23 October 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

A far-reaching US election

Key points

- The latest US polls remain finely balanced but suggest the balance of risks has shifted to a Trump victory.
- This would have the most consequential impact on the rest of the world reflecting risks to trade policy and security, with spillovers from shifts in the US outlook.
- For now, US activity remains solid and in the near-term the Fed is only likely to deliver 0.25% rate cuts, but we question the scale of cuts priced for next year.
- By contrast, the ECB has quickened its easing in the light of weak growth, tighter fiscal policy and lower inflation.
- The BoE may follow depending on the upcoming Budget, but in Japan we expect the BoJ on hold until Q1 2025.
- Easing is also underway in EM, now in Asia, with contained inflation allowing a focus on demand, and continuing in Latam, albeit without quickening.

Global Macro Monthly

23 October 2024

A far-reaching US election

Global Macro Monthly Summary October 2024

David Page
Head of Macro Research

"Remember, remember the fifth of November"

The US election is just weeks away. It is difficult to escape its shadow, not just for US activity and financial markets, but for the rest of the world. That shadow spreads more vividly as developments have seen Vice President Kamala Harris start to lose momentum in recent weeks: a mild narrowing of her lead at national levels and a more distinct reversal of polling leads in the key battleground states – albeit to levels below polling error margins. These subtle shifts have triggered moves in betting markets to see Donald Trump as the likely victor. Financial markets have followed. To us, polls are still on a knife-edge, but the balance of risk feels like it has moved.

Beyond the US, this is important for the rest of the world. Our Theme of the Month summarises recent research[1] which looks at the US election's potential impact on the rest of the world. We believe a Trump victory poses a more disruptive risk for overseas economies than a Harris win. Trade policy is top of those fears. Trump has threatened a range of tariff increases on most economies. China is the focus with threats of 60% tariffs. East Asia would be buffeted by any material realignment in trade flows. The impact on Europe would be appreciable, but perhaps little more. Closer partners, including Canada and Mexico could also see bigger effects, the former plausibly boosted if it avoids tariffs, the latter embroiled in tense relations ahead of the United States-Mexico-Canada Agreement (USMCA) trade renegotiation in 2026.

Trump's other policies may also reverberate globally. A clampdown on migration (and deportations) risks slowing US potential growth and restricting the Federal Reserve's space to ease policy. The extension of expiring tax cuts at the end of 2025 looks set to lift the deficit higher, a risk to US Treasury yields, particularly as coupon issuance rises. Trump's security stance could have deep implications for European and East Asian security and defence spending. But deregulation – particularly in oil and gas – may deliver further production which could further depress energy prices. This mix of direct or financial market spillovers is likely to buffet several international economies over the coming years.

[1] Macro Research Team, "US 2024 presidential election: The potential global impact", AXA IM Research, 19 September 2024

The best of the rest

Developments in China will also affect the global outlook over the coming years. Last month we detailed our concerns about its sluggish domestic demand and the scope for policy to alter the outlook. The former concern has not changed - the latest output data remain subdued with consumption lacklustre and property prices still in decline. Beijing has moved on the latter. The authorities eased monetary policy broadly last month, introducing incremental fiscal stimulus days later. The market responded aggressively ahead of China's Golden Week. However, subsequent fiscal announcements, of which there have been several, have failed to match hopes. We do not see what China has announced to date as sufficient to turn the weakening economy, but it should attenuate its decline. However, we are mindful that China often discusses material stimulus months before delivery – with rumours of an 8% of GDP boost. This might be the case this time and we certainly see sense in the authorities waiting to see the outcome of the US election before deploying a large fiscal boost. This has the potential to materially reshape the outlook for China next year and beyond. However, we will watch the Central Economic Work Conference later in November and/or March's National People's Congress meeting for more concrete announcements.

The Eurozone has also started to react more to unfolding developments. Eurozone economies have individually managed to submit budget proposals to the Commission, several with plans for sharp fiscal tightening. The European Central Bank (ECB) also cut rates again in October, its first back-to-back cut since 2011. Lower inflation, with a sharper than expected drop in core, created space for quicker easing. But subdued and apparently weakening activity also drove the ECB to cut. We had revised our ECB outlook ahead of that call and now see successive rate cuts from the ECB to reach 2%, which we expect by the middle of next year.

