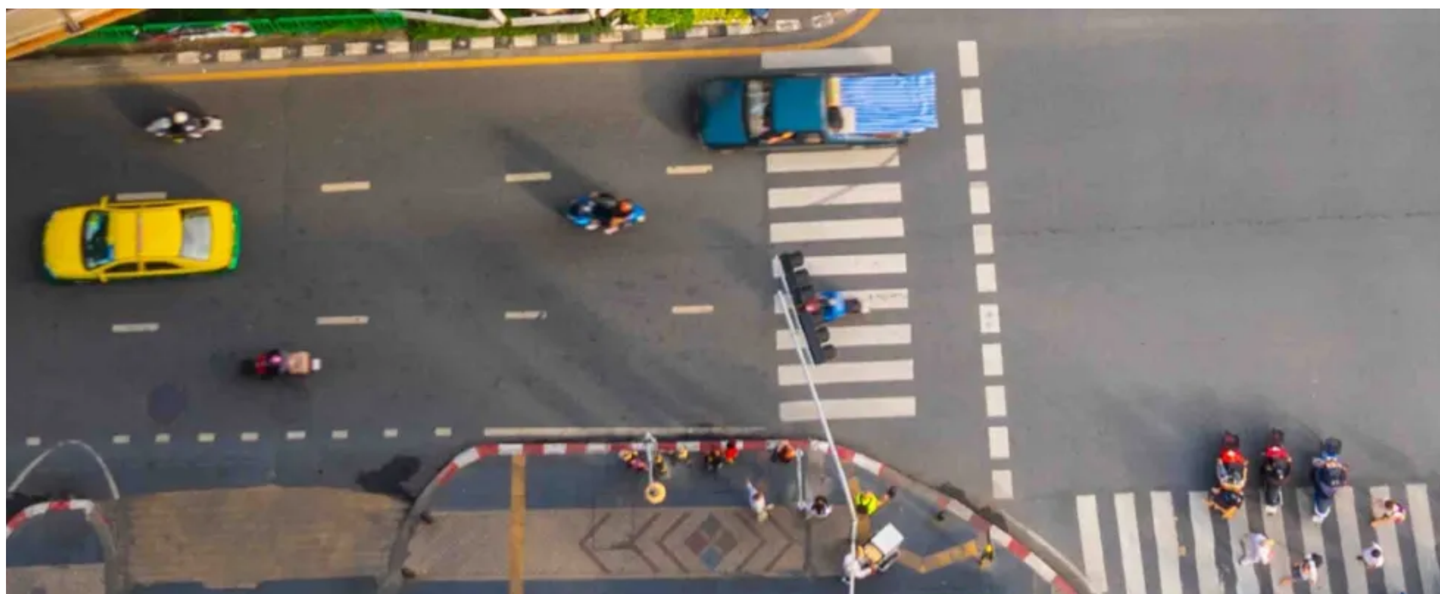


Feedback

Front of mind | Article - 4 Min

Weekly Market Update – Global monetary policy pivoting

CHI LO

20/12/2023 · 4 Min

In this article:

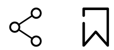
Hints of a policy shift

While the US Federal Reserve wrapped up the year hinting at of monetary tightening, the People's Bank of China injected n (about USD 84.6 billion) of liquidity into the financial system Central Bank and the Bank of England sounded hawkish, whil

