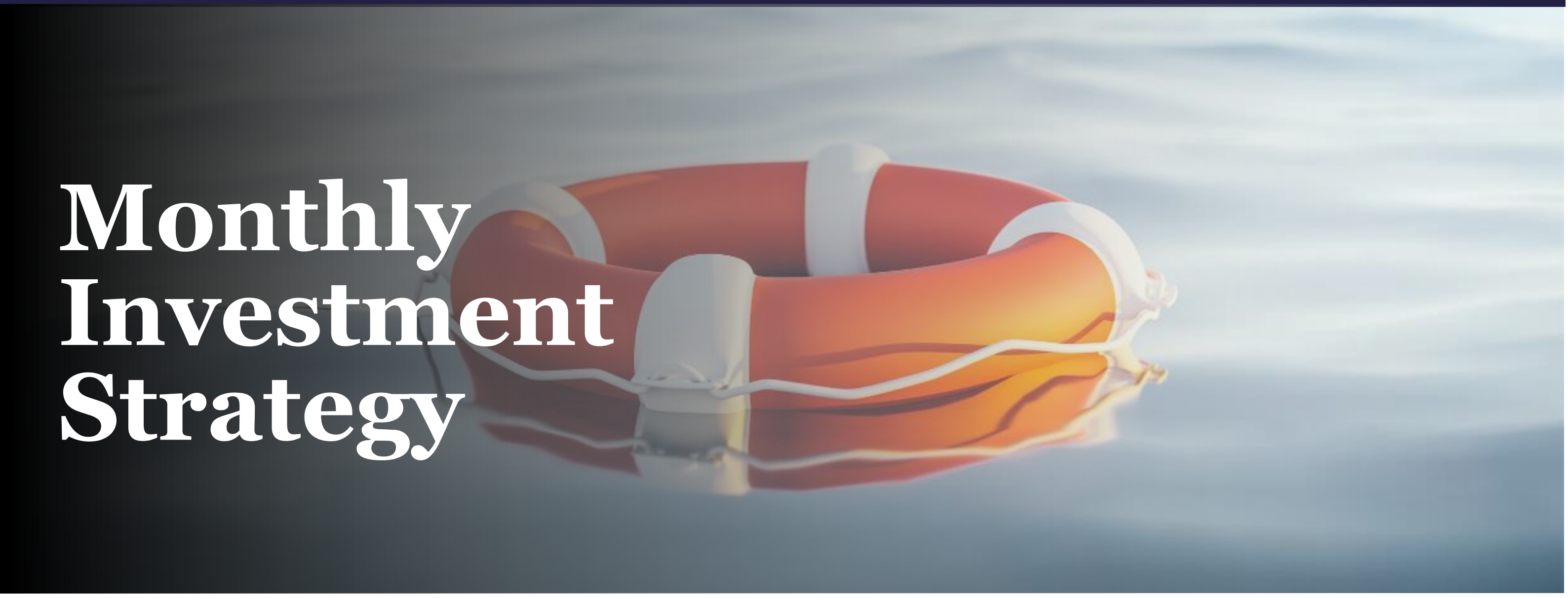
24 July 2024

Investment Institute Macroeconomics



Monthly Investment Strategy

One crazy summer

Key points

- French elections avoided the most extreme political and economic outcomes, but threaten paralysis as the country manages its excess deficit issue.
- US developments appear to overturn the political outlook. A Trump win is now our baseline. But Trump's economic agenda could curtail Fed rate cuts next year.
- China's Third Plenum again promised active domestic demand support, but little sense of anything new.
- Emerging market economies will be affected by these broader developments as much as developed.
- While EM gross exports are driven by the larger economies, underlying growth is increasingly a function of South-South trade. EM could be well positioned to outperform, but will be vulnerable to Trumponomics.
- Meanwhile central bank outlooks are increasingly easing, we expect the BoC (again) and BoE to cut rates over the coming weeks and the ECB (again) and Fed in September.

Global Macro Monthly

24 July 2024

One crazy summer

Global Macro Monthly Summary July 2024

David Page
Head of Macro Research

Threatening a dampener on summer

In June we drew attention to the outsized impact politics is having on the economic and financial market outlook, suggesting this would continue over the summer. So far, so correct. While the outcome of France's elections defied the worst fears of many, neither returning a far-right nor a far-left government and effectively insulating France from the most extreme economic agendas, the outcome instead threatens paralysis. While the French constitution has many checks to avoid such an outcome, a three-way split between rival factions has left the country struggling to find direction. And this has come at a time when France needs to find agreement to deliver fiscal consolidation to return its 5.5% debt-to-GDP ratio back towards the 3% compatible with EU fiscal rules.