We also watch the UK's 30 October Budget for a clearer understanding of the new government's priorities. We remain of the view that this Budget will deliver a marked fiscal tightening that could force the Bank of England to quicken its pace of easing. After a month of uncertain discussions about fiscal rules, a clearer message appears to be emerging of tightening worth £40bn (1.5% of GDP) – a scale that alone would require a quicker pace of cuts. We await final figures, and risks of additional borrowing, to confirm.

Global Macro Monthly – US

David Page
Head of Macro Research

Fed to normalise after 50bp start

In September we discussed the Federal Reserve's (Fed) unusual 50bps which kick-started its easing cycle. Minutes of the meeting showed "a substantial majority" supported the decision. However, they also noted "some...would have preferred a 25bp reduction...and a few others indicated that they could have supported such a decision", while several "noted that a 25bp reduction would be in line with a gradual path of policy normalisation" and a few that a 25bp move "could signal a more predictable path of policy normalisation". There were a lot of caveats for a "substantial majority" view.

The data has not been particularly supportive of the Fed's decision. Non-farm payrolls are volatile, and we should be cautious in interpreting the 254k increase posted in September – nearly 100k more than consensus expectations for private payrolls. The whole report was hawkish: household employment rose by 430k on the month; labour supply was subdued and unemployment fell to 4.05%; average earnings accelerated to 4.3% (3-month annualised) – above the pace consistent with achieving the Fed's inflation target. Next month's report will be difficult to interpret given the hurricane disruption (and the Boeing strike) distorting the metrics.

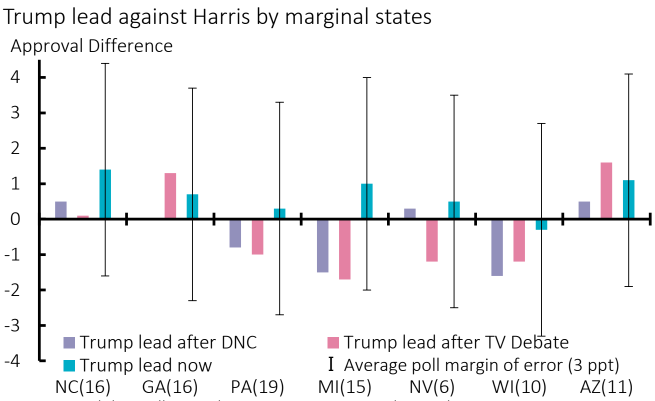
September's CPI inflation also came in above expectations. The headline rate fell to 2.4% – a 3½ year low – but was flattered by weak oil and gasoline prices, taking 0.2 percentage points off the headline rate. Core CPI inflation rose to 3.3%. More concerningly, services ex-shelter inflation rose by 0.6% on the month – the same pace as the start of the year that caused the Fed to delay easing. Headline inflation should rebound in October as oil prices have risen but we will watch services inflation to see if September's read was purely erratic.

We do not read too much into one month's data, albeit across several metrics. However, this and the Fed's more reactive behaviour has introduced additional rate volatility. Before September's meeting, the market priced an aggressive 250bps of rate cuts over the course of 2025. This saw financial conditions loosening to their easiest since 2022 – looser than the average of the previous decade. This does not suggest monetary policy is currently restrictive. Following the firmer data, markets have pared back expectations for rate cuts to 3.50% (over 50bps higher than before). This has helped drive 10-year Treasury yields above 4% for the first time since July, although broader conditions remain loose. We had viewed lingering policy restriction as necessary to deliver a modest deceleration in growth consistent with keeping inflation at target. As such, we continue to see the current market rate outlook as likely too aggressive. We think the Fed will struggle to deliver the easing still considered by markets, particularly under certain electoral outcomes.

The final countdown

Presently, the US election overshadows most other developments. Last month we said broader expectations had shifted to a Kamala Harris win. Exhibit 1 illustrates that in recent weeks that momentum has started to fade. Harris has seen her lead in most swing states disappear, albeit by a much smaller amount than the polling error margin. And while polls opened in mid-September and many Americans have already voted, the undecided will determine the election but are likely to vote only at the last moment. There is still time before the final vote but momentum ebbing from Harris with less than three weeks to go could prove critical.

