

A slowdown in the disinflation trend

After months of surprising on the downside inflation now seems to have plateaued in both the United States and Europe and getting back to the 2% target now looks like a long slow haul. In these circumstances, we think central banks will cut rates, but will do so later (in Q2 2024) and slower than markets currently expect.

Fall in inflation marks a pause. Inflation, which had been falling fast through most of 2023, seems to have hit a plateau toward year-end. Headline inflation looks to have stuck at around 3% year-on-year in the United States and euro zone and near 4% in the United Kingdom, leaving all three above their 2% targets. Core inflation has continued to come down but remains high at above 4%. Drill down and we find that in the United States the sticking points are rent and imputed rent. If housing costs are stripped out core inflation is actually below target. In Europe, the stickiness is energy-related, with euro zone governments winding down relief on energy bills and airlines in the UK passing on higher fuel costs to plane tickets.

Many inflationary factors are fading. Stand back, though, and it is clear that many of the factors that drove the inflationary surge in 2021-2023 have largely evaporated. These include the shock of reopening the economy post-Covid amid surplus savings, the jump in gas prices after Russia invaded Ukraine and the bottlenecks that choked the global supply chain. True, supply-chains are again being squeezed in the Panama and Suez canals but the disruption is not comparable to the post-Covid snarl-ups.

Inflation may take time to reach target. As these drivers have evaporated inflation has fallen steeply from a peak of 9% or more to 3-4% in just over a year. But new factors have emerged that could prevent any rapid return to 2%. Labour markets are one. Despite recent signs of easing they remain tight on both shores of the Atlantic. This should sustain a steady rise in wages, the main source of rising production costs for companies. In Europe this effect will be exacerbated by weak productivity gains. What is more, new structural inflationary factors are now coming through, including a weakening of globalisation (pushing up import prices) and policies to combat global warming (pushing up energy prices).

Rates likely to edge down gradually. Markets are expecting rates to come down soon (from March in the Fed's case) and sharply (by 150 bp by end-2024). However, with inflation likely stuck above 2% for some time yet, the economy holding up and labour markets tight, central banks may well opt for caution. There is no recession in prospect so no need to cut rates fast, which means they can afford to wait until they are certain inflation has been squeezed out of the system.



Chart 1: Headline inflation (% yoy change)

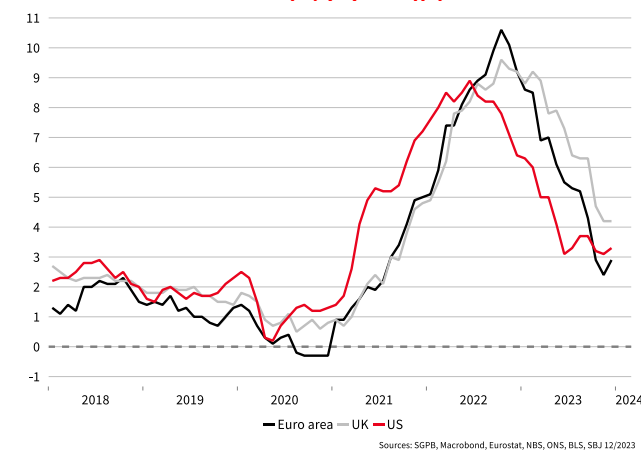
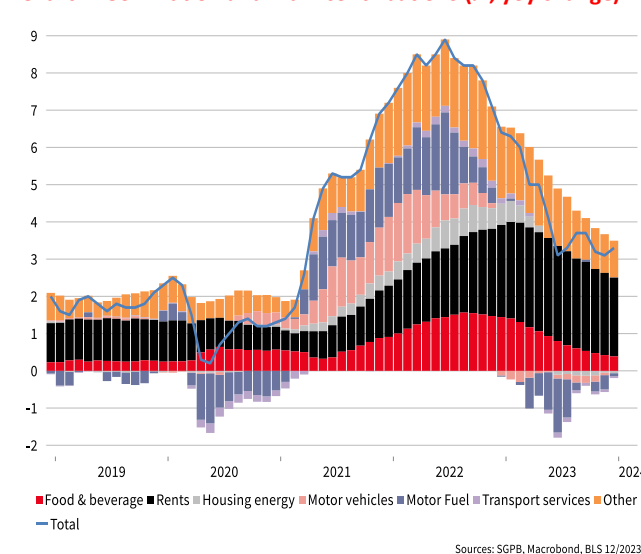


