26 April 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

US shifts outlook, who shall follow?

Key points

- Successive US reports, payrolls, inflation and retail sales led Fed Chair Powell to suggest that restrictive policy would likely be required for longer. We shifted our view to the Fed cutting twice this year, now from September.
- Despite stickier inflation, real rates have risen as the scale of policy required to return inflation to target is reassessed. This is having global implications.
- The ECB appears on track for a June cut, but markets question the BoE. Weaker domestic currencies may influence policy in Canada and Japan, and Emerging Markets. Rising rates also threaten local fiscal positions.
- Beyond US dynamics, we focus on China, where recent data suggest that last year's stimulus is finding more traction. We discuss the housing market, which we see acting as a drag, but avoiding crisis.
- Geopolitical tensions have also built, both between Israel-Iran and with a continuing war in Ukraine.

Global Macro Monthly

US shifts outlook, who shall follow?

Global Macro Monthly Summary April 2024

David Page
Head of Macro Research

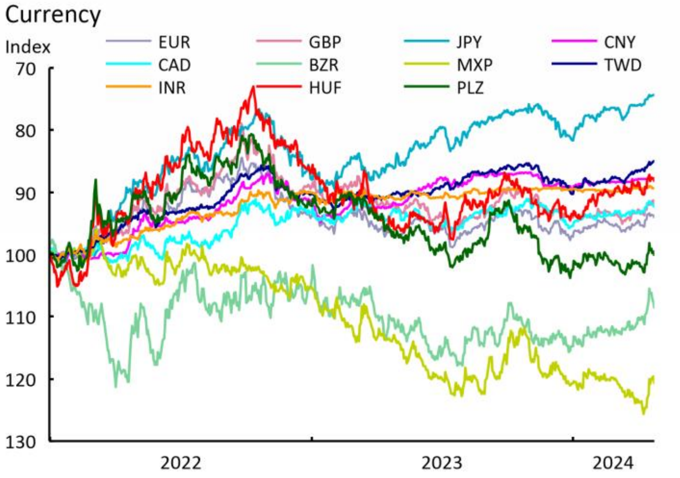
Where the US goes, the rest shall follow?

The US economy has undergone a material re-pricing in its interest rate outlook since the end of 2023; financial markets had assumed around seven rate cuts by end-2024 – despite our outlook for three. Markets had faded most of those out by last month but a succession of stronger reports, including payrolls, inflation and retail sales led us and apparently the Federal Reserve (Fed) to adjust its outlook, including for June being the first easing. Indeed, Fed Chair Jerome Powell explained it would take "longer than expected" to achieve the confidence necessary to ease policy. We have shifted our expectation (since October) for the Fed to start easing in June, now seeing September. We now expect only two cuts this year and term rates have risen significantly.

Increases in real rates, not breakeven inflation, are reflecting stickier inflation – particularly in services. Markets are not in the main questioning the Fed's ability, or desire, to return inflation to target. Rather they question how forceful the Fed will have to be to achieve this outcome and how restrictive is current policy. The tightening in financial conditions since this repricing is likely to be a necessary part of slowing growth and inflation. However, that adjustment may be helped or hindered by a broader reassessment of sentiment.

These developments are driving changes in the US but also beyond. The European Central Bank (ECB) continues to signal a June cut and markets now agree with our outlook for three cuts this year. Independent of the Fed, this is taking its toll on the euro, which touched near six-month lows. The Bank of Japan (BoJ) faces a similar dynamic, despite its first hike since 2007; US dollar strength has seen the yen hit a 34-year low, although BoJ Governor Ueda said this will not impact domestic policy. The Bank of Canada also appears to have an eye on a soft Canadian dollar and we expect it to hold out to July before easing policy. Meanwhile, markets see US traits in UK inflation, now expecting slower easing from the Bank of England (we do not concur and expect three cuts starting in June, impacting sterling). More broadly, the dollar's strength is also leading to downward pressure on emerging market currencies (Exhibit 1), in some instances appearing to slow the expected pace of easing, particularly across Latin America and Asia. Finally, rising US rates could put more pressure on international fiscal balances by driving global rates higher without improvement in different countries' underlying growth rates – a risk for developed and developing countries alike.

