

One dove does not a spring make?



This week the US Federal Reserve (Fed) and the Bank of England (BoE) followed the European Central Bank (ECB) in indicating that while they are mulling rate cuts, they won't be starting until they have enough evidence inflation is moving towards the target. Central bankers want to see more data and are apparently willing to wait for spring before embarking on the rate cut cycle. These cuts may, in our view, prove less radical than markets are discounting, with just three in 2024.

The Fed: not so dovish. To no-one's great surprise, the Fed kept monetary policy on hold this week. However, there were big changes in terms of communication in its statement. They cut out the warning that further rate hikes might be necessary but then added rates would not come down until they have greater certainty that inflation is “moving sustainably toward 2%”. The Fed is thus sending a clearly accommodative or “dovish” message, confirming that a rate cut is now on the way but is also signalling that market expectations of a rate cut as soon as March are too optimistic. Markets duly scaled back the probability of a quarter-point cut in March. However, 25bp rate cuts for early May and mid-June remain well-priced in, despite the drop in probability following up the release of the stronger-than-expected US employment report (Chart 1).

The BoE: sitting on the fence. At the Bank of England, the vote was anything but unanimous. Six voted for no change, one for a rate cut and two for an increase. Ignoring its two hawks, the BoE removed its warning of a possible additional tightening from its statement, endorsing the widespread perception that the rate hike cycle is over. However, using near-identical wording to the Fed, Governor Andrew Bailey said the BoE was not yet ready to cut rates and would wait until inflation was not only back to target but set to stay there.

Rate cuts this spring, but a slow path thereafter. In our previous weekly ([here](#)) we mentioned that euro area inflation may take time to get back to its 2% target as base effects, particularly on energy, and weak productivity growth held it back. This would restrict the ECB's room for manoeuvre. The BoE is in a similar bind, particularly as British inflation was, on average, at least one percentage-point higher than the euro area's in 2023.

But the story is different for the Fed. Some measures of inflation are already at target, notably personal consumption deflator. Moreover, productivity gains have bounced back from its low in late 2023 (Chart 2). Which means the Fed's problem is not so much a struggle to get back to its inflation target but rather a robust economy – GDP grew by an annualised 3.3% in Q4 – which continues to power healthy levels of job creation (see thereafter). The Fed therefore has no need to cut hard and fast. The US economy looks solid enough to cope with continued tight monetary policy.

Overall, we think, following a first rate cut in spring, all three main central banks are likely to step rates down at a gradual pace. We expect three cuts this year by the Fed, ECB and BoE. This compares to the five to six discounted by the markets for the Fed and the ECB and four for the BoE.

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Chart 1: Fed: Implied probability of a 25pb rate cut at each meeting

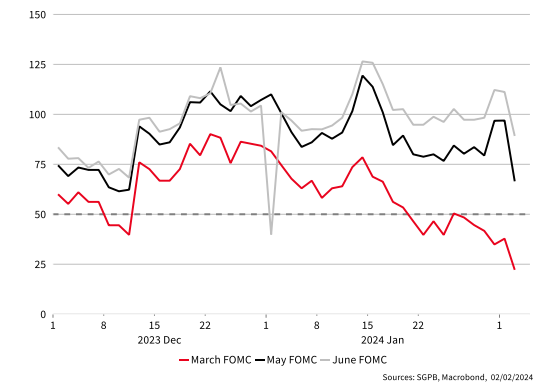
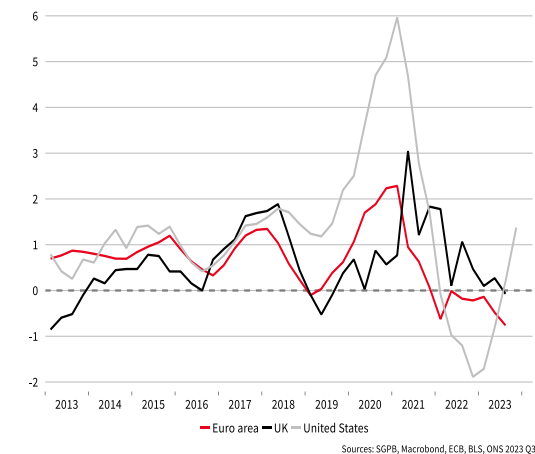


Chart 2: labour productivity (GP per hours worked, year-over-year, 1-year moving average)



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

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



Events of the week



Euro area GDP growth was flat in Q4 2024, defying expectations of another 0.1% contraction similar to that of Q3. This less-than-spectacular achievement was driven by strong figures from Spain (0.6% growth rather than 0.2% expected) and Italy (0.2% rather than expected stagnation) while France stagnated as predicted and Germany shrank by 0.3%. There were also positive contributions from smaller economies including Portugal (0.8%), Belgium (0.4%) and Austria (0.2%) but not Ireland which declined by 0.7%. Meanwhile, euro area inflation eased in January but by less than markets had expected, from 2.9% to 2.8% rather than 2.7% expected.



January's US employment figures gave another evidence of the resilience of the US economy, with 353,000 job creations, well above economists' expectations of 180,000. The unemployment rate was 3.7%, unchanged from the previous month and below the market's expectations of 3.8%. The strength of the US labour market is also benefiting workers, who saw their average hourly earnings rise by 0.6% over the month (4.5% year-on-year), up from 0.4%.