Exhibit 1: Poll leads in swing states



Source: RealClearPolling and AXA IM Macro Research, October 2024

The election outcome will have a meaningful impact on the outlook for the economy. A Donald Trump presidency promises tariffs, tackling migration and undocumented migrant deportations, tax cuts and deregulation. Some consider a deregulatory drive and fiscal easing as something that will provide a boost to already-elevated equity markets, although we question whether this would support a sustained gain as it did in 2016. However, such policies look set to constrain US potential growth – while pump priming demand. This looks like an inflationary backdrop that will restrict the Fed's space to ease policy. However, with our expectations that a Harris win would likely face a divided Congress, her administration would likely also be pushed to extend tax cuts without the full revenue-raising measures she has suggested, also lifting the deficit. This would push policy down broadly the same path, but to a lesser extent. Both lead us to consider the current market expectation of 3.50% by year-end as unlikely to materialise.

Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
Macro Research

Hugo Le Damany,
Eurozone Economist
Macro Research

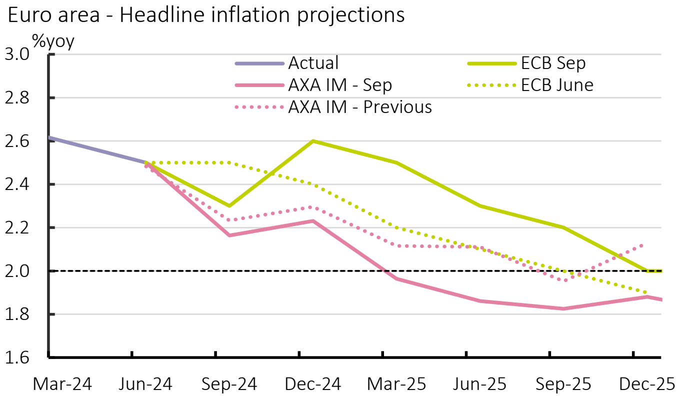
Aligning dovish stars

The European Central Bank (ECB) reduced its deposit rate by 25 basis points (bps) to 3.25% at its October meeting, as widely expected – moving away from cutting at its quarterly forecast meetings to its first back-to-back easing since 2011. Our baseline is that it will continue to ease at this pace until June 2025 taking the deposit rate to 2%, in line with current market expectations.

The meeting brought little new news, reiterating the ECB's data dependency and the importance of updated forecasts. If anything, the ECB seemed more concerned about growth. We agree (see September's column). Combined with the September inflation downside surprise – Eurozone headline inflation was revised down by 0.1 percentage point (ppt) from the flash estimate to 1.7% year on year – there was enough evidence to cut rates without updated forecasts.

Interestingly, President Christine Lagarde mentioned a downside skew in the ECB's perception of risk surrounding its inflation outlook. As a matter of fact, our revised inflation forecasts are well below the ECB's and point to an undershoot of the 2% inflation target for most of next year (Exhibit 2).

Exhibit 2: Inflation set to undershoot ECB target in 2025



Source: Eurostat, ECB and AXA IM Research, October 2024

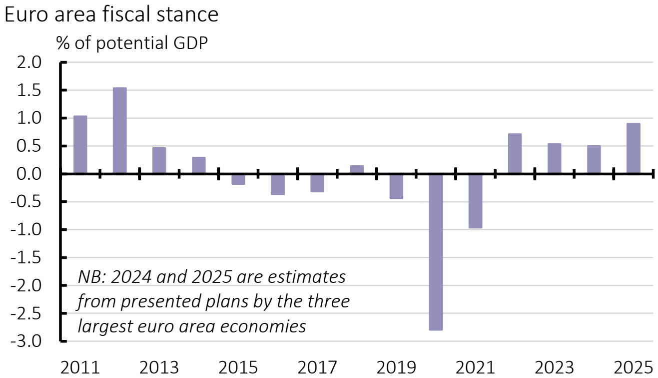
France and Italy, like other member states, have published their multi-annual fiscal trajectories. Unsurprisingly, both countries – which are in the European Union's (EU) excessive deficit procedure – have applied for seven-year adjustments, committing to a path in line with the revised EU fiscal rules of at least 0.5% of structural primary balance adjustment. This avoids a clash with the European Commission, and a 'slow' consolidation coincides with a weak underlying growth momentum.

However, for France the lack of policy and political clarity to achieve its committed fiscal path beyond 2025 is a major concern. Furthermore, the French government made the brave choice of assuming above potential growth (1.2%) throughout its forecast horizon. Finally, public debt-to-GDP ratios are not projected to come down before 2027 for either France or Italy, which leaves them very vulnerable to adverse interest rate or macro shocks.