Exhibit 1: USD gains against most international currencies



Source: LSEG Datastream , AXA IM Research, 24/04/2024

Yet other dynamics are at play in the global economy, for example in China. The latest quarterly GDP figures showed some signs of improvement, particularly in policy-spurred investment areas, but also in a drawdown in household saving. In this month's Theme of the Month, we summarise a detailed outlook of dynamics in the Chinese property sector[1]. There we discuss the history and outlook for Chinese property and look at its impact on the broader economy. We have upgraded our outlook for this year's growth to 5.0% (from 4.6%) and 4.2% (unchanged) for 2025. This assumes China's authorities temper any further property declines but this sector is still likely to prove a drag over the coming years.

More broadly, geopolitical tensions have risen. Markets have become increasingly alarmed at escalating tensions between Israel and Iran, reflecting tit-for-tat strikes following Israel's strike against an Iranian embassy. Oil prices breached \$90 for the first time in six months as markets weighted the outlook. Elsewhere, Ukrainian forces have struggled to contain Russian advances in the East. And the US has recently released a significant \$95bn multiple aid package, including \$60bn for Ukraine and funds for Israel and the Indo-Pacific region. These tensions look set to continue to shape broader developments.

[1] Wang, Y., "Brick by brick: Unravelling the China Property Puzzle", AXA IM Research, Coming soon.

Global Macro Monthly – US

David Page
Head of Macro Research

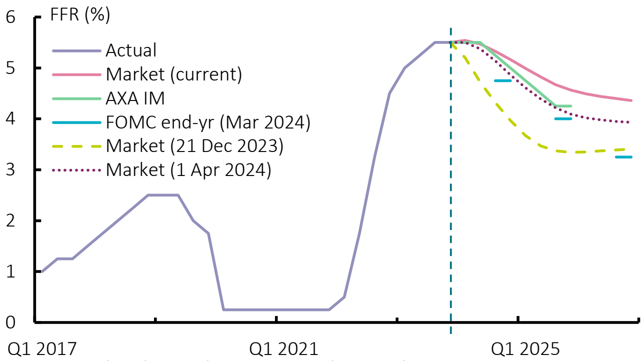
Fed reassesses policy outlook

Three reports changed the Federal Reserve's (Fed) near-term outlook: March's payrolls recorded another strong 303k increase; CPI inflation saw the core measure unchanged at 3.8%, with ex-shelter services inflation accelerating again; and retail sales posted a stronger-than-expected 1.1% increase (ex-autos) with an upward revision to February. Speaking at an IMF forum, Fed Chair Jerome Powell acknowledged the inflationary backdrop had not boosted confidence that it was on a sustainable path to target, and monetary policy was likely to need more time to deliver that confidence.

Following the third successive sticky CPI report we pushed back our expectation, held since October, that the Fed would begin to loosen policy from June. Initially we saw this as a modest adjustment but following Powell's comments we now see the first cut occurring in September, and pencil in just two cuts this year and three in 2025 (Exhibit 2). Financial markets have moved further, not fully pricing a cut in September, nor two cuts this year. And risks appear to continue to be skewed towards firmer-than-expected activity and stickier inflation, plausibly delaying easing further.

Exhibit 2: Curve re-pricing across April

US - Fed Funds Rate and forecasts



Source: FRB, Bloomberg and AXA IM Research, 22 April 2024

The GDP outlook has softened – Q1 saw a 1.6% rise, a more noteworthy slowdown from a solid 3.4% in Q4. Within that consumer spending slowed only modestly to 2.5% from 3.3%, following February's already solid consumption and March's stronger retail sales gains. This despite anecdotal evidence from the Beige Book and Conference Board's sentiment survey suggesting a softer outcome. This reflected several factors but solid employment growth and wealth effects contributed. But spending growth is softening sequentially and tax revenue should increase this year. This could be further exacerbated by the more recent tightening in financial conditions.

Moreover, some aspects of this stronger growth should not be inflationary. The Congressional Budget Office raised its estimate of 2023 migration to 3.3m, far above the Census Bureau's official 1.2m estimate. This strong migration and, to a lesser extent, increases in participation have lifted labour supply, explaining rising unemployment and softening wage growth despite strong payrolls growth. This suggests the pace of non-inflationary growth is higher than before.