Chart 2: US inflation and main contributions (% yoy change)



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

All data taken from Bloomberg and Macrobond on the 19/01/2024, 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 main financial markets were trending lower on the week following disappointing activity data from China and still restrictive statements from central banks. Indeed, the STOXX600 fell by 0.5%. In the wake of this, European sovereign yields rose again following Lagarde's statements that the key interest rate would remain at its current level over the next few quarters. The U.S. equity market remained stable over the week while sovereign yields also rose. The ongoing strong performance of consumer and labor market data has reduced the likelihood of a Fed rate cut in March.



China's economy continues to disappoint. December price figures show the country flirting with deflation with headline inflation running at 0.3% year-on-year and the underlying reading little better at 0.6%. These numbers reflect a weakness in consumer spending, still well below its pre-Covid trend. Overall, Chinese GDP grew 5.2% in 2023, hitting its official target but still a long way short of the boom rates seen in the 2010s. One of the few bright spots was industrial output, helped by a ramping up of infrastructure investment

Figures of the week

Country	Data	Actual	Last	Forecast
China	GDP Growth Rate YoY Q4	5,2%	4,9%	5,3%
China	Industrial Production YoY DEC	6,8%	6,6%	6,6%
China	Retail Sales YoY DEC	7,4%	10,1%	8,0%
Euro area	Industrial Production MoM NOV	-0,3%	-0,7%	-0,3%
Germany	Full Year GDP Growth 2023	-0,3%	1,8% [®]	-0,3%
Japan	Core Inflation Rate YoY DEC	2,3%	2,5%	2,3%
United Kingdom	Unemployment Rate NOV	4,2%	4,2%	4,2%
United Kingdom	Employment Change OCT	73K	55K [®]	50K
United Kingdom	Inflation Rate YoY DEC	4,0%	3,9%	3,8%
United Kingdom	Retail Sales YoY DEC	-2,4%	0,2% [®]	1,1%
United-States	Retail Sales MoM DEC	0,6%	0,3%	0,4%
United-States	Industrial Production MoM DEC	0,1%	0% [®]	0,0%

The Week Ahead

Tuesday	
Japan	BoJ Interest Rate Decision
Japan	BoJ Quarterly Outlook Report
Wednesday	
Japan	Balance of Trade DEC
France	HCOB Composite PMI Flash JAN
Germany	HCOB Composite PMI Flash JAN
Euro Zone	HCOB Composite PMI Flash JAN
United Kingdom	S&P Global Composite PMI Flash JAN
Thursday	
France	Business Confidence JAN
Germany	Ifo Business Climate JAN
Euro Zone	Deposit Facility Rate
Euro Zone	ECB Interest Rate Decision
United States	Durable Goods Orders MoM DEC
United States	GDP Growth Rate QoQ Adv Q4
Friday	
Japan	BoJ Monetary Policy Meeting Minutes
United Kingdom	Gfk Consumer Confidence JAN
Germany	GfK Consumer Confidence FEB
France	Consumer Confidence JAN
Spain	Unemployment Rate Q4

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,90	3,91	3,90	1,91	1,90
USD SOFR O/N	5,32	5,31	5,30	4,30	4,30
JPY TONAR O/N	-0,01	-0,02	-0,01	-0,02	-0,01
GBP SONIA O/N	5,19	5,19	5,19	3,43	3,43
CHFO/N	1,65	1,66	1,71	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,82	2,74	3,51	2,98	2,42
10Y Bund	2,28	2,20	2,93	2,44	1,96
10Y BTP	3,92	3,83	4,99	4,55	3,71
10Y JGB	0,59	0,61	0,78	0,41	0,50
10Y Bonos	3,25	3,16	4,06	3,51	2,93
10Y Swiss	0,83	0,80	1,13	1,57	1,08
10Y Gilt	4,04	3,88	4,67	3,66	3,29
10Y USTnote	4,10	4,04	4,91	3,88	3,37