Like France, the Italian government made optimistic growth forecasts (at least 1% for the next three years), despite well-known limited NextGenerationEU fund spending, no more construction 'superbonus' and an adverse external backdrop. Meanwhile, in Germany, where we expect 2024 GDP to contract again (-0.1%; German government: 0.3%) after -0.3% last year, the draft budgetary plan shows a 0.75ppt improvement in the structural primary balance, converging to 0% in 2025.

Putting the fiscal plans for the three largest euro area economies together generates a fiscal stance – measured by the change in the structural primary balance – tightening by 0.9ppt. This order of magnitude was last achieved in 2022 with the removal of COVID-19 emergency measures and in 2012-2013 at the time of the European debt crisis (Exhibit 3). This relatively aggressive fiscal stance, combined with weak growth momentum and projected inflation below the ECB's target for most of 2025, are all dovish stars aligning that could lead the ECB to cut rates to 2% quicker than our baseline of consecutive 25bp cuts until June 2025. We cannot rule out bigger than 25bp rate cut increments as early as December.

Exhibit 3: A relatively aggressive fiscal stance planned for 2025



Source: European Commission and AXA IM Research, October 2024.

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Uncertainty in the lead-up to the Budget

As anticipated, the pace of recovery slowed in the second half of the year. The latest data showed a 0.2% month-to-month increase in August, driven by manufacturing and construction. But that followed two consecutive months of stagnation, leaving three-monthly growth at 0.2%. On a quarterly basis, we now expect growth to average 0.2% in Q3 and 0.3% in Q4, compared to 0.7% in Q1 and 0.5% in Q2. On a sectoral basis, we doubt August's 1.1% monthly rise in manufacturing output is the start of a sustained recovery, given the weak global backdrop. But construction activity should rise further, as borrowing costs fall and services output likely will tick-up as households' confidence builds. We lowered our growth outlook for this year to 1.1% (from 1.2%) but see 1.4% in 2025.

Consumer Price Index (CPI) inflation undershot expectations in September. The headline rate fell to 1.7% – the Bank of England (BoE) had expected 2.1% – from 2.2% in August driven by a broad-based easing in goods and services. Core inflation fell to 3.2% from 3.6%, 20 basis points (bps) less than forecast. The Q4 headline rate will rise as the energy drag fades but the weaker outlook will see underlying inflation trend lower this year and next.

Indeed, while the latest Labour Force Survey data showed a chunky 373k rise in employment in the three months to August, driving the unemployment rate to 4% from a peak of 4.4%, the data are still plagued with quality issues. Other measures remain consistent with slack developing – vacancies fell for the 27th month in a row in September and annual Pay As You Earn (PAYE) growth slowed to 0.3% in September, from 1.3% in January. As a result, the recent slowdown in wage growth – private sector pay excluding bonuses fell to a more than two-year low of 4.9% in August, from 5% – will likely continue.

The latest CPI and labour market data pretty much seal the deal for a further 25bp cut at November's meeting. The pace and magnitude of any additional cuts, however, is heavily dependent on the Budget on 30 October. The new government's priorities are still unclear, and this has hit sentiment over recent weeks. Recent communications suggest further fiscal tightening, even accounting for tweaks to the fiscal rules. As a result, the BoE may be forced to quicken the pace of rate cuts to cushion activity from additional fiscal tightening. The likelihood of an additional cut in December has risen.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Canada to quicken easing before US election?

Recent commentary has focused on whether the Bank of Canada (BoC) will quicken its pace of easing to include a 50bp cut at its October meeting. But incremental data has been mixed. July GDP was revised up to 0.2% from a flash estimate of 0.1%, with August's preliminary estimate flat. This keeps the Q3 GDP growth outlook on track for a 1% annualised rise and a 1.1% increase for this year as a whole. This is a little slower than the BoC's July revision to 1.2%. More broadly, employment rose by 47k in September, undoing weakness in July to deliver a 21k average Q3 rise in line with our forecasts. The unemployment rate fell to 6.5%, its first dip since January, while annual earnings growth remained at a relatively elevated 4.8%.

The BoC reiterated in September that continued excess supply should put downward pressure on inflation. September's CPI inflation fell by more than expected to 1.6% – a 3½-year low flattered by weaker oil prices that reversed in October, while core inflation measures were stable. With oil prices likely to be subdued in the coming months, we see inflation likely to remain below target for the rest of 2024 (we forecast an average 2.4% for this year, consensus 2.5%). With excess supply unlikely to be unwound next year, we see the likelihood of inflation remaining below 2% through 2025. Indeed, we expect the BoC to continue to ease policy into 2025 but increasingly see the outcome as US election dependent, with a Donald Trump win and associated tariff increases likely reducing the space for easing.