Meanwhile, in the US, momentum has swung clearly behind former president Donald Trump in his bid for re-election. June's TV debate saw a poor performance from President Joe Biden, while a failed assassination attempt on Trump, a court ruling in his favour and the announcement of J.D. Vance as his running mate have all added wind to his sails. After the debate, mounting pressure on Biden has led to him stepping aside from his re-election bid, instead endorsing Vice President Kamala Harris, likely to be accepted as the nominee by next month's Democrat convention. Her entry increases the uncertainty of November's outcome, but we now see a Trump victory as the likely outcome. This has material implications for the economic agenda with tax cut extensions, paid for by tariffs against a backdrop of a migration clampdown threatening an inflationary boost that could derail a nascent Federal Reserve (Fed) easing cycle and deliver a shock to growth further out.

And China's Third Plenum – a twice a decade forum – delivered no new short-term measures, doubling down on the longer-term reforms as Chinese authorities' attempts to manage multiple targets leaves it drifting closer and closer to a demand-deficient deflation trap.

Each has significant implications for domestic economies, but this month we focus on the broader impact on emerging markets (EM). Despite often describing EM economic performance as a function of growth in the US, China and to a lesser extent Europe, a more detailed analysis shows that growth in these economies plays a role in stimulating gross exports but less in underlying growth (domestic value added). Rather, when considered in these terms, the past decades have seen a growing importance for so called South-South trade, or intra-EM, ex-China trade.

We argue that, structurally, conditions for a period of outperformance in the Emerging Markets (EM) world has improved: the strengthening of EM institutions has insured a better handling of the inflation shock and subsequent tight global financial conditions than in the past; the cusp of a Fed easing cycle should facilitate an easing of financial conditions; and larger intra-EM trade should reinforce this impulse. But that is not to underestimate more near-term headwinds. Artificial intelligence-seeking capital flows appear to be diverting flows from EM, notwithstanding the benefit the technology could bring to these economies. And *Trumponomics* threatens a blow to global trade although some EMs would likely benefit.

Global central banks also face a trade-off between trends in play and the outlook. The European Central Bank (ECB) has already cut interest rates and July's pause was thoroughly expected. While providing few clues at its latest meeting, we expect another cut in September. The Bank of Canada looks set to deliver its second, successive rate cut in July, and we expect one further cut before year-end. We also expect the Bank of England (BoE) to cut rates in August despite a suggestion that Taylor Swift has added to the persistence of services Consumer Price Index (CPI) inflation, which we, and we assume the BoE, suspect will revert next month.

Finally, the easing in US shelter inflation saw core inflation rise at its slowest annual pace in three years. We see this as adding to the Fed's confidence to ease policy and although we do not expect it this month, we do expect it in September, particularly if next month's employment growth softens as we expect. We forecast a further cut in December but beyond that, think the political outcome will be important. Trump's economic agenda will, we believe, limit the Fed's ability to cut rates in 2025. We now pencil in only two cuts next year (from four) to 4.5% and would suggest fewer if Trump actually delivers the 10% and 60% tariffs threatened for the rest of the world and China. This may transform into a more accelerated cutting cycle further out if these policies deliver the economic shock that we expect over the medium-term.

Financial markets will thus have much to digest over a period traditionally characterised by less liquid markets and more volatile price moves.

Global Macro Monthly – US

David Page
Head of Macro Research

Bullet the blue sky

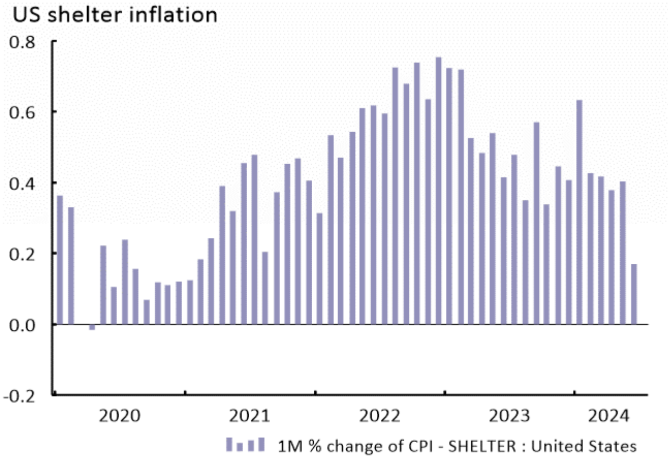
As expected, the focus on the Presidential Election has risen in the last few weeks. A failed assassination attempt on former President Donald Trump, just before the Republican Convention shocked the nation, but left Trump defiant. During the Republican Convention Trump announced that J.D. Vance would be his running mate. At the end of the convention, Trump appealed for unity but maintained themes of migration and tariffs. Sympathy for Trump rose after the shooting.

