

Central banks: Could the world's monetary policy fall out of sync?



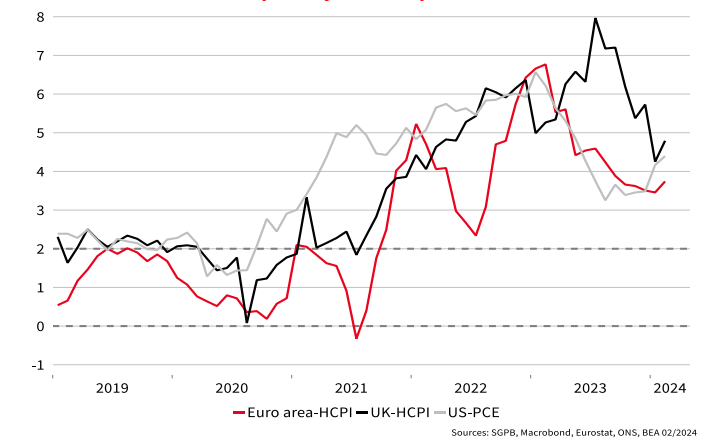
The world's leading central banks are still set to pivot policy in 2024 but latest inflation figures show divergent trends at work either side of the Atlantic. If these trends firm up, it could throw the timing and scale of rate cuts out of sync. These developments, combined with a resurgence of tensions in the Middle East, sent the markets into a tailspin at the end of the week - with a sharp fall for the week as a whole, although this should be put into perspective after a very strong rally in the first quarter.

Inflation surprises push in different directions Inflation has been on the decline all year in all major developed economies. In the euro area, it dropped to 2.4% year-on-year in March from 2.9% in December. In the United States and United Kingdom, it fell to 3.8% and 3.4%, respectively, in February from 3.9% and 4% in December. However, the downtrend has come with some surprises, pointing in different directions either side of the Atlantic. Both the euro area and United Kingdom surprised on the downside. In contrast, US inflation has proven more stubborn than expected and the services component actually rose in recent months. Indicators also show the US economy surprising on the upside, stoking fears that the last mile for inflation could prove a long haul.

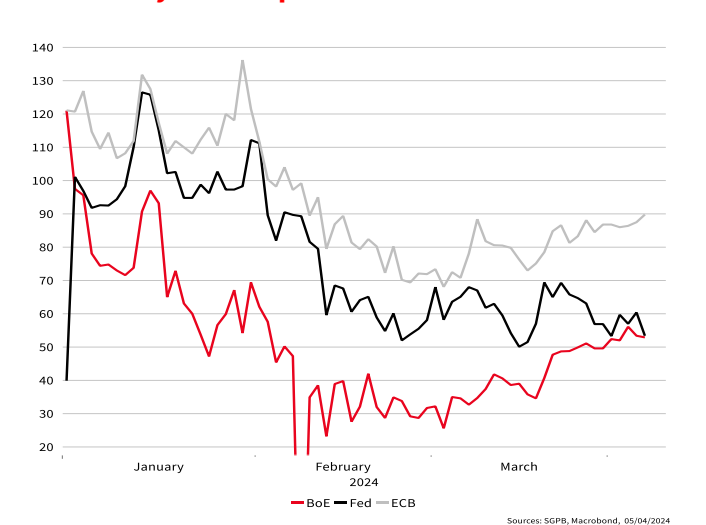
Desynchronisation of timing and scale? Market thinking on central banks' policies has shifted dramatically since the start of the year. Money markets have gone from anticipating sharp rate cuts late last year to a much more gradual easing now, pricing in half the rate cuts by Fed, ECB and BoE than they were at end-2023. But until recently they were still expecting central banks to move in lockstep. For some weeks now, following the divergent inflationary surprises, markets now see a desynchronisation of policy moves. They now expect the ECB to start cutting in June and reduce rates by 75 to 100 bp by year-end, the Bank of England to start cutting in August with a total 75 bp by year-end, and the Fed to time its first move for July and again trim rates 75 bp by year end. The second chart shows the implicit probability in the markets of a 25bp cut in June. While a cut in June is now widely priced in for the ECB (90% probability), expectations for the Fed have fallen (probability of a cut in June down from 70% at the start of March to just 50% today).

Upcoming price and wage news will be critical. We still expect central banks to pivot broadly in tandem, but there is a clear risk they may fall out of sync. Importantly, this would tend to boost the dollar and could prompt a spike in the euro price of oil, which has already been drifting upward recently.

Services Inflation (%ch, 6mma)



Probability of a 25bp rate cut in June



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

All data taken from Bloomberg and Macrobond on the 05/04/2024, 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



In the United States, the ISM indicators for services and manufacturing confirm that activity is holding up well. In the manufacturing sector, the indicator is higher than expected, showing slight growth in activity, reaching 50.3 compared with 48.4 expected. Meanwhile, the services index fell to 51.4 from 52.7 expected, indicating a slight slowdown. However, the fact that both indices are above 50 indicates growth in activity in both sectors, reinforcing the idea that the Fed is under no pressure to normalise its monetary easing policy too quickly.