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,06	2,98	3,83	3,12	2,79
EUR Corporate Baa	4,03	3,98	4,91	4,65	4,04
GBP Corporate Baa	4,76	4,59	5,51	4,59	4,21
USD Corporate Aaa	4,62	4,59	5,53	4,62	4,16
USD Corporate Baa	5,45	5,42	6,63	5,70	5,14
USD EM aggregate	7,27	7,24	8,44	7,52	6,98

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	78,05	1,9%	-14,5%	-9,2%	-7,7%
Or, USD/oz	2 006	-0,9%	3,0%	9,9%	5,4%
Copper, USD/metric ton	8 323	-0,8%	3,8%	-0,9%	-11,7%
Platinum, USD/oz	892	-4,9%	-1,8%	-16,2%	-14,6%
Palladium, USD/oz	929	-6,7%	-18,7%	-48,0%	-47,0%
Silver, USD/oz	22,81	-0,7%	-1,7%	-4,8%	-5,7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,09	-0,6%	3,0%	1,8%	0,4%
EUR/CHF	0,94	0,8%	-0,5%	-4,6%	-4,8%
USD/GBP	0,79	0,6%	-4,0%	-4,9%	-2,1%
USD/JPY	148,34	1,9%	-1,0%	13,4%	15,6%
USD/BRL	4,93	0,8%	-2,7%	-7,6%	-3,2%
USD/CNY	7,13	-0,6%	-2,5%	3,4%	5,7%
USD/RUB	87,96	-2,2%	-9,8%	20,5%	27,8%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-1,8%	6,3%	5,9%	3,0%
Euro area	-1,5%	7,2%	14,2%	5,5%
Germany	-1,5%	8,9%	16,8%	8,2%
France	-1,4%	5,1%	11,0%	3,3%
United Kingdom	-2,7%	-1,9%	-0,1%	-4,9%
Switzerland	-0,9%	4,4%	3,9%	-1,9%
United States	-0,9%	9,8%	23,4%	20,6%
Japan	2,1%	8,8%	32,0%	29,0%
Brazil	-1,8%	12,7%	20,8%	14,5%
Hong Kong	-5,1%	-13,8%	-22,8%	-29,5%
India	-0,2%	8,5%	16,9%	17,1%
China	-1,5%	-10,6%	-16,6%	-21,8%

Source : Bloomberg, au 19/01/2024. -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.

IMPORTANT INFORMATION

GENERAL INFORMATION

This document is a marketing communication issued by Société Générale Private Banking which is the business line of the Société Générale Group operating through its headquarters within Société Générale S.A. in France and its network (departments or separate legal entities (branches or subsidiaries) hereinafter the "Entities"), located on the various below-mentioned territories, acting under the brand name "Societe Generale Private Banking" and distributors of the present document.

This material has been prepared solely for informational purposes and has no contractual value.

This material does not constitute an offer of purchase, sale, or subscription in any of the asset classes presented herein, nor a solicitation of such an offer, nor is it an offer of financial services, to participate in any investment strategy. Nothing in this document should be construed as constituting investment advice or personal recommendation to any investor or its agent. Information contained herein is not intended to provide a basis on which to make an investment decision.

Any investment may have tax consequences and Société Générale Private Banking and its Entities do not provide tax advice. The level of taxation depends on individual circumstances and tax levels and bases may change. In addition, this document is not intended to provide accounting, tax or legal advice and should not be relied upon for accounting, tax, or legal purposes. Independent advice should be sought where appropriate.

The accuracy, completeness or relevance of the information provided is not guaranteed although it has been drawn from sources believed to be reliable. The information and opinions expressed in this document were produced as at the date of writing and are subject to change without notice.