Trump has been in the ascendancy since President Joe Biden's poor televised debate in June. After weeks of mounting pressure, Biden announced he would not stand for re-election and endorsed Vice President Kamala Harris for nominee, swiftly followed by the Clintons, and party heavyweights including Elizabeth Warren, Gavin Newsom and Alexandria Ocasio-Cortez. Democrats now appear to want a smooth succession, although whether this materialises around or before the Democrat Convention (19-22 August) remains to be seen. Harris has significant advantage in becoming the nominee: she is Biden's natural successor as Vice President; can genuinely claim the achievements of this administration; and has access to the Biden-Harris campaign funds. As such, we expect her proposed economic agenda to be similar to Biden's, as fleshed out in the President's Budget 2025, with trade and migration programmes also similar. At present, Harris trails Trump by around 2 points in national polls (better than Biden). However, we view this polling as ephemeral and would expect change as the American public come to judge Harris over the coming weeks as a nominee and into a critical debate with Trump on 10 September. Harris' entry into the race has increased the uncertainty of the outcome and provided some hope to Democrats, but for now we still see Trump as favourite.

Gimme shelter

Federal Reserve (Fed) Chair Jerome Powell's semi-annual address to Congress opened with the familiar refrain of needing more confidence that inflation was receding before easing policy. This, weeks after, 11 of 19 Federal Open Market Committee (FOMC) participants suggested one at most rate cuts this year, confirmed the low probability assigned to a July rate cut. However, Powell described a "balanced" and "cooling" labour market and an economy that is no longer over-heated, suggesting again that he was one of 8 members expecting two cuts.

Exhibit 1: Shelter inflation recedes



Source: LSEG Datastream , AXA IM Research, 18/07/2024

Following Powell's comments, June's Consumer Price Index (CPI) inflation provided another downward surprise. Headline inflation slowed to -0.1% on the month, benefiting from falling gasoline prices, but the soft 0.1% rise in core inflation reflected a weakening in services inflation. This slowed to 0.12% – its weakest in three years. Services ex-shelter inflation rose another weak 0.04%, suggesting a broad-based easing. Shelter inflation also eased, rising by just 0.17% after 15-months averaging 0.45% (Exhibit 1), consistent with our long-held expectation that lower new rental costs would emerge after a lag. Given the sampling – six cohorts surveyed twice a year – we expect this to be persistent. Annual services inflation remains elevated at 5.0%, but this softening should deliver the confidence the Fed needs to ease.

There is also evidence the labour market is now balanced. Payrolls remained firm in June at 206k, but May's 272k was revised down 54k to 218k, as was April's. We expect a weaker July. Continuing claims have also trended higher and despite a mild rise in vacancies in May, April fell below 8m for the first time since February 2022. Unemployment has also been edging up, now at 4.1% for the first time in three years, a testimony to still solid labour supply increases underpinned by immigration. Most convincingly, pay growth has eased, now standing at an annual 3.9% (3.6% 3-month annualised). This is now within the 3.5-4.0% range we believe is consistent with the Fed's inflation mandate. And concerns persist about an ongoing slowing.

We still expect the Fed will start to ease policy in September – a surprise cut in July would introduce too much volatility over the summer when financial conditions are already at their easiest in two years. We expect the Fed to follow up with another cut in December. However, the outlook for next year will be election dependent. A shift in our base case to a Trump victory, which is likely to introduce a curtailment of migration, an increase in tariffs and partially unfunded tax cut extensions are all likely to reduce the Fed's confidence in ongoing disinflation. As such we now consider the Fed is only likely to cut rates twice next year – likely in March and September – to 4.50%.