The US economy created 303,000 jobs in March, against a consensus forecast of 200,000. The unemployment rate fell from 3.9% to 3.8%. However, there were no surprises in terms of wages, which rose by 0.3% over the month as expected and slowed from 4.3% to 4.1% year over year. Inflationary pressures are therefore limited, although the tightness of the labour market continues to surprise.

The week in data

Country	Data	Actual	Last	Forecast
Germany	Inflation Rate YoY Prel MAR	2,20%	2,50%	2,20%
United States	ISM Manufacturing PMI MAR	50,3	47,8	48,4
United States	ISM Services PMI MAR	51,4	52,6	52,7
United States	Non Farm Payrolls MAR	303K	270K	200K
United States	Unemployment Rate MAR	3,80%	3,90%	3,90%
United States	Average Hourly Earnings MoM MAR	0,30%	0,20%	0,30%
United States	Average Hourly Earnings YoY	4,10%	4,30%	4,10%
Switzerland	Inflation Rate YoY MAR	1,00%	1,20%	1,30%
Euro Area	Inflation Rate YoY Flash MAR	2,40%	2,60%	2,60%
Euro Area	Core Inflation Rate YoY Flash MAR	2,90%	3,10%	3,00%
Euro Area	HCOB Services PMI Final MAR	51,5	50,2	51,1
Euro Area	HCOB Composite PMI Final MAR	50,3	49,2	49,9

Source: Macrobond, the 5th apr 2024

Colors in 'Actual' column represent the difference with previsions.

Key events next week

Monday	
Germany	Balance of Trade FEB
Germany	Industrial Production MoM FEB
Tuesday	
France	Balance of Trade FEB
Wednesday	
United States	Core Inflation Rate MAR
United States	Inflation Rate MAR
Thursday	
China	Inflation Rate MoM MAR
Euro Area	ECB Interest Rate Decision
United States	PPI MAR
United States	Core PPI MAR
Friday	
China	Balance of Trade MAR
United Kingdom	GDP MoM FEB
United States	Michigan Consumer Sentiment Prel APR

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,91	3,91	3,90	1,91	2,90
USD SOFR O/N	5,32	5,33	5,39	4,30	4,81
JPY TONAR O/N	0,08	0,08	-0,04	-0,02	-0,01
GBP SONIA O/N	5,20	5,19	5,19	3,43	4,18
CHF O/N	1,41	1,41	1,66	0,80	0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,94	2,78	2,56	2,98	2,68
10Y Bund	2,40	2,29	2,02	2,44	2,17
10Y BTP	3,87	3,61	3,70	4,55	4,00
10Y JGB	0,77	0,76	0,62	0,41	0,47
10Y Bonos	3,27	3,13	3,00	3,51	3,21
10Y Swiss	0,71	0,66	0,68	1,57	1,22
10Y Gilt	4,07	3,93	3,74	3,66	3,43
10Y USTnote	4,36	4,20	3,91	3,88	3,30

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,04	3,00	2,76	3,12	3,28
EUR Corporate Baa	3,85	3,82	3,82	4,65	4,33
GBP Corporate Baa	4,63	4,51	4,44	4,59	4,50
USD Corporate Aaa	4,85	4,74	4,55	4,62	4,12
USD Corporate Baa	5,61	5,50	5,39	5,70	5,28
USD EM aggregate	7,14	7,02	7,17	7,52	7,20

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	89,27	4,3%	14,0%	3,9%	5,3%
Or, USD/oz	2 300	4,8%	12,7%	25,9%	13,8%
Copper, USD/metric ton	9 045	2,7%	6,7%	7,7%	3,0%
Platinum, USD/oz	922	2,9%	-5,8%	-13,4%	-10,0%
Palladium, USD/oz	996	0,8%	-7,4%	-44,3%	-32,0%
Silver, USD/oz	26,25	7,1%	12,7%	9,6%	6,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	-0,3%	-1,2%	0,9%	-1,4%
EUR/CHF	0,98	0,0%	5,4%	-0,6%	-0,7%
USD/GBP	0,79	0,1%	0,2%	-4,5%	-1,3%
USD/JPY	151,81	0,3%	5,8%	16,1%	16,1%
USD/BRL	5,08	2,0%	3,3%	-4,9%	0,5%
USD/CNY	7,24	0,1%	1,7%	4,9%	5,2%
USD/RUB	92,48	0,0%	0,7%	26,7%	16,0%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	-0,5%	6,3%	14,4%	13,5%
Euro area	-0,2%	14,0%	31,5%	17,9%
Germany	-0,6%	11,1%	30,6%	18,3%
France	-0,6%	10,0%	23,6%	11,4%
United Kingdom	0,1%	3,3%	6,5%	3,6%
Switzerland	-0,8%	4,0%	8,3%	4,5%
United States	-0,7%	10,8%	35,7%	27,4%
Japan	-3,3%	14,4%	43,1%	36,4%
Brazil	-0,3%	-4,2%	19,7%	26,1%
Hong Kong	2,0%	0,5%	-15,5%	-17,5%
India	1,2%	3,5%	20,8%	23,8%
China	1,9%	5,6%	-7,8%	-13,0%

Source: Bloomberg, on 05 April 2024, 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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