This material has not been prepared regarding specific investment objectives, financial situations, or the particular needs of any specific entity or person. Investors should make their own appraisal of the risks and should seek their own financial and legal advice regarding the appropriateness of investing in any asset classes or participating in any investment strategy.

The asset classes presented herein may be subject to restrictions regarding certain persons or in certain countries under national regulations applicable to said persons or in said countries. It is the responsibility of any person in possession of this document to inform themselves and to comply with the legal and regulatory provisions of the relevant jurisdiction. This document is not intended for distribution to any person or in any jurisdiction where such distribution would be restricted or illegal. In particular, it may not be distributed in the United States, nor may it be distributed, directly or indirectly, in the United States or to any US Person.

GENERAL RISKS

Some of the asset classes mentioned may present various risks, imply a potential loss of the entire amount invested or even an unlimited potential loss, and may therefore only be reserved for a certain category of investors, and/or only be suitable for well-informed investors who are eligible for these asset classes. In addition, these asset classes must comply with the Société Générale Group's Code of Tax Conduct.

The price and value of investments and the income derived from them may go down as well as up. Changes in inflation, interest rates and exchange rates may adversely affect the value, price and income of investments denominated in a currency other than that of the client. Any simulations and examples contained in this document are provided for illustrative purposes only. This information is subject to change because of market fluctuations, and the information and opinions contained herein may change. Société Générale Private Banking does not undertake to update or amend this document and will not assume any liability in this regard.

This document is for information purposes only and investors should make their investment decisions without relying on this document. Société Générale Private Banking and its Entities shall not be liable for any direct or indirect loss arising from any use of this document or its contents. Société Générale Private Banking and its Entities do not make any warranty, express or implied, as to the accuracy or completeness of this information or as to the profitability or performance of any asset class, country, or market.

Past performance does not predict future returns. The value of an investment is not guaranteed, and the valuation of investments may fluctuate.

Forecasts of future performance are based on assumptions which may not materialized. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies, and/or current market conditions and are not an exact indicator. What you will get will vary depending on how the market performs and how long you keep the investment/product. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future.

For a more complete definition and description of the risks, please refer to the prospectus of the product or other legal information document as the case may be (as applicable) before making any final investment decisions.

This document is confidential, intended exclusively for the person to whom it is addressed, and may not be communicated or made known to third parties (except for external advisers and provided that they themselves respect confidentiality), nor reproduced in whole or in part, without the prior written agreement of Société Générale Private Banking and its Entities.

IMPORTANT INFORMATION

CONFLICTS OF INTEREST

The Societe Generale Group maintains an effective administrative organization that takes all necessary measures to identify, control and manage conflicts of interest. To this end, Societe Generale Private Banking and its Entities have put in place a conflict of interest policy to prevent conflicts of interest, including information Chinese walls.

This document contains the views of SGPB teams. Société Générale trading desks may trade, or have traded, as principal on the basis of the teams' views and reports. In addition, SGPB teams receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, revenues of their entity of the Société Générale group and competitive factors.

As a general matter, entities within the Société Générale group may make a market or act as a principal trader in securities referred to in this report and can provide banking services to the companies mentioned in that document, and to their subsidiary. Entities within the Société Générale group may from time-to-time deal in, profit from trading on, hold on a principal basis, or act as advisers or brokers or bankers in relation to securities, or derivatives thereof, or asset class(es) mentioned in this document.

Entities within the Société Générale group may be represented on the supervisory board or on the executive board of such persons, firms or entities.

Employees of the Société Générale group, or persons/entities connected to them, may from time to time have positions in or hold any of the investment products/ asset class(es) mentioned in this document.

Société Générale may acquire or liquidate from time-to-time positions in the securities and/or underlying assets (including derivatives thereof) referred to herein, if any, or in any other asset, and therefore any return to prospective investor(s) may directly or indirectly be affected.

Entities within the Société Générale group are under no obligation to disclose or consider this document when advising or dealing with or on behalf of customers.