Global Macro Monthly – Eurozone

24 July 2024

Hugo Le Damany,
Eurozone Economist
Macro Research

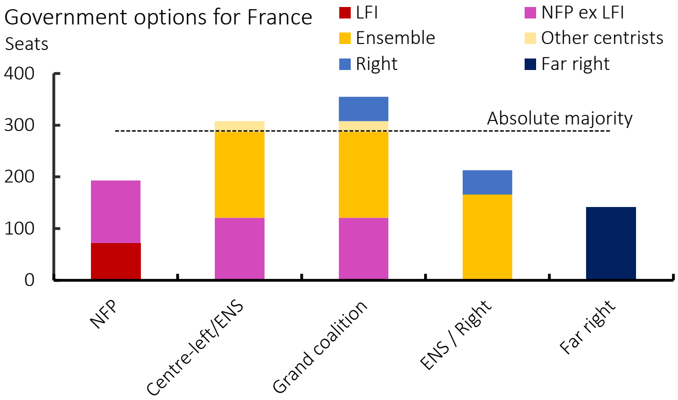
François Cabau,
Senior Eurozone Economist
Macro Research

Another highly political July

The result of the snap parliamentary elections in France came as a surprise. The left-wing coalition Nouveau Front Populaire (NFP) won 193 seats, ahead of the centrist coalition Ensemble (166 seats), the far right (142 seats) and the traditional right (47 seats). The far right won more seats than any other parties (53 more than 2022) but it was a bitter victory as polls had suggested a relative majority until the final days.

The National Assembly met on 18 July and voted for a President. After three rounds a centrist candidate finally won by a narrow margin, backed by the centre-right. This shows that the French political equilibrium remains in the centre, but it is difficult at this stage to give any further indication as to whether a stable government can be formed (Exhibit 2).

Exhibit 2: No easy alliances



Source: Assemblée nationale and AXA IM Macro research, as of July 2024

It is the NFP coalition's responsibility to propose a nominee for Prime Minister, but it has failed to agree on one so far. The NFP is itself an alliance between left groups, from La France Insoumise (LFI) led by Jean-Luc Mélenchon to the more moderate Socialist, Green and Communist parties. Altogether, they are far from achieving an absolute majority to pass laws without support and would risk a motion of no confidence if they use Article 49.3 to pass a law without a vote. They need the centrist bloc to form a stable government, but the latter (and President Emmanuel Macron) have already ruled out working with the LFI. That means either the NFP splits, or rules under permanent threat of a no confidence vote. An alternative could be a left-centrist coalition (without LFI) that could gather an absolute majority (295 seats), but it would not be a smooth process for adopting laws. A grand coalition (centre left to traditional right) seems even less likely to agree on policy with both traditional parties' manifestos tilted towards both far right and far left. Under such circumstances, it should not be a surprise if Macron finally decided to appoint a technocratic government to run the country. But this is unlikely to be a permanent solution, potentially leading to another snap election in a year's time.

The European Parliament held its first assembly on 16-18 July and approved a second mandate for Ursula Von der Leyen. She spoke of continuity to the Green Deal while supporting a more pragmatic approach and made EU competitiveness a key issue. A new political group was created by Hungary's Viktor Orbán with some of the most influential far right parties (Rassemblement National, Lega, Vox amongst others), becoming the third-largest group ahead of the Italian Prime Minister Giorgia Meloni's group.

Is the economic recovery already fading?

June surveys were mixed. We are seeing an impact from French political turmoil on the domestic economy but only on the expectation components for the time being. Germany is also struggling, despite more upbeat data since the beginning of the year suggesting improvement. The most striking data has been industrial production at a monthly -2.4%, still around 8% below its pre-pandemic level – weak even despite some distortions due to the timing of public holidays. Italy and Spain are doing better and remain well oriented, particularly for services.

The ECB "wide open" for September

The European Central Bank (ECB) decided to maintain its current policy but was non-committal for September with ECB President Christine Lagarde stating the decision is "wide open". Inflation data is not far from 2% but underlying details, with services inflation still at 4.1% year-on-year, labour market tightness and insufficient proof of wage deceleration, remain arguments against a rapid normalisation of interest rates. We still believe the ECB will cut interest rates in September. The ECB's seasonally adjusted inflation measure showed a more marked deceleration in June. The two most prominent economies (Germany and France) are struggling for different reasons. Eurozone GDP growth is not necessarily at risk (we pencil in +0.1%) but certainly not at +0.4% quarter-on-quarter (June ECB forecast). Finally, the most recent speeches made by several ECB governors have endorsed two cuts this year. This reinforces our expectation of cuts in September and December, which we have held since last September.

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Possible interest rate cut in August will be close

Economic activity continued to rebound in Q2. While monthly GDP data showed no change in April, as the wetter-than-usual weather weighed on the retail and construction sectors, it rose by an above-consensus 0.4% month-on-month in May. Part of that will be payback from April, but underlying growth remains solid with the recovery broad-based across the services, industrial and construction sectors. We have revised up our Q2 GDP forecast to 0.5% quarter-on-quarter, from 0.3%, pushing up the annual growth rate to 1.1% in 2024, from 0.8%.