But will the BoC quicken its easing? The inflation drop and the Fed's unusual 50bp cut create space for a quicker loosening (although the subsequent repricing of the US outlook has seen the Canadian dollar shift from a six-month high to around post-pandemic lows). BoC commentary suggests it is considering a quicker pace of easing and market pricing at around 80% likelihood suggests it will. However, with recent data equivocal, the BoC may see an advantage to waiting until after the election before deciding whether to quicken the pace further. Indeed, as explained, our longer-term outlook is US election dependent. Under a Trump victory, we would expect the BoC to end rate cuts at 3% in the spring – higher than markets currently consider. A Kamala Harris win would likely see rates ease back further.

Global Macro Monthly – China

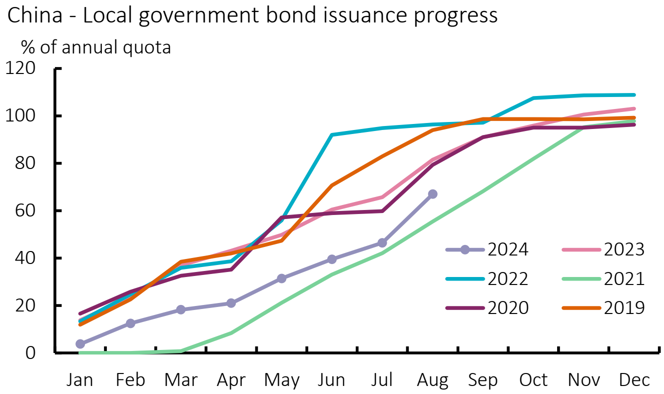
Yingrui Wang
Economist (China)
Macro Research

Third quarter growth provides some reassurance

China's economy grew slightly more than expected in Q3, recording an annual increase of 4.6%, and a cumulative growth rate of 4.8% over the first three quarters of the year. Despite concerns over a possible summer slowdown, China managed to navigate another quarter of modest growth, offering some reassurance to government officials that this year's growth target of "around 5%" remains within reach.

Since late 2023, China's economic momentum has relied on state-led investment, largely financed through government bonds. However, during the summer months, the pace of local government bond issuance slowed visibly, dampening investment and, in turn, weighing on industrial production and broader economic performance. However, local government bond issuance regained momentum in August (Exhibit 4), following Beijing's concerns about reaching its annual growth target. Combined with incremental policy measures, this helped industrial production and retail sales show some improvement, though they remained at relatively subdued levels. A sustained recovery in retail sales, however, would likely rely on longer-term improvements in the property and labour markets – and these areas still look challenged.

Exhibit 4: Bond issuance accelerated in August



Source: CEIC and AXA IM Research, October 2024

The property sector remains a significant drag on the economy, even with Beijing's support efforts. House prices have continued their decline, with prices for existing homes down around 15% from their peak, and overall property sales are now less than half their previous highs. Beijing appears cautious at reviving the market too much, introducing only gradual measures to stabilise it, possibly to avoid triggering an unintended surge in prices. So far, local governments have not been pressured to rapidly revert the market's downturn, as Beijing continues to stress the importance of making market-sensitive decisions regarding property inventory buybacks. Given the mismatch between borrowing costs and underlying rental yields, it is unlikely that a meaningful portion of housing inventory will be absorbed by the state in the short term. On the other hand, housing demand remains muted, as buyers remain pessimistic about future price trends. As such, we expect the adjustment in China's property market to continue, plausibly taking years to play out.

Recent communications regarding fiscal policy have remained vague, offering scant detail on how Beijing plans to tackle the weak labour market. In the absence of reliable indicators for wage growth and unemployment rates, insights can only be drawn from consumer survey data. These indicate that consumer confidence in employment prospects reached record lows in August, underscoring the challenges facing the labour market, despite the decline in September's jobless rate.

China's export performance showed signs of waning in September, indicating the earlier front-loading demand ahead of international tariffs may soon wear off. At the same time, domestic demand has yet to show a meaningful recovery, despite the recent one-off improvement spurred by the trade-in programme. The seven-day Golden Week holiday in early October reflected trends from previous holiday periods, with a higher number of tourists compared to 2019; however, spending per capita remained below pre-pandemic levels. This scenario once again highlights the deflationary risks confronting the economy, driven by weaker demand both domestically and internationally.

