

Morning Market Tidbits

On track for cuts

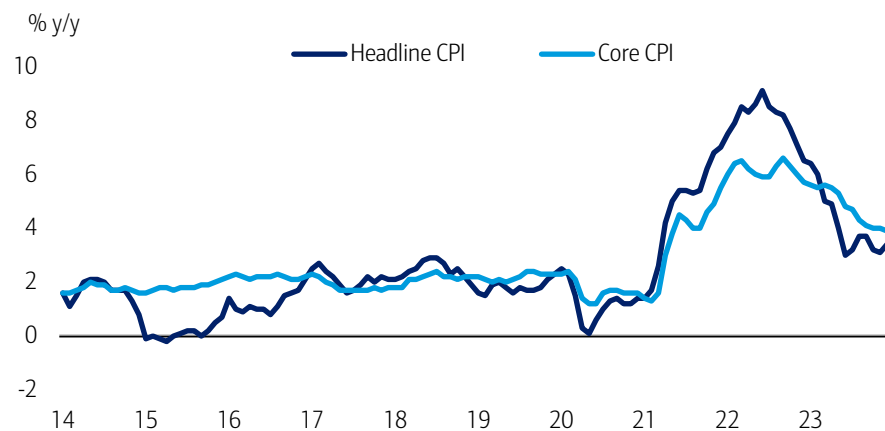
In focus

In our recent [US Economic Weekly](#), we reviewed the recent CPI report and implications for the Fed. Until it sees further progress on services inflation, the Fed will likely be concerned about upside risks to inflation and send the message that it cannot rule out further hikes. This is normal; policymakers prefer to retain options rather than eliminate them. That said, we think the combination of the soft underlying tone of the December employment report – where employment gains have become more narrowly driven – combined with the undeniably encouraging progress towards the 2% inflation target are likely to move the Fed one step closer to normalizing its policy stance.

In our recent [Global Economic Weekly](#), we discussed our recent global forecast changes. Since the publication of our Year Ahead reports, we have updated our growth, inflation, and policy rate forecasts for some core countries. Even though the overall narrative remains unchanged, certain changes are worth highlighting: stronger US growth, weaker Euro area growth, a first Fed cut in March, and a delayed BoJ policy normalization.

Exhibit 1: Headline and core CPI inflation (% change, y/y)

Headline inflation ticked higher in December, while core decelerated further



Source: BEA, Haver Analytics, BofA Global Research

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16 January 2024

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FOMC: Federal Open Market
Committee

CPI: Consumer Price Index

PPI: Producer Price Index

SEP: Summary of Economic
Projections

ON RRP = overnight reverse repo

SOMA = System Open Market
Account

QT: Quantitative Tightening

PCE = Personal Consumption
Expenditure

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Timestamp: 16 January 2024 08:40AM EST

Market action

The Asian equity markets that we cover closed mostly negative overnight. Looking at individual markets, the Hang Seng, the Korean Kospi, the Nikkei and the Indian Sensex fell 2.2%, 1.1%, 0.8% and 0.3% respectively. On the flipside, the Shanghai Composite added 0.3%.

As of 7:00 am ET, aggregate European stocks are down 0.4% and S&P500 futures are down 0.4%. In the bond markets, 10-year Treasury yields are at 4.01% and German Bund yields remained at 2.24%. The dollar index is at \$103.16. WTI crude oil prices are \$0.22 higher at \$72.90/bbl, and gold prices are at \$2,039.89/oz.

Data Preview

January 16th

Empire Manufacturing

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
1/16/24	8:30	Empire Manufacturing	Jan	-2.0	-2.9	-14.5

Source: Bloomberg, BofA Global Research

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Data Review

PPI

The PPI report was a softer than expected. Headline PPI fell by 0.1% m/m and the prior month was revised down a tenth to -0.1% m/m also. Consensus was looking for a 0.1% m/m print. This resulted in a y/y rate of 1.0%, two tenths up from November. Core PPI was flat on the month below expectations for a 0.2% m/m increase leading the y/y rate to tick down two-tenths to 1.8%. Last Core-core PPI, which excludes energy, food and trade services (margins) came in as expected at 0.2% m/m.

US GDP Tracking

Exhibit 2: BofA US GDP tracking estimate (% q/q saar)

Our 4Q GDP tracking estimate remained at 1.3.% q/q saar after the slightly higher than expected December CPI print

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
1/5/24	Payrolls, Factory Orders	1.1	2.1	1.9	-0.2	3.3	2.8	2.5	2.3	1.7	3.2	-947.1	26.0
1/9/24	Trade Balance	1.3	2.1	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.0
1/10/24	Wholesale Inventories	1.3	2.1	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
1/11/24	CPI	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
	GDP tracking	1.3	2.0	1.9	-0.2	3.3	2.8	2.5	2.3	2.2	2.2	-935.5	26.5
	Contribution to GDP growth (pp)				1.3	0.0	0.1	0.1	0.4			-0.1	-0.7
	BofA official GDP forecast	1.5	2.0	2.5	1.0	1.0	2.0	2.5	2.0	3.0	2.0	-929.0	38.0

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Overseas Data

Germany

ZEW current conditions came in at -77.3 in January, worse than consensus at -77.0.

Our Europe economists note that the index is stuck at very weak levels, moving sideways since September. But, as a caveat, the ZEW is a small survey among financial analysts, not an accurate tracker of the German economy.

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