Against that inflation has remained stickier. While it rose to 3.4% in March, core remained at 3.8%, with services inflation at 5.3%. Services inflation has been driven by shelter prices, which have not yet slowed to the extent suggested by new rents. Ex-shelter services inflation also continued to rise, reaching 7.3% (3 month -annualised) in March. Much of this was driven by rising car insurance, which looks more administrative than symptomatic of an overheating economy. Broader indicators of services inflation – for example, the prices paid component of the services ISM index – suggest material disinflation ahead. Moreover, PCE inflation exhibited less of an overshoot and stands a little over January's 2.4%, 3-year low. For now, we anticipate softer inflation over the coming months, albeit not enough for a June cut.

Markets are also concerned about Fed cuts around the time of the Presidential election. We consider it market folklore that Fed policymaking alters around elections – there is no statistical evidence for it. As such, we expect the Fed to begin to ease policy in September. With further economic deceleration over 2024 and easing inflation, we forecast a modest easing in restrictive policy, but now forecast two cuts this year (from four last month) and three next (unchanged) taking the Fed Funds Rate to 4%-4.25% by-end 2025. While we still see risks skewed to firmer activity, inflation and rates, Fed Vice Chair Philip Jefferson stated if inflation were to remain higher, the Fed would have to hold policy for longer. This seemed to be trying to pre-empt any expectation that if policy rates do not fall, they could rise – an unlikely outcome in our opinion.

Finally, we await the Fed's decision on the pace of quantitative tightening (QT) "fairly soon" a statement we see as consistent with a June announcement. Over the last seven months, the reduction of overnight reverse repo holdings has added market liquidity faster than QT has withdrawn it, something we think has acted as a tailwind to risk assets. This is unlikely to persist in H2, even with a slower pace of QT. Financial conditions have tightened as markets have reassessed the prospect of rate cuts. A return to withdrawing, rather than boosting liquidity could be an additional headwind for financial conditions across H2.

Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
Macro Research

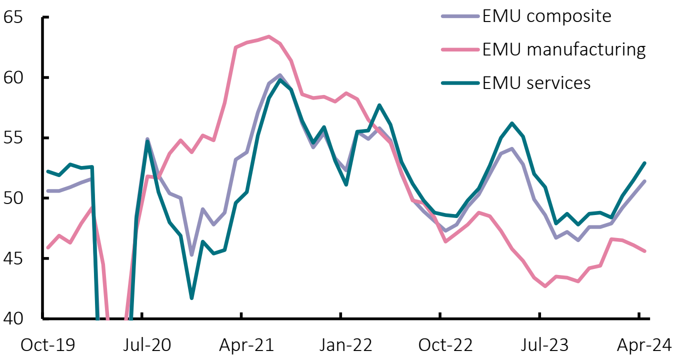

Hugo Le Damany,
Eurozone Economist
Macro Research

Growth: Better news to come in spring

Economic activity is (very) gradually improving in the Eurozone, but this remains driven by services, as suggested by the most recent Purchasing Managers' Indices (PMIs): 52.9 in April, +1.4 points from last month. However, the manufacturing sector remains weak. Despite a rebound in monthly industrial production in February to +0.8% after -3% in January (-2.4 percentage points of which were due to Ireland), PMIs in March and April did not point to immediate recovery (45.6; -0.5pt from March) (Exhibit 3). The preliminary GDP estimate will be published on 30 April and we still forecast a meagre GDP growth of around +0.1% quarter-on-quarter.

Exhibit 3: Services sector continue to lead the gradual recovery

EMU Purchasing Managers indices



Source: Bloomberg and AXA IM Research, April 2024

Inflation is decelerating a bit faster than expected, surprising to the downside for both headline and core in March at respectively 2.4% and 2.9% year-on-year. However, services inflation remained sticky at 4% for the fifth successive month, but this was distorted by the earlier timing of Easter this year. We remain confident that services inflation should start a downward trend from April, but more decisively after the summer.

ECB: The bar is high for not cutting

As expected, the European Central Bank (ECB) kept the status quo on its short-term interest rate in April. ECB President Christine Lagarde said only a small minority was already pushing for a cut. The ECB broadly delivered the same communication as in March, that it remains data dependant while its June projections will be key to "further increase the confidence that inflation is converging to the target in a sustained manner" as "then it would be appropriate to reduce the current level of monetary policy restriction".