It's all in the timing

Pushback

More easing from China



***raised* its key rate. All in all, market expectations of widespre monetary easing may be premature.**

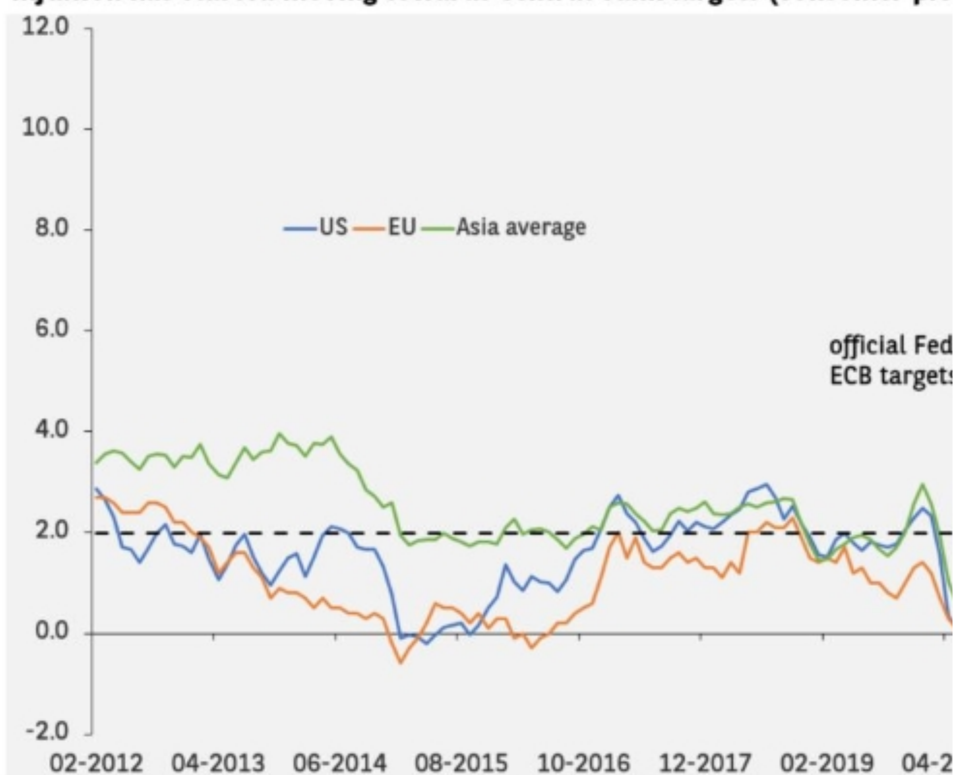
Arguably, positioning investments is difficult in the face of such a precarious macroeconomic and policy outlook. Nevertheless, the monetary tightening since March 2022 marks a downside risk fo making a case for a defensive strategy favouring government bo awaiting more clarity.

Hints of a policy shift

Underscoring market expectations of an impending Fed pivot is t inflation towards its 2.0% target from the 8.9% peak in July. Furt slowing inflation appears to have gone global. Asia is making the 1) as the effect of energy and supply-chain shocks subside.

With (past) policy tightening expected to slow economic gro when, rather than whether, rate cuts will happen. So far, the consensus on the timing.

Feedback



sources: CEIC, BNP Paribas Asset Management 18 Dec 2023

Last week's Federal Open Market Committee (FOMC) meetin with none of the Fed officials forecasting any need to raise i Jay Powell noted in his post-meeting message that the Fed r inflation hits 2.0% if the economic and inflation environments w

Feedback

Crucially, the Fed's 'dot plot' – which shows individual FOMC me interest rates – signalled a 75bp cut in the fed funds rate in 202 revised down for the coming two years. Core personal consumpt inflation is now forecast at 2.4% by end-2024 and 2.2% by end-2

It's all in the timing

That got the market excited, with fed funds rate futures now pri a first rate cut in March 2024 and a 100% likelihood of it coming

In our view, March seems too soon because the Fed is unlikely to economy is still resilient. Fiscal spending may also remain firm i presidential election, which would keep alive the risk of a U-turn

In our view, should the Fed see a combination of below-trend GD
market and above-target but falling inflation, it may decide to st
perhaps at the May or June FOMC meeting.

The extent of such rate cuts would depend on the growth and in
growth undershoot with a modest inflation overshoot could pro
3.0% in 2024, according to our fixed income team. However, wea
and inflation could prompt faster and deeper rate cuts to below

One common indicator that might prompt central banks to start
further decline in labour costs. The recent slowing in labour cost
alongside the decline in the inflation rate, mean that costs and p
slowly, but they are not yet consistent with a stable 2.0% inflatio
labour cost growth is stronger than that in the US.

