7% ↓	-0.3%	-1%
HCOB Composite (December, PMI)	43,7 ↓	45	44.6

Sources : Macrobond, December 15th 2023.
*Arrows represent variation from consensus

The week ahead

Monday



Ifo Business climate (December)

Tuesday



BoJ Interest rate decision

Wednesday



Inflation (November)



Consumer confidence (January)



Current Account (2023 Q3)

Thursday



Business Confidence (December)

Friday



Inflation (November)



Retail Sales (November)
Current Account (2023 Q3)



Consumer Confidence (December)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,90	3,65	1,91	1,40
USD SOFR O/N	5,31	5,32	5,30	4,30	3,80
JPY TONAR O/N	-0,01	-0,01	-0,02	-0,02	-0,07
GBP SONIA O/N	5,19	5,19	5,19	3,43	2,93
CHF O/N	1,66	1,65	1,83	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,71	2,75	3,20	2,98	2,41
10Y Bund	2,17	2,20	2,65	2,44	1,93
10Y BTP	3,88	3,89	4,45	4,55	3,85
10Y JGB	0,74	0,67	0,70	0,41	0,25
10Y Bonos	3,17	3,20	3,72	3,51	2,95
10Y Swiss	0,66	0,69	1,09	1,57	1,16
10Y Gilt	3,91	4,04	4,35	3,66	3,33
10Y USTnote	4,04	4,12	4,25	3,88	3,49

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,92	2,91	3,55	3,12	2,66
EUR Corporate Baa	4,06	4,07	4,67	4,65	4,07
GBP Corporate Baa	4,65	4,76	5,28	4,59	4,34
USD Corporate Aaa	4,56	4,67	4,95	4,62	4,25
USD Corporate Baa	5,49	5,67	6,03	5,70	5,36
USD EM aggregate	7,35	7,42	7,75	7,52	7,30

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	74,56	0,5%	-19,1%	-13,3%	-9,9%
Or, USD/oz	2 027	0,1%	6,2%	11,0%	12,2%
Copper, USD/metric ton	8 300	-1,0%	-0,8%	-1,2%	-1,8%
Platinum, USD/oz	931	3,3%	2,8%	-12,6%	-10,3%
Palladium, USD/oz	976	3,4%	-20,8%	-45,4%	-49,4%
Silver, USD/oz	22,73	-5,7%	-0,8%	-5,1%	-3,7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	0,1%	0,5%	1,0%	1,3%
EUR/CHF	0,95	0,3%	-1,3%	-4,2%	-3,9%
USD/GBP	0,80	0,6%	-0,3%	-3,9%	-1,0%
USD/JPY	145,17	-1,3%	-1,6%	11,0%	7,6%
USD/BRL	4,96	1,3%	1,0%	-7,1%	-6,8%
USD/CNY	7,17	0,4%	-1,4%	4,0%	3,2%
USD/RUB	90,09	-3,0%	-6,3%	23,4%	39,1%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	2,2%	2,8%	5,5%	3,8%
Euro area	1,0%	7,3%	17,5%	14,0%
Germany	0,7%	7,1%	19,2%	15,9%
France	1,3%	4,3%	14,2%	11,9%
United Kingdom	0,4%	0,3%	1,3%	0,7%
Switzerland	1,7%	1,9%	4,3%	0,3%
United States	3,5%	5,4%	22,6%	17,8%
Japan	-1,4%	-1,0%	24,5%	19,1%
Brazil	3,1%	9,6%	21,7%	24,8%
Hong Kong	-1,4%	-9,9%	-18,0%	-17,5%
India	-0,1%	3,1%	13,8%	11,0%
China	-0,9%	-9,8%	-13,0%	-14,8%

Source: Bloomberg, on December 14th, 2023.

-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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