Country	Data	Actual	Last	Forecast
Japan	Unemployment Rate DEC	2.4%	2.5%	2.5%
France	GDP Growth Rate QoQ Prel Q4	0.0%	0.0%	0.0%
Spain	GDP Growth Rate QoQ Flash Q4	0.6%	0.4%	0.2%
Germany	GDP Growth Rate QoQ Flash Q4	-0.3%	0.0%	-0.3%
Italy	GDP Growth Rate QoQ Adv Q4	0.2%	0.1%	0.0%
Euro Zone	GDP Growth Rate QoQ Flash Q4	0.0%	-0.1%	-0.1%
Euro Zone	Economic Sentiment JAN	96.2	96.3	96.2
United-States	Fed Interest Rate Decision	5.50%	5.50%	5.50%
China	Caixin Manufacturing PMI JAN	50.8	50.8	50.6
Euro Zone	Inflation Rate YoY Flash JAN	2.8%	2.9%	2.8%
Euro Zone	Core Inflation Rate YoY Flash JAN	3.3%	3.4%	3.2%
Euro Zone	Unemployment Rate DEC	6.4%	6.4%	6.4%
United Kingdom	BoE Interest Rate Decision	5.25%	5.25%	5.25%
United-States	ISM Manufacturing PMI JAN	49.1	47.1	47
United-States	Non Farm Payrolls JAN	353K	333K	180K
United-States	Unemployment Rate JAN	3.7%	3.7%	3.8%
United-States	Average Hourly Earnings MoM JAN	0.6%	0.4%	0.3%

The Week Ahead

Monday	
China	Caixin Services PMI JAN
Germany	Balance of Trade DEC
Euro Zone	HCOB Services PMI Final JAN
Euro Zone	HCOB Composite PMI Final JAN
United States	ISM Services PMI JAN
United States	Loan Officer Survey
Tuesday	
Germany	Factory Orders MoM DEC
Euro Zone	Retail Sales MoM DEC
Euro Zone	Consumer Inflation Expectations DEC
Wednesday	
Germany	Industrial Production MoM DEC
France	Balance of Trade DEC
France	Private Non Farm Payrolls QoQ Prel Q4
United States	Balance of Trade DEC
United States	Consumer Credit Change DEC
Thursday	
United Kingdom	RICS House Price Balance JAN
China	Inflation Rate YoY JAN
China	PPI YoY JAN
Japan	Eco Watchers Survey Outlook JAN
Friday	
Italy	Industrial Production MoM DEC
United States	Monthly Budget Statement JAN

Market Performances

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3.89	3.91	3.90	1.91	1.90
USD SOFR O/N	5.32	5.31	5.32	4.30	4.31
JPY TONAR O/N	-0.01	-0.01	-0.02	-0.02	-0.01
GBP SONIA O/N	5.19	5.19	5.19	3.43	3.43
CHF O/N	1.62	1.65	1.70	0.80	0.80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2.65	2.83	3.37	2.98	2.77
10Y Bund	2.15	2.30	2.75	2.44	2.30
10Y BTP	3.72	3.89	4.65	4.55	4.17
10Y JGB	0.70	0.63	0.94	0.41	0.49
10Y Bonos	3.14	3.25	3.83	3.51	3.29
10Y Swiss	0.83	0.91	1.12	1.57	1.24
10Y Gilt	3.87	4.08	4.57	3.66	3.43
10Y USNote	3.99	4.18	4.77	3.88	3.39

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2.81	3.00	3.54	3.12	3.04
EUR Corporate Baa	3.76	3.98	4.70	4.65	4.21
GBP Corporate Baa	4.54	4.77	5.29	4.59	4.23
USD Corporate Aaa	4.55	4.70	5.37	4.62	4.17
USD Corporate Baa	5.33	5.50	6.48	5.70	5.12
USD EM aggregate	7.14	7.30	8.29	7.52	6.96

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	80.64	0.9%	-4.9%	-6.2%	-2.9%
Or, USD/oz	2,039	1.2%	2.9%	11.6%	4.5%
Copper, USD/metric ton	8,620	0.8%	6.1%	2.6%	-6.3%
Platinum, USD/oz	927	1.8%	0.2%	-13.0%	-7.9%
Palladium, USD/oz	983	1.9%	-12.3%	-45.0%	-40.0%
Silver, USD/oz	23.09	1.4%	1.9%	-3.6%	-1.7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1.08	-0.6%	2.8%	1.4%	-0.5%
EUR/CHF	0.93	-1.0%	-2.8%	-5.5%	-6.6%
USD/GBP	0.79	0.2%	-4.8%	-5.4%	-3.2%
USD/JPY	146.28	-0.6%	-3.1%	11.8%	13.2%
USD/BRL	4.94	0.4%	-1.5%	-7.4%	-2.6%
USD/CNY	7.09	0.2%	-3.1%	2.8%	5.2%
USD/RUB	89.75	1.2%	-3.4%	22.9%	28.0%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0.7%	11.3%	8.4%	3.7%
Euro area	1.8%	13.6%	20.5%	11.4%
Germany	0.1%	13.3%	20.1%	11.4%
France	2.7%	10.4%	16.1%	8.2%
United Kingdom	1.4%	3.9%	2.4%	-1.7%
Switzerland	1.2%	7.9%	5.6%	1.2%
United States	-0.5%	14.3%	26.2%	17.6%
Japan	0.9%	10.4%	34.9%	29.4%
Brazil	-0.1%	11.0%	20.1%	14.0%
Hong Kong	-2.6%	-9.5%	-21.7%	-29.8%
India	1.0%	12.8%	17.3%	20.2%
China	-1.9%	-10.0%	-17.0%	-23.4%

Source : Bloomberg, au 02/02/2024. -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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