Pushback

No wonder the European Central Bank (ECB) and the Bank of Eng
hawkish, holding interest rates stable at their meetings last wee
and ECB President Lagarde argued that policy loosening was stil
labour markets and strong wage growth. Three BoE policymaker
rate increases, while the ECB announced that it would speed up
Emergency Purchase Programme stimulus.

Even at the Fed, there is no unanimity about its policy easing pat
interviews, Powell said the central bank is not taking the rate-hi
while FOMC members including John Williams and Raphael Bost
expectations.

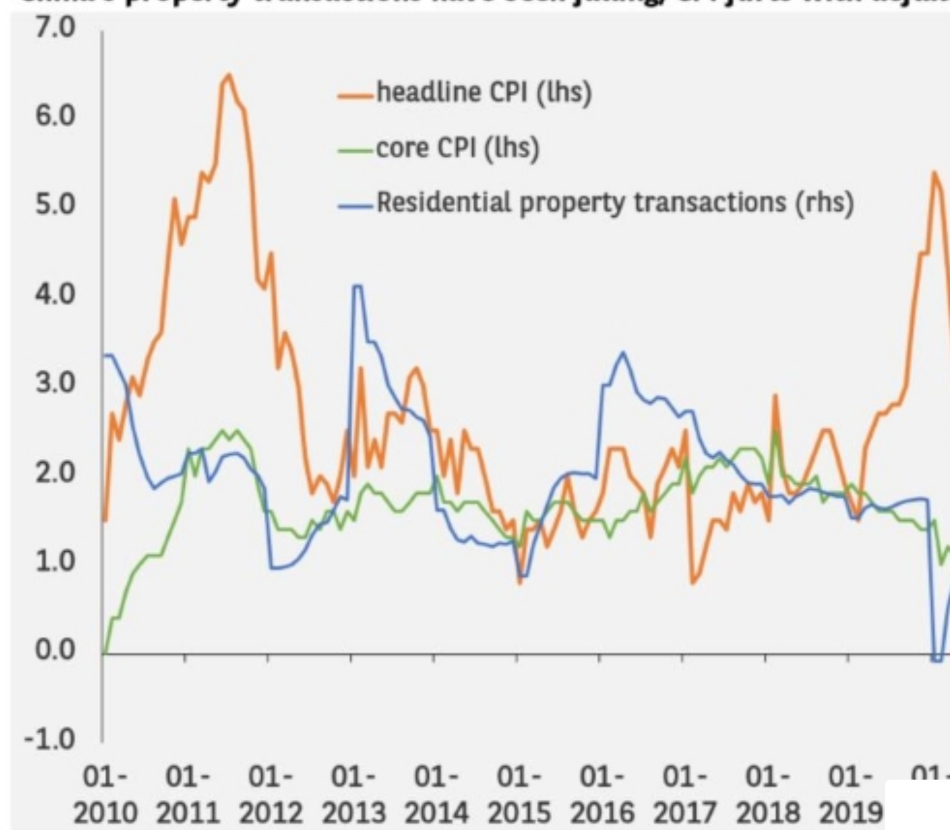
More easing from China

China, meanwhile, was more assertive, signalling further easing
Central Economic Work Conference (CEWC) last week.

The CEWC stressed 'high-quality growth' as the top priority
stability by 'building (new industries) first before breaking (
more policies to stabilise consumer and business expectatio

Feedback

Realising that China's property market woes are raising the risk
the CEWC reiterated advocacy of policies to stabilise the sector,
urban village renovation and social housing construction, and in
viable non-state-owned developers.



sources: CEIC, BNP Paribas Asset Management 18 Dec 2023

Feedback

Indeed, the People's Bank of China recently announced a plā trillion (about USD 141 billion) into the financial system for investment in major cities. It has also drawn up a 'whitelist' of 5 credit support. The risk, however, is the implementation of these are still to be carried out.

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liquidation and conservation on behalf of funds invested in emerging ma

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