In other words, the bar is high for not cutting interest rates in June, matching our long-standing call, and this despite upside surprise on inflation in the US that has seen us shift our outlook for rate cuts there. The ECB has reiterated that it is not "Fed dependant" and we continue to believe it would be justified in engaging in rate cuts as economic performance continues to diverge while inflation risks are higher in the US. The other threat is the recent rise in oil price due to geopolitical tensions, but this remains a risk case scenario at this stage.

On a slippery (fiscal) road

France and Italy have posted deficit slippages in 2023. Now, these countries must find tens of billions of savings (or new revenues) this year and next to get back to the objectives of deficit reduction and alignment with European Union fiscal rules. Rating agencies' reports over the next few weeks will be closely monitored.

The first such report – S&P on Italy, published 19 April – didn't provide any analysis but maintained the current rating (BBB) and stable outlook. We believe Fitch and Moody's update on 3 and 31 May should be the same. We believe rating agencies still pencil in a strong impact from Next Generation EU funds (of which €40bn are expected to be spent this year) while the government is curtailing the Superbonus fiscal subsidy, which has cost around €160bn (8% of GDP) since 2020 against €35bn initially planned. Finally, rating agencies are probably projecting a lower interest rate charge due to an important decline in yields in recent months (currently averaging 3.6% on 10-year BTPs against 5% six months ago).

For France, all three major rating agencies have already warned that further deficit slippages would put its rating at risk. Looking forward, we are particularly worried about the government's ability to find substantial savings in 2025 (close to €20bn is needed) and beyond, following last year's deficit revision to 5.5% of GDP. For those reasons, a deterioration of the outlook is very likely by Moody's and likely for Fitch (already downgraded last year). More worryingly, S&P already has a negative outlook so a rating downgrade to AA- is a possibility.

26 April 2024

Global Macro Monthly – UK

Gabriella Dickens,
Economist (G7)
Macro Research

Stronger-than-expected data won't prevent June cut

The latest data suggests the UK exited recession at the start of 2024, with monthly GDP rising by a further 0.1% on the month in February, following an upwardly revised 0.3% increase in January. On a quarterly basis, GDP is now on track to rise by 0.3% in Q1 – slightly above our forecast 0.2% – even if activity remained unchanged in March. The recovery will likely maintain a similar pace over the remainder of the year, driven by a rebound in consumption as real incomes continue to rise. Pay growth looks set to continue to outstrip inflation while tax cuts and benefit hikes will provide an additional boost in the spring. We continue to look for growth of 0.4% this year and 0.8% in 2025.

Wage growth and inflation also came in slightly above expectations. Average weekly earnings excluding bonuses eased to just 6% in February, from 6.1% in January – a drop to 5.8% was expected. Consumer Price Index (CPI) inflation fell to 3.2% in March, from 3.4% -– a fall to 3.1% was anticipated by both forecasters and the Bank of England (BoE). Perhaps most concerning was services inflation edging down to 6.0%, from 6.1%.

Nonetheless, labour market slack has continued to develop; the unemployment rate jumped to 4.2% in February, from 3.9% in January and vacancies fell for the 21st three-month period in a row. Pay growth, therefore, should start to decelerate materially in the latter part of the year, once any upward pressure from the near-10% National Living Wage hike peters out. CPI inflation also looks set to fall broadly back to the 2% target in April, largely due to the adjustment in regulator Ofgem's price cap. Admittedly, the headline rate will likely rise back above target in Q3, as base effects mean the downward contribution from energy fades. But services inflation should fall to the 3%-3.5% range necessary to return the headline rate to target sustainably next year; we consider the risks to the BoE's forecast lie to the downside in 2025.

The BoE doesn't seem too worried about the latest data, with Governor Andrew Bailey and Deputy Governor Dave Ramsden insisting that inflation is continuing to develop as expected, emphasising the forecast sharp drop in the headline rate in April. All considered, we think a June interest rate cut still looks most likely with two further cuts in September and November. Nevertheless, risks would be for a delay to August if inflation and wage growth continue to come in above expectations.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Firmer growth and softer inflation

Contrary to our doubts about growth at the start of the year, January's monthly GDP posted a rise of 0.6% (from 0.4% preliminary) and indicated a 0.4% rise in February. At face value this suggests a 3% annualised rate for the first quarter (Q1). This is qualitatively consistent with a rise in business and consumer surveys in March. Although we continue to take a more cautious stance for Q1, a stronger start leads us to raise our full year forecast again to 1.2% (from 0.8% last month), although we leave next year unchanged at 1.7%. This is stronger than consensus (0.8% and 1.7% respectively), but softer than the revised Bank of Canada (BoC) forecasts, which rose to 1.5% and 2.4% respectively (from 0.8% and 2.4%).