In response to the slowdown over the summer, Chinese authorities have accelerated their policy efforts. The People's Bank of China's monetary easing measures, announced ahead of the National Day holiday, spurred notable rallies in the equity markets. However, the positive sentiment proved short-lived, as recent specifications of fiscal measures have lacked clarity and detail, leaving markets disappointed. Officials have continued to maintain an ambiguous stance regarding the scope and scale of forthcoming fiscal support.

We believe the recent flurry of policy announcements aims to secure the 2024 growth target, which is appears to be the case after Q3's GDP data. However, a substantial positive impact on China's longer-term economic outlook from the recent policy rollout has yet to materialise. Given the challenges posed by the property and labour markets, along with subdued domestic demand and weakening external demand, China's economic outlook remains uncertain and is in urgent need of sustained policy support.

23 October 2024

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Bank of Japan happy to wait and see

Japan's GDP rose by 0.7% quarter-on-quarter in Q2, driven by stronger consumption and capital expenditure. But that gain partly reflected the end of the pause in auto sales due to the sector's temporary shutdown in Q1. Momentum will likely slow in the second half of 2024, as this volatility fades and cautious households modestly increase spending. While incomes are rising in real terms, we expect consumers to save part of that additional cash, given subdued sentiment. The Bank of Japan's (BoJ) consumption measure also shows services spending was hit by typhoons and a major earthquake warning over the summer. We look for growth of 0.4% in Q3 and 0.3% in Q4.

Headline CPI inflation fell to 2.5% in September – in line with expectations – but that largely reflected the reimposition of energy subsidies. The new core measure – which excludes energy and fresh food – rose at 2.1%. The key to well-anchored inflation expectations remains the virtuous wage/price spiral taking hold. A tight labour market means firms will probably continue to hike wages at a faster pace in 2025 than in the past – the initial 2025 Rengo target is unchanged from last year at 5% – but our more downbeat outlook for spending suggests firms will find it hard to fully pass on higher costs.

Political uncertainty is easing. Shigeru Ishiba's victory in the Liberal Democratic Party (LDP) leadership race has a limited impact on the outlook given his agenda is broadly in line with his predecessors. He has committed to further fiscal action, supports monetary policy normalisation and BoJ independence. The election – which takes place on 27 October – will see the LDP lose some seats, but it looks set to remain the ruling party.

We think the BoJ is still slightly too upbeat on both its growth and inflation outlook and the global backdrop is now an additional headwind. Governor Kazuo Ueda recently highlighted the US economic slowdown and believes the BoJ now has time to assess developments in financial and economic conditions both at home and abroad before hiking again. Admittedly, the renewed depreciation in the yen – which has almost fallen back to ¥150 to the US dollar at the time of writing – will likely increase the inflation profile next year if sustained. And the rising probability of a Donald Trump victory in the US election points to a stronger dollar over the coming months. For now, we still see just one 25 basis point hike in Q1 2025, leaving the policy rate at 0.5% by end-2025.

Global Macro Monthly – EM Europe

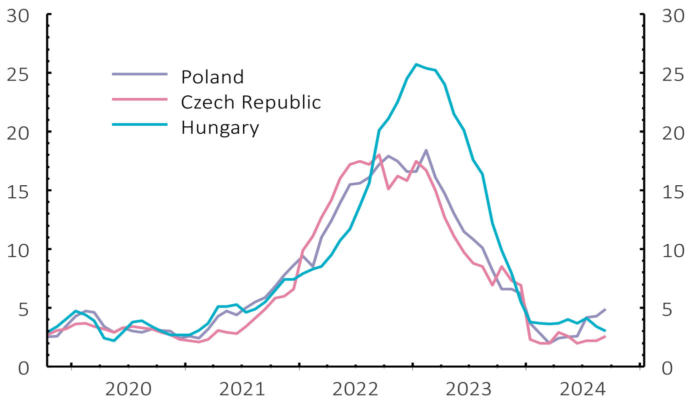
Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Poland's inflation stands out

Central and Eastern European economies (CEE) experienced heavy disinflation during 2023 but it has been more stable this year. Consumer prices peaked at the start of 2023 and fell to as low as 2% in Poland and the Czech Republic in March 2024. Inflation has remained quite benign in the latter, with CPI hovering between 2% and 2.5% in the first half of 2024 and in Hungary where it fell to the 3% target in September. Poland stands out where inflation accelerated to close to 5% in September (Exhibit 5).