Headline Consumer Price Index (CPI) inflation remained at the 2% target in June but that masked the ongoing stickiness of services inflation. The latter was unchanged at 5.7%, well above the Bank of England's (BoE) expectations laid out in the May Monetary Policy Report of 5.1%. However, an 8.8% jump in hotel prices – potentially due to Taylor Swift's tour – was largely responsible; other key price sub-categories, such as communication and recreation and culture, saw inflation hold steady or fall.

The latest labour market data, meanwhile, will provide the Monetary Policy Committee some relief, with further evidence of growing labour market slack and easing wage growth. Indeed, the unemployment rate held steady at 4.4%, above the Bank's forecast, 4.3% and vacancies continued to drop. In addition, average weekly earnings, excluding bonuses fell to 5.7% in May – its lowest reading since September 2022 – from 6% in April, while private sector regular earnings growth – which is the BoE's preferred measure – fell to just under a two-year low of 5.6%, from 5.9%.

On balance, we think the recent data will be just enough to tip the scales in favour of a 25 basis-point cut at August's meeting, but it will be very close. We look for a vote split of 5:4. We then expect one further cut in November, leaving Bank Rate at 4.75% by year end.

On the political front, Labour won a whopping 411 seats at the 2024 General Election, leaving the party with a majority of 172 seats. So far, the new government has provided few surprises in terms of policy, including in the King's Speech. But we think the fragile public finances – including the combination of high public debt, high interest rates and modest growth – will force the party to outline further tax increases in the Autumn Budget, that looks set to take place early-October.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Judging a structural adjustment in real time

The Bank of Canada (BoC) eased monetary policy in June. Governor Tiff Macklem said the BoC thought it would be able to ease gradually looking ahead and we think that this will be consistent with another easing in July, albeit with then only one more cut this year to 4.25% and two in 2025 – to 3.5%. Broadly we expect this back-to-back easing to align with the BoC's quarterly forecasts, something that would allow it to communicate the considered nature of the loosening – rather than cuts in response to slowdown concerns.

We have argued that recent growth signs have been solid; consumption rising in recent quarters and monthly data to date consistent with a solid 0.5% expansion in Q2, albeit a touch softer than we thought last month, leading us to fine-tune our growth outlook to 1.2% and 1.7% (from 1.3% and 1.8% last). However, our outlook is softer than the BoC's April forecast of 1.5% and 2.2% and it may soften that view in July. Moreover, headline unemployment has crept higher, recording 6.4% in June, although we view the drop in employment as a seasonal oddity and are more encouraged by the average 40k monthly rise over the quarter. Even so, wage growth has continued to slow, and inflation has dipped further, recording 2.7% in June and 2.6% in core terms – a joint three-year low. All align with a further policy easing this month – albeit while reinforcing the outlook for a gradual loosening in policy, with a risk that the next cut will be delivered only in September to signal such a pace.

Looking ahead we are cautious of how much easing will be delivered next year. Domestically, ongoing weak productivity growth threatens leaving unit labour cost growth high, notwithstanding decelerating wages, which may leave inflation persistent. Meanwhile a Donald Trump US presidential win would impact Canada. Depending on the final enactment of tariffs, Canada's exports could be boosted or dampened. We expect Canada to avoid 10% tariffs, which would likely boost demand for Canadian goods – but this is far from certain. Nevertheless, US policies are likely to weaken the Canadian dollar versus the US (albeit strengthen it against other countries) and that should import more inflation. We expect the BoC to ease policy in H1 2025, but reaching 3.50% by mid-year, we expect it to leave policy at this rate, still suggesting policy that remains mildly in restrictive territory.

Global Macro Monthly – China

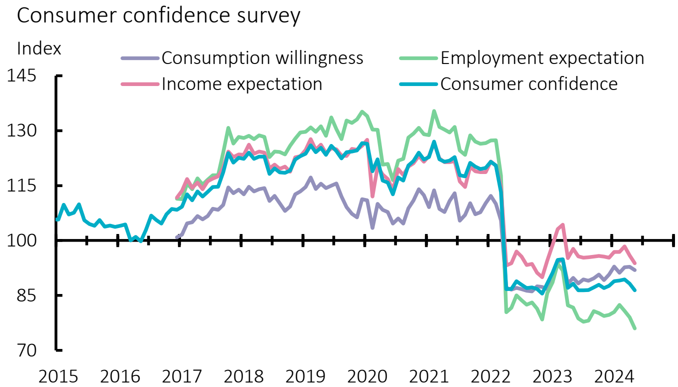
Yingrui Wang
Economist (China)
Macro Research

Expected slowdown points to weak consumers

China's economy decelerated significantly in Q2, with GDP growth slowing to 0.7% quarter-on-quarter, less than half the pace of Q1's revised 1.5% growth (1.6% initially). This followed a strong start to 2024, driven by state-led investment and resilient industrial production, particularly from the manufacturing sector. However, these growth engines weakened in Q2, the main weakness emerged from the household sector.