A stronger growth outlook reduces the urgency for BoC policy easing. Inflation, however, has posted signs of improvement. Headline inflation ticked higher in March to 2.9% from the previous month's 4-year low but measures of core inflation edged lower. Even though progress has been slower here, there are signs that it may be beginning to ease. This has been helped by labour market developments. March recorded an outright fall in employment for the first time since July but a strong January and February left jobs growth solid across Q1 as a whole. Yet even stronger labour supply growth, underpinned by robust migration, continued to loosen the labour market and unemployment rose to 6.1% – a 26-month high – while wage growth softened after a strong turn of the year, reducing concerns of inflation persistence.

The BoC's April Monetary Policy Report raised its growth forecast and edged its inflation outlook lower (to 2.6% from 2.8% for this year). April's guidance no longer referred to concerns of inflation persistence, instead describing "progress on most indicators of underlying inflation" and did not repeat last month's "too early to loosen the restrictive policy that has gotten us this far". The BoC appears ready to start loosening policy, but we still forecast only from July and markets now only price a 60% chance of a June move. This in part reflects the ongoing weakening in the Canadian versus US dollar as markets question the timing of a Federal Reserve move. Beyond that we still consider three cuts (to 4.25%) by year-end, even as markets now doubt three cuts, having priced more than six cuts at the end of 2023. We also leave our end-2025 forecast unchanged at 3.50%, as markets now see higher, having priced 2.75% before.

Global Macro Monthly – China

Yingrui Wang
Economist (China)
Macro Research

Encouraging Q1 figures bring the target within reach

China's economy enjoyed robust 5.3% year-on-year growth in the first quarter, significantly surpassing market expectations. This strong expansion reflected the effective implementation of the fiscal packages announced at the end of 2023 with investment, mainly in manufacturing and infrastructure projects, driving the momentum. State-Owned Enterprises (SOEs) were the primary investors, while private and foreign investment remained subdued. On a positive note, the industrial sector started 2024 with improved profitability, partly due to favourable base effects from the previous year, laying down better fundamentals for future investment in the sector.

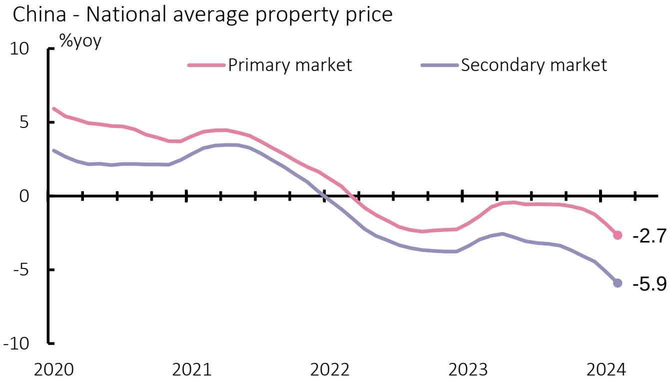
We believe Q1's stronger momentum positions the economy well to achieve this year's growth target. Therefore, we have revised our forecast upwards to 5.0% for the year (from 4.6%), taking into account the apparent effectiveness of current policy measures, but also an improving outlook for consumer spending and the start of a recovery in exports.

Declining property prices becoming normal

Alongside policy-backed investment support, another factor driving our GDP forecast is the early signs of a reduced propensity to save which, if sustained, suggests a brighter consumption outlook. Due to prolonged and strict lockdown measures, a weak labour market with bleak income prospects and a decline in the property market, household balance sheets have been severely impacted. This is evident from the short-lived consumer rebound when lockdowns were eased and the more persistently subdued retail sales thereafter, especially for big-ticket items. Meanwhile, the downward trend in the M1 and M2 money supply ratios became more pronounced in 2022, indicating an increasing amount of money was being stored as saving deposits, underscoring a rising propensity to save in part caused by the negative wealth impact from the housing market decline. The relatively significant uptick in the M1/M2 ratio in March, not seen since June last year, may indicate a revival in consumer appetite, which is crucial to reflate the economy.