Exhibit 5: CEE disinflation now on different paths

CEE inflation rates (%)



Source: LSEG Datastream and AXA IM Research Sep 24

But we expect inflation to rise into year-end given unfavourable base effects, before moving back to around targets – and possibly even below – during the first half of 2025 in Hungary and the Czech Republic. This should allow central banks to continue to ease monetary policy, confronted with weak activity echoing the slowdown of the German economy to which they all have exposure. In Poland, inflation should continue to accelerate, partly due to the removal of the energy price shield in early 2025. Consumption and wage growth remained strong with fiscal policy supportive and should remain so ahead of the 2025 presidential elections. Official government deficit forecasts now stand at 5.7% and 5.5% of GDP for 2024 and 2025 from 5.2% and 4.4% previously. Poland plans to bring deficits below the 3% threshold by 2028. We see inflation falling in the second half of 2025, which should pave the way for the central bank to cut rates in the first half of the year, having held them steady since October 2023.

Global Macro Monthly – EM Asia

Danny Richards,
Economist (Asia Emerging Markets),
Macro Research

Policy easing underway

Monetary policy easing is now underway across Asian emerging markets (EM). With inflation broadly falling to, or below target ranges, central banks now have space to pivot from restrictive policy stances and move to bolster domestic demand at a time of increasing concern over the growth outlook for the US and China.

The Bank of Korea and the Bank of Thailand cut policy rates by 25 basis points (bps) at their October meetings, to 3.25% and 2.25% respectively. The Reserve Bank of India decided to keep its policy rate on hold (at 6.5%) at its meeting but eased its liquidity stance to neutral from the previous position of "withdrawal of accommodation", foreshadowing a rate cut at its next meeting in December. The Philippines' central bank cut its policy rate by 25bps for the second successive meeting, bringing it down to 6%. Bank Indonesia started its rate cutting cycle in September but paused in October given the uncertain short-term outlook and the recent bout of exchange rate volatility.

The Thai central bank's decision to cut rates came earlier than anticipated; in previous meetings it had been expressing concerns over financial stability risks. However, with low inflation and weak domestic demand – and growing pressure from the government for rate cuts – it deemed the timing appropriate to ease policy in October. Explaining the move, it said the cut would alleviate the debt-servicing burden for borrowers, but also that it would not impede debt deleveraging given the expected slowdown in loan growth. The Bank of Korea also noted concerns over financial stability prior to its latest meeting, but when announcing the rate cut in October it stated that tightened macroprudential policies should help to contain risks to financial stability, particularly pertaining to house prices and household debt growth.

Given the benign outlook for inflation, the policy focus will shift further to the demand side of the equation. Generating greater domestic demand resilience heading into 2025 will be vital given the more challenging external environment. The Chinese government's efforts to stimulate the economy will potentially provide, at best, only limited spillovers to EM Asia, and a victory for Donald Trump in the US presidential election would likely deliver greater trade protectionism.

Global Macro Monthly – LatAm

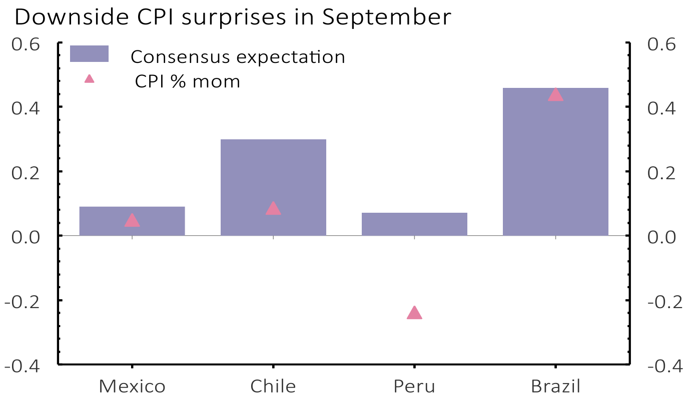
Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Upbeat inflation data but still cautious easing

Brazil is something of an outlier in Latin American (LatAm) for now at least. In September we described in detail the central bank's interest rate hikes as a response to strong growth, currency weakness and fiscal and monetary credibility concerns. Beyond Brazil, most LatAm central banks are expected to continue to ease their policy stances, most of which remain quite restrictive.