Final consumption, which in official statistics includes both government spending and household consumption, contributed 60.5% to GDP growth in Q2, down from 73.7% in Q1. Although detailed statistics on household consumption alone are unavailable, retail sales – a key indicator of consumer spending – recorded their first monthly decline in June since the end of 2022, a decline that followed a surprising strong 0.5% growth in May, although that was revised down to 0.2%. This weak performance in retail sales aligns with the recent drop in consumer confidence (Exhibit 3). Although the index had edged higher in Q1, it fell back again in April. Employment expectations reached their lowest since the start of the survey in 2016, and income expectations have also significantly dropped in recent months.

Exhibit 3: Pessimism mounting again among consumers



Source: CEIC and AXA IM Research, July 2024

With the focus of authorities' stimulus being infrastructure spending and a further build out of industrial capacity for exports, the low sentiment among consumers is unsurprising. Beijing's measures to support activity do not seem to be transmitting through to the labour market and its attempts to boost demand by stabilising housing prices – to counter the negative wealth impact from the property market downturn – have proven unsuccessful so far. Like previous rescue efforts, the significant policy initiative in mid-May calling for local governments to directly purchase housing inventories is yet to bear fruit. Property prices continued to fall in June.

The persistent weak domestic demand backdrop is beginning to weigh across the economy. Monthly Consumer Price Index (CPI) inflation averaged a mere 0.02% rise in the first half of the year; ordinary imports, which primarily serve domestic demand, recorded the largest decline since the second half of 2023; and household credit demand has been decreasing for five consecutive months. Despite these challenges, China's economy managed to grow by 5.0% in the first half of 2024, staying on track to achieve the annual growth target. This may be positive news for government officials but it could reduce the likelihood of further potential policy stimulus, entrenching unbalanced growth and increasing future demand-deficient deflation risks.

Indeed, Beijing's supply-centric policy has led to a persistent divergence between strong industrial production and weak domestic demand, widening China's output gap. While an improving environment in the West has helped China's export recover – and recent US and EU tariff hikes have actually triggered some front-loading demand, keeping China's exports afloat for now – the average price of China's exports has been contracting since Q3 2022 (excepting April 2023). Therefore, despite good momentum in industrial production in the first half of the year, industrial profits have lagged highlighting the issue of overproduction (or overcapacity) in China. With downside risks emerging as new US and EU tariffs bite, and risks of more ahead, a deflation spiral could emerge if domestic demand fails to pick up meaningfully. Beijing may need to shift its policy focus towards boosting consumer demand.

First take on the Third Plenum

The four-day Third Plenum – China's twice-a-decade strategic planning gathering – held in Beijing from 15 July, focused primarily on long-term structural planning. As expected, key priorities included supply chain self-sufficiency, technological innovation, and a green transition. It pledged to improve basic public services and narrow the urban-rural gap, aiming to enhance service quality and reduce disparities across the country. Fiscal reforms were promoted, potentially reclassifying tax incomes between central and local governments to ease financial pressures on local administrations. While the Plenum set strategic long-term goals, addressing immediate challenges in domestic demand and consumer confidence will be crucial for sustaining balanced growth in the near term. For this we turn now to the Politburo meeting, a forum more likely to focus on shorter-term demand stimulus.

24 July 2024

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Bank of Japan optimistic but economy remains weak

Economic activity appears to have been fairly stagnant in Q2, particularly in services. Indeed, the Bank of Japan (BoJ) Tankan Survey showed that business conditions at large non-manufacturers slipped to +33, from +34, the first decline in four years. In addition, the services Purchasing Managers' Index fell to over a two-year low of 49.4 in June, from 53.8 in May, with the final estimate revised down from the flash reading. Private consumption probably also failed to rise materially, given that wage growth continued to undershoot Consumer Price Index (CPI) inflation – the BoJ's Consumption Activity Index rose by just 0.2% on the quarter. More broadly, Japan has not posted quarterly growth for the preceding three quarters.

The positive outcome of the Shunto wage negotiations, however, suggests the virtuous wage/price spiral the BoJ is looking for should gather momentum in the second half of the year. Indeed, stronger wages means pay growth will start to outpace CPI inflation meaningfully, lifting real incomes and boosting consumption in the process. This should enable firms to pass on higher labour costs. Note, though, that households will probably use some of increase to boost savings buffers.