Although the outlook for consumption seems to be improving, it has surely not been supported by any stabilisation in the housing market. On the contrary, the annual price changes for both new and existing housing markets remain deeply negative (Exhibit 4). As the price adjustment continues, it is becoming clearer to the consumers that this downturn is different from previous episodes and is likely to last longer. Consequently, the expectations have adjusted and the ongoing impact of future housing price declines on overall consumer confidence is likely to be weaker than the initial shock.

Exhibit 4: A stable property price is still not yet in sight



Source: CEIC and AXA IM Research, April 2024

China's exports were subdued in 2023 as muted external demand continued amidst a tightening cycle, exerting downward pressure on China's GDP outlook. However, the outlook has started to improve. The annual pace of decline in export values started to narrow in the second half of 2023 and grew by 1.6% in Q1 this year. The bigger growth in exports volume coincides with the recent depreciation of the yuan. Moreover, China's exports have shifted towards neighbouring countries and regions, with exports to Hong Kong, Vietnam, Malaysia and South Korea increasing the most. Exports to the European Union (EU) and North America have reduced, the former likely due to subdued demand growth, but with broader geopolitical disruptions in the Middle East leading to difficulties and rising freight costs.

A strong Q1 was much needed to reverse persistent gloomy market sentiment. However, economic recovery is still in a fragile infancy. Domestically, it remains heavily reliant on ongoing policy support. In this regard, positive data could bring bad news to the economy as officials may relax and curb future policy stimulus. We expect the announced fiscal measures to continue rolling out, but monetary policy measures could be weaker and delayed. We maintain our forecast for a 50bps RRR cut. However, given robust figures and considering the tight net interest margins the domestic commercial banks are bearing and the expected delayed and weaker easing actions from the US Federal Reserve and other major central banks, the People's Bank of China may delay any potential policy rate cuts at this stage. We also note that China's export recovery may also be vulnerable to increased international resistance, including recently announced steel and aluminium tariffs from the US even ahead of the US election and plausibly from the EU.

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Government looks set to intervene in FX market

The yen has depreciated, despite the Bank of Japan (BoJ) enacting its first-rate hike since 2007 in March, bringing an end to its negative interest rate policy as well as abolishing its yield curve control. The BoJ's cautious outlook after its March meeting explains part of this depreciation but the downward shift in market expectations for US interest rates exacerbated the fall. Indeed, the yen broke through the symbolic ¥152 threshold and on 19 April was trading at around ¥154.40, a more than 30-year low. Recent unified comments made by officials from the US, Japan and South Korea appear to have halted the fall for now but government intervention to support the currency seems more likely than not.

The BoJ, however, is unlikely to respond directly, with Governor Kazuo Ueda stating in parliament that "we absolutely won't change monetary policy in response to exchange rate moves". He also said that rising import prices alone wouldn't trigger a hike, instead reiterating the key was whether upward price pressure translates into broader inflation and pay growth.

On this front, the outlook is broadly positive. Yes, private consumption likely fell again in Q1, as shown by the 0.5% year-on-year fall in households' spending in February. But rising wages following the Shunto wage negotiations means pay growth should start to outpace Consumer Price Index (CPI) inflation in Q2, boosting households' real incomes and spending. A persistently weaker yen will also push up broader inflation, if firms pass on rising costs. As a result, the BoJ looks set to raise its inflation outlook at its April meeting. A further hike to short-term interest rates this year therefore looks likely; we forecast one more 10 basis points (bps) hike by year-end and a further 20bps by end-2025. We also expect it to start to consider balance sheet reduction towards the end of this year, but implementation will be unlikely until at least 2025.

More broadly, economic activity in Japan likely rose marginally in Q1, after a 0.1% quarterly increase in Q4. While the Tankan survey showed business conditions fell for large manufacturers in Q1 (to +11, from +12), it rose for large non-manufacturers (to +34, from +32). In addition, the headline composite Purchasing Managers' Index (PMI) ticked up to 51.7, from 50.6, in line with its September reading when growth fell on the quarter. There are some early signs that the weaker yen is increasing demand for Japanese exports, which should start to boost headline growth further ahead.

Global Macro Monthly – EM

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

Adjusting to the Fed's new trajectory

After having expected significant easing in US monetary policy (contrary to our outlook), markets have materially pushed back their forecasts. Since December 2023, the cumulative increase in the markets' implied policy rate for the US has moved higher by 37 basis points (bps) for year-end and 78bps for end-2025 (Exhibit 5).