September's inflation data was below consensus expectations for many countries in the region (Exhibit 6). This helps inflation trajectories and allows central banks to continue gradually adjusting policy rates lower, but we are not yet convinced it will be sufficient to support an accelerated pace of monetary easing.

Exhibit 6: September CPI data brought positive surprises



Source: LSEG Datastream and AXA IM Research 15/09/2024

Even in Peru, where inflation fell in September pushing the annual rate below the 2% target, the central bank remained on hold at 5.25% – defying expectations on geopolitical and market volatility concerns. The CPI surprise in Chile, as in Peru, was mostly due to volatile elements, which should not translate to policy. Mexico's disinflation resumed for the second month in a row. This should allow the central bank to gradually cut policy rates at each of its meetings in the near future as expected, albeit keeping an eye on the recent rise in producer prices and sticky 5% plus services inflation supported by the strong labour market. It will also monitor the peso devaluation – 20% since mid-year – which could fall further after the US election.

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.1	3.2		3.1	
Advanced economies	1.7	1.6		1.5	
US	2.5	2.7	2.6	2.0	1.7
Euro area	0.5	0.7	0.7	0.9	1.3
Germany	-0.1	-0.1	0.0	0.5	0.8
France	1.1	1.1	1.1	0.6	1.1
Italy	1.0	0.8	0.8	0.8	0.9
Spain	2.7	2.9	2.5	2.1	2.0
Japan	1.9	0.0	0.0	1.1	1.2
UK	0.1	1.1	1.0	1.4	1.2
Switzerland	0.8	1.2	1.4	1.3	1.5
Canada	1.2	1.1	1.1	1.7	1.8
Emerging economies	4.0	4.2		4.1	
China	5.2	4.8	4.8	4.4	4.4
Asia (excluding China)	4.7	5.4		5.2	
India	6.5	6.9	6.9	6.5	6.7
South Korea	1.4	2.5	2.5	2.4	2.1
Indonesia	5.0	5.1	5.1	5.1	5.1
LatAm	2.3	2.0		2.5	
Brazil	2.9	3.0	2.7	2.0	2.0
Mexico	3.2	1.1	1.6	1.2	1.5
EM Europe	3.1	3.1		2.5	
Russia	3.6	3.2	3.6	1.5	1.7
Poland	0.2	3.1	3.0	3.7	3.8
Turkey	4.5	3.1	3.2	2.8	2.8
Other EMs	2.5	3.1		3.4	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 22 October 2024
*Forecast

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.6		2.2	
US	4.1	2.9	3.0	2.6	2.2
Euro area	5.5	2.4	2.4	1.9	2.0
China	0.2	0.5	0.5	1.6	1.3
Japan	3.3	2.5	2.5	1.8	2.1
UK	7.3	2.5	2.6	2.1	2.4
Switzerland	2.1	1.3	1.2	1.3	1.0
Canada	3.9	2.4	2.6	1.8	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 22 October 2024
*Forecast

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
United States - Fed	Dates	5.00	6-7 Nov 17-18 Dec	28-29 Jan 18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec
	Rates		-0.50 (4.50)	-0.25 (4.25)	-0.25 (4.00)	unch (4.00)	unch (4.00)
Euro area - ECB	Dates	3.25	17 Oct 12 Dec	30 Jan 6 Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep
	Rates		-0.50 (3.00)	-0.50 (2.50)	-0.50 (2.00)	unch (2.00)	unch (2.00)
Japan - BoJ	Dates	0.25	30-31 Oct 18-19 Dec	23-24 Jan 18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec
	Rates		unch (0.25)	+0.25 (0.50)	unch (0.50)	unch (0.50)	unch (0.50)
UK - BoE	Dates	5.00	7 Nov 19 Dec	6 Feb 20 Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec
	Rates		-0.25 (4.75)	-0.25 (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)
Canada - BoC	Dates	4.25	23 Oct 11 Dec	29 Jan 12 Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec
	Rates		-0.50 (3.75)	-0.50 (3.25)	-0.25 (3.00)	unch (3.00)	unch (3.00)

Source: AXA IM Macro Research - As of 22 October 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our October Investment Strategy

Our Research is available online: www.axa-im.com/investment-institute

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*As at the end of June 2024, including non-consolidated entities.
** As at the end of December 2023.

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