CPI inflation held steady at 2.8% in June, but the new core-core CPI measure, which excludes fresh food and energy ticked up to 2.2%, from 2.1%, tentatively suggesting the gradual decline that has taken place over the past nine months may be bottoming out. We expect underlying inflation to hover around 2% over the remainder of the year, as businesses start to pass on higher costs to consumers and the weaker yen causes price rises in durable goods to accelerate. Note the headline rate is likely to dip between August and October, as energy subsidies return.

On balance, we continue to think the Bank will push ahead with two further 10 basis-point hikes this year, in Q3 and then Q4. We think September looks more likely than July, with the Board probably wanting to see the impact of reducing its Japanese Government Bond purchases – it outlined in June that it would lay out the plan for tapering at July's meeting – on the financial market before making any further adjustments to the policy interest rates. In addition, the recent yen appreciation on the back of weaker US CPI inflation and speculation of renewed bouts of government intervention will ease concerns of a significant jump in imported inflation.

Global Macro Monthly – EM Europe

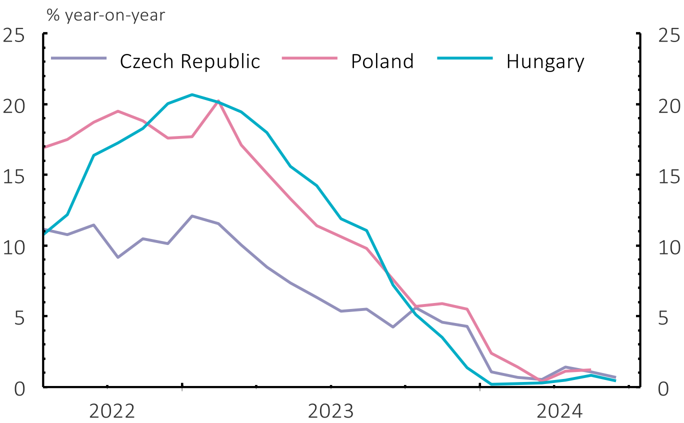
Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Dovish inflation, hawkish central banks

Inflation figures surprised to the downside across Central and Eastern Europe (CEE) for the second month in a row in June. Inflation rose only marginally in Poland to 2.6% year-on-year on the back of higher food prices, slowed to 3.7% in Hungary from 4% in May, and fell back to the 2% target in the Czech Republic. Despite negative base effects, it looks like inflation pressures are muted. Gas prices are now only a fraction of their peak levels, food commodity prices have also broadly weakened, while oil prices are now around the middle of their past two-year range. Goods inflation has been running below central bank targets since the start of the year across the region, at very depressed levels (Exhibit 4).

Exhibit 4: Low goods inflation across CEE

CEE: goods price inflation



Source: LSEG Datastream and AXA IM Research Jun 24

Policymakers remain nonetheless concerned about the stickiness of services inflation. In Poland, it was 6.5% in May compared to 14.5% at end-2022, while in Hungary, it has plateaued since April at 5.8% year-on-year, from its 17.1% peak in April last year. In the Czech Republic, June's services Consumer Price Index (CPI) fell to 3.8% from 13.5% a year ago. Yet the current sharp improvement in real wage growth and the subsequent domestic demand resumption may put upward pressure on core inflation metrics in the second half of the year and remain the focus of monetary policy calibration. Real policy rates remain strongly positive but in an increasingly complex global political environment. We see scope for rate cuts in the Czech Republic, while we expect Polish and Hungarian central banks to remain on hold until year-end.

Global Macro Monthly – EM Asia

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

Exports recovering, but an uncertain outlook

From the lows of 2023, an export recovery is underway across Emerging Markets (EM) Asia, but export values have yet to return to the highs of 2022, and there are doubts over the strength and sustainability of the current upturn.

The drivers of the recovery are narrow, linked to artificial intelligence (AI)-related investments and demand for advanced chips. South Korea and Taiwan, the bellwethers of trade in such technology, have recorded sharp growth in their chip exports. Taiwan's were up 109% year-on-year in the first half of 2024, with the US accounting for 51% of the total, while South Korea's rose by 47%, with China accounting for the largest share (38%). This bodes well for others in the region that follow with the supply of products across the broader electronics sector. However, beyond the category of electrical machinery and equipment, EM Asia export growth has been sluggish.