Exhibit 5: Strong adjustment in policy rates' expectations

Change in market implied policy rates Cumulative in bps, since end-2023		
Country/Region	YE24	YE25
US	37	78
LATAM		
Brazil	77	88
Mexico	-407	-246
Colombia	15	123
Chile	13	70
EM Asia		
Korea	4	23
Taiwan	31	41
India	-249	52
Malaysia	7	11
Philippines	-55	9
Thailand	-8	-8
EMEA		
Poland	47	116
Czech	58	87
Hungary	17	51
Turkey	176	-221
South Africa	65	106

Source: Bloomberg, AXA IM calculations, April 2024

**in red=superior to the US, in green=downward adjutment*

Implied policy rates have also broadly moved higher in emerging markets since the end of last year. Yet, since 2023, markets have retraced policy rates expectations for several Asian economies such as India and the Philippines, as well as for Mexico. Central Europe remains the region that has seen the strongest upside adjustment in policy rates expectations, with Turkey at the extreme given the return to monetary policy orthodoxy implemented since last May's elections. Indeed, while disinflation continues, albeit at a slower pace, emerging market central banks are already adjusting the pace of easing or postponing the start of the easing cycle, wary of the real interest rate differential with the US, the weakening of their currencies in light of a strong US dollar and potential fiscal risks.

Global Macro Monthly – EM Asia

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

Policy complications

The timing of policy rate cuts and the unwinding of subsidies across emerging Asia has been complicated by the expected delay in US rate cuts and the risk of prolonged higher oil prices amid an escalation in Middle East geopolitical tensions.

Monetary policy tightening and subsidies on food and fuel have together brought inflation down. However, the disinflationary trend has stalled and central bankers have been averse to shifting away from their current tight policy stance. Pressure for rate cuts has been limited (aside from in Thailand), and this in part reflects continued growth in domestic demand. In recent weeks, central bankers in India, Thailand, the Philippines and South Korea have kept policy rates on hold.

Despite this restrictive policy, real rate differentials with the US are negative (or close to), and the region's currencies have weakened sharply this year, with recent risk-off sentiment adding to the dollar strength. The prospect of continued high US real yields will further discourage central bankers from cutting policy rates too soon, given the risk of capital outflows and inflationary pressure stemming from further depreciation. In April, the Indian rupee was trading at record lows against the US dollar, but reflecting the extent of depreciation elsewhere, it has been among the best performing currencies in the region so far this year. As of mid-April, the Korean won was down 6.9% year to date against the dollar, the Thai baht was down 6.3%, and Indonesia's rupiah was 4.8% lower.

With the high cost of living being an increasingly sensitive political issue during a year of elections across the region, governments have little appetite to reduce subsidies that have shielded households from the full impact of food and energy price volatility. In January, Indonesia raised its planned energy subsidies by 17% for 2024 compared to last year, and South Korea extended fuel tax cuts for a further two months in mid-April. However, prolonged intervention will be costly if oil prices remain high and currencies stay weak, particularly for the region's heavy importers. Malaysia's government is struggling with low approval ratings but it has said it will stick to its plan to cut fuel subsidies this year to narrow its fiscal deficit. Thailand has also had to trim diesel price subsidies owing to the escalation in debts run up by the Oil Fuel Fund Office. Higher subsidies will boost GDP and dampen headline inflation but will broadly add to fiscal concerns.

Global Macro Monthly – LatAm

Luis Lopez Vivas,
Economist (Latin America),
Macro Research

Springtime surprises

March saw inflation continuing to decrease across Latin America, with readings either surprising to the downside or closely aligning with consensus expectations. The retreat of food prices, following surges caused by extreme weather conditions, contributed significantly to March's inflation rate falling below expectations.

In Brazil, March's headline inflation undershot expectations, coming in at 3.9% year on year, down from 4.5% a month earlier, effectively returning to the central bank's inflation target band. Besides the impact of lower food prices, decreased industrial prices also contributed to disinflation. However, inflation in core services remained relatively elevated. Similarly, in Chile, over March inflation fell more than expected, coming in at 3.2%, down from 3.6% in February and very close to the 3.0% inflation target. The decline was driven by lower food prices, though core inflation remains elevated at 3.7% due to sticky prices in core services.