In addition, Société Générale may issue other reports that are inconsistent with and reach different conclusions from the information presented in this report and is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

Société Générale group maintains and operates effective organisational and administrative arrangements taking all reasonable steps to identify, monitor and manage conflicts of interest. Société Générale Private Banking has put in place a management of conflicts of interest policy designed to prevent conflicts of interest giving rise to a material risk of damage to the interests of its clients. For further information, please refer to the management of conflicts of interest's policy, which was provided.

SPECIFIC INFORMATION PER JURISDICTION

France : Unless expressly stated otherwise, this document is published and distributed by Société Générale, a credit institution providing investment services authorised by and under the prudential supervision of the European Central Bank ("ECB") (located at ECB Tower, Sonnemannstraße 20, 60314 Frankfurt am Main, Germany) within the Single Supervisory Mechanism and supervised by the Autorité de Contrôle Prudentiel et de Résolution (located at 4, Place de Budapest, CS 92459, 75436 Paris Cedex 09) and the Autorité des Marchés Financiers ("AMF") (located at 17 Pl. de la Bourse, 75002 Paris). Société Générale is also registered with the ORIAS as an insurance intermediary under the number 07 022 493 orias.fr.

Société Générale is a French public limited company with a capital of EUR 1.003.724.927,50 as of November 17, 2023, whose registered office is located at 29 boulevard Haussmann, 75009 Paris, and whose unique identification number is 552 120 222 R.C.S. Paris. Further details are available on request or at www.privatebanking.societegenerale.com.

Luxembourg: This document is distributed in Luxembourg by Societe Generale Luxembourg, a credit institution which is authorized and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") under the prudential supervision of the European Central Bank- ECB, and whose head office is located at 11, avenue Emile Reuter – L 2420 Luxembourg. Further details are available on request or can be found at <https://www.societegenerale.lu/>. No investment decision whatsoever may result from solely reading this document. Societe Generale Luxembourg accepts no responsibility for the accuracy or otherwise of information contained in this document. Societe Generale Luxembourg accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and Societe Generale Luxembourg does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of any other person or Societe Generale Luxembourg unless otherwise mentioned. Societe Generale Luxembourg has neither verified nor independently analyzed the information contained in this document. The Commission de Surveillance du Secteur Financier has neither verified nor independently analysed the information contained in this document.

Monaco: The present document is distributed in Monaco by Societe Generale Private Banking (Monaco) S.A.M., located 11 avenue de Grande Bretagne, 98000 Monaco, Principality of Monaco, governed by the 'Autorité de Contrôle Prudentiel et de Résolution' and the 'Commission de Contrôle des Activités Financières'. The financial products marketed in Monaco can be reserved for qualified investors in accordance with the Law No. 1339 of 07/09/2007 and Sovereign Ordinance No 1.285 of 10/09/2007. Further details are available upon request or on www.privatebanking.societegenerale.com.

IMPORTANT INFORMATION

Switzerland: This document is an advertising according to the Financial Services Act (“FinSA”). It is distributed in Switzerland by Societe Generale Private Banking (Suisse) SA (“SGPBS”), whose head office is located rue du Rhône 8, CH-1204 Geneva. SGPBS is a bank authorized by the Swiss Financial Market Supervisory Authority (“FINMA”). Nothing contained herein shall constitute, or shall be deemed to constitute, investment advice or a recommendation by SGPBS. Users are advised to seek professional advice before applying any information contained in this document to their own particular circumstances. SGPBS accepts no responsibility for the accuracy or otherwise of information contained in this document. The financial products, including collective investment schemes and structured products referred to in this document can only be offered in compliance with the FinSA. Further details are available on request or can be found at www.privatebanking.societegenerale.com.

This document is not distributed neither by SG Kleinwort Hambros Bank Limited in the United Kingdom, nor by its branches in Jersey, Guernsey and Gibraltar together operating through the brand name “SG Kleinwort Hambros”. Consequently, the information and potential offers, activities and financial information contained in this document do not apply to these entities and may neither be authorized by these entities or adapted on these territories. Further information on the activities of the private banking entities of Société Générale located in the territories of the United Kingdom, the Channel Islands and Gibraltar, including additional legal and regulatory details can be found at: www.kleinworthambros.com.”