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Prospect of slippage in rate-cut timetables

Last week's US inflation figures lent weight to the idea that the Fed would start cutting later than expected. There's no doubt that disinflation is under way. But the latest data shows that the road ahead will be winding. And unless the labour market drops sharply, the Fed will remain cautious about cutting rates too soon.

CPI showed that US inflation picked up again last month. Consumer prices swung back upwards in December, rising by 0.3% month-on-month and 3.4% year-on-year, driven by housing prices – exceeding the forecast for a slight rebound to +3.2% from November's +3.1%. Stripping out volatile food and energy prices, however, core inflation has slowed to 3.9% year-on-year from 4.0% in November and was even stable month-on-month. This confirms that disinflation will not be a linear process, meaning that the Fed will be cautious about easing.

Inflation rears its head again

On the producer price front, the PPI clocked in weaker than expected at +1.0% year-on-year in December, even dropping by -0.1% month-on-month. Pressure on costs is easing, particularly as energy prices ebb.

The US labour market once again showed its unflagging strength, with jobless claims dropping to 202,000 in the week ending 6 January, compared with 203,000 in the previous week and 210,000 forecast.

US 10-year yield shed 10 basis points over the week. Investors continue to believe firmly in a rate cut by March despite the resurgence of inflation. Yields on the German 10-year Bund are back above 2.20%.

In Europe, inflation in France accelerated in December on the back of an upswing in service and transport prices. The Harmonised Index of Consumer Prices (HICP) stood at 4.1% year-on-year versus 3.9% in November. Eurozone inflation figures, released this Thursday, are expected to show prices stabilising.

In China, deflation held sway in December for the third consecutive month. Consumer prices fell by 0.3% year-on-year and producer prices by 2.7%. Exports and imports rose by 2.3% and 0.2%, respectively. In short, the Chinese economy is still not showing signs of a brisk recovery and this is dampening investor morale.

No sign of a brisk recovery in China

Results season kicks off for US banking majors on Friday. We expect a mixed bag of figures, with fourth-quarter results under pressure from charges linked to bank failures. Banks have also indicated that the impetus provided by high interest rates could fade.

Financial markets have been buoyed by hopes of an imminent rate cut, despite a slight rise in consumer prices. The S&P 500 ended the week up 1.84%, the Nasdaq up 3.09%, while the Stoxx Europe 600 was static at +0.08%.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.85	0.93	11'226.40	4'480.02	16'704.56	7'465.14	7'624.93	4'783.83	14'972.76	35'577.11	996.30
Trend	→	→	→	→	→	→	→	→	→	↑	→
YTD	1.31%	0.50%	0.80%	-0.92%	-0.28%	-1.03%	-1.40%	0.29%	-0.26%	6.31%	-2.68%

(values from the Friday preceding publication)

Swiss Market Index (SMI)

The SMI has still been unable to break upwards of 11270, even though this resistance was breached momentarily last week. We are maintaining our outlook for sideways drift.

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