Meanwhile in Mexico, inflation remained at 4.4% in March, staying above target, but defying consensus expectations for a rise. The decline in food prices was offset by increases in transportation and housing costs. On a more positive note, core inflation fell slightly in March. In Colombia, March's inflation number matched market expectations, falling to 7.3% - the lowest reading since February 2022, but still considerably above the inflation target.

Peru diverged from the regional trend by posting a higher-than-expected inflation result in March of 3.0%, albeit a decrease from February's 3.2%. Unlike other countries, this upside surprise was driven by higher food prices, although the central bank believes this spike to be temporary.

Despite the generally positive results led by lower food prices, services inflation across the region remains stubbornly persistent. Consequently, central banks are not expected to adopt a more dovish stance because of March's downside surprises. Expectations remain for Brazil and Colombia to maintain their easing pace of 50bps at their next monetary policy meetings, while Mexico and Peru are anticipated to make further cuts of 25bps, and Chile to slow its pace to 50bps. More broadly, US dollar strength is resulting in currency weakness that may add to more cautious bank easing.

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.1		3.1	
Advanced economies	1.7	1.4		1.3	
US	2.5	2.4	2.1	1.6	1.8
Euro area	0.5	0.3	0.5	0.8	1.5
Germany	-0.1	-0.1	0.3	0.7	1.5
France	0.9	0.4	0.7	0.7	1.3
Italy	1.0	0.3	0.5	0.6	1.2
Spain	2.5	1.6	1.5	1.3	1.9
Japan	1.9	1.2	0.7	1.0	1.0
UK	0.3	0.4	0.3	0.8	1.2
Switzerland	0.9	0.8	1.1	1.3	1.5
Canada	1.1	1.2	0.6	1.7	1.9
Emerging economies	4.1	4.1		4.2	
Asia	5.3	5.2	4.0	4.7	
China	5.2	5.0	4.6	4.2	4.4
South Korea	1.3	2.2	2.1	2.3	2.2
Rest of EM Asia	5.9	5.8		5.4	
LatAm	2.4	1.7		2.6	
Brazil	2.9	1.6	1.6	2.0	2.0
Mexico	3.3	2.2	2.2	2.1	2.2
EM Europe	2.6	2.5		2.6	
Russia	3.0	2.6	1.7	1.1	1.1
Poland	0.2	2.8	2.8	3.5	3.4
Turkey	4.3	2.0	2.2	3.6	3.2
Other EMs	1.9	2.8		4.6	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 April 2024
*Forecast

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.8		2.2	
US	4.1	3.1	2.6	2.4	2.3
Euro area	5.5	2.5	2.3	2.1	2.1
China	0.2	0.6	0.9	1.6	1.9
Japan	3.2	2.2	2.3	1.6	1.5
UK	7.7	2.7	2.6	1.6	2.0
Switzerland	2.2	1.6	1.6	1.3	1.3
Canada	3.6	2.4	2.6	2.2	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 April 2024
*Forecast

These projections are not necessarily reliable indicators of future results

Investment Managers

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Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	1 May 12 Jun	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		unch (5.50)	-0.25 (5.25)	-0.25 (5.00)
Euro area - ECB	Dates	4.00	11 Apr 6 Jun	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	0 - 0.1	25-26 Apr 13-14 Jun	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (0-0.1)	unch (0-0.1)	+0.15 (0.15-0.25)
UK - BoE	Dates	5.25	9 May 20 Jun	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		-0.25 (5.00)	-0.25 (4.75)	-0.25 (4.50)
Canada - BoC	Dates	5.00	10 Apr 5 Jun	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 25 April 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our April Investment Strategy

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

About AXA Investment Managers

AXA Investment Managers (AXA IM) is a leading global asset manager offering a diverse range of global investment opportunities in both alternative and traditional asset classes. Through our products we aim to diversify and grow portfolios, while delivering long-term investment performance and value for clients.

AXA IM manages approximately €844 billion in assets, of which €480 billion are categorised ESG-integrated, sustainable or impact as at the end of December 2023. We are committed to reaching net zero greenhouse gas emissions by 2050 across all eligible assets, and to integrating ESG principles across our business, from stock selection to our corporate actions and culture.

Part of the AXA Group, a worldwide leader in insurance and asset management, AXA IM employed over 2,700 employees and operates from 23 offices in 18 countries globally at end of December 2023

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