Leading indicators suggest the short-term outlook for the region's export recovery is still positive. However, the picture is mixed looking further ahead, given the precarious nature of the recovery, which could be derailed by faltering demand, a slowdown in the pace of AI investment growth or further US sanctions. China has also become a weaker demand source for its trade partners. The region's exports to China rose 2.9% year-on-year between January and May but were still 19% lower than in January-May 2022. This partly reflects China's progress in advancing its manufacturing capabilities, replacing the need for imported components. Weak Chinese domestic demand will also constrain its overall import growth.

Another worrying trend for EM Asia exporters is that as a trading rival, China has been more price competitive recently; China's export price index was 11% lower in January-May, but rivals in EM Asia recorded an average price increase of 5% (although their currencies have been much weaker). China's competitiveness could soon be blunted by potential hikes in US tariffs on China's exports, and this could be a boon for exporters across EM Asia. The region is already gaining a larger share of the US market at the expense of China. But China has not completely lost out, given its involvement in complex supply chains for goods that are exported to the US, or the diversion of Chinese exports to the US via third-party markets. If US tariffs are widened to cover such trade, EM Asia's gains could be limited.

Global Macro Monthly – LatAm

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

Headline volatility, core stability

June's annual inflation data showed mixed outcomes across the region, significantly influenced by weather events, particularly in Brazil and Mexico. Despite these fluctuations, core inflation across Latin America remained relatively stable, though recent foreign exchange volatility suggests the need for continued caution by central banks.

In Brazil, annual inflation accelerated for the second consecutive month, reaching 4.2%, as headline figures continue to reflect the impact of southern region floods on food prices. However, this result was below consensus expectations, and core inflation dropped to 3.7%, marking the lowest level since May 2021. In contrast, Mexico's inflation exceeded expectations, primarily driven by weather-related issues affecting agricultural prices. Headline inflation rose to 5.0% in June, the highest reading since June 2023. This increase was influenced not only by higher food prices but also by the peso's depreciation following the early June elections. However, core inflation eased further to 4.1%.

Chile's inflation edged up to 4.2% in June from 4.1% in May, exceeding the central bank's target range of 2.0%–4.0%. This upward trend is part of the economy's recovery from last year's modest 0.2% growth. The increase in June was mainly driven by higher prices for food and electricity tariffs, which started adjusting in July and are expected to continue rising throughout the year. However, like other countries in the region, core inflation continued to fall, reaching 2.8% in June. Meanwhile in Colombia, both headline and core inflation remained stable in June at 7.2% and 6.0% respectively, despite recent currency pressures.

Finally, in Peru inflation rose to 2.3% in June, above May's 2.0% but it remains the lowest among the region's major economies and in line with the central bank's 1.0%-3.0% target band. The rise in headline inflation was mainly driven by base effects on food prices and core inflation remained stable at 3.0%.

Overall, while weather events like El Niño and currency depreciation have introduced volatility into inflation data across Latin America, core inflation has continued to soften. June's results are unlikely to alter central banks' plans in the immediate term, but they will remain cautious amidst recent fiscal noise and currency fluctuations.

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.2		3.1	
Advanced economies	1.7	1.4		1.4	
US	2.5	2.3	2.3	1.6	1.8
Euro area	0.6	0.6	0.7	1.1	1.5
Germany	0.0	0.1	0.2	0.9	1.5
France	1.1	0.9	0.9	1.0	1.3
Italy	1.0	0.7	0.8	0.7	1.2
Spain	2.5	2.5	2.1	2.1	1.9
Japan	1.9	0.6	0.3	1.1	1.0
UK	0.3	1.1	0.6	1.1	1.2
Switzerland	0.8	1.2	1.3	1.3	1.5
Canada	1.1	1.2	1.0	1.7	1.9
Emerging economies	4.2	4.2		4.1	
China	5.2	5.0	5.0	4.2	4.4
Asia (excluding China)	5.3	5.3		5.3	
India	7.7	6.8	6.8	6.5	6.7
South Korea	1.4	2.5	2.5	2.6	2.2
Indonesia	5.0	5.1	5.0	5.1	5.1
LatAm	2.3	2.0		2.5	
Brazil	2.9	2.2	2.0	1.9	2.0
Mexico	3.2	2.2	2.1	1.4	2.2
EM Europe	3.0	3.1		2.7	
Russia	3.6	3.2	3.1	1.5	1.1
Poland	0.2	2.8	2.9	3.5	3.4
Turkey	4.3	3.0	3.3	3.6	3.2
Other EMs	2.4	3.0		3.9	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 23 July 2024
**Forecast*

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.7		2.3	
US	4.1	3.1	3.2	2.5	2.3
Euro area	5.5	2.5	2.4	2.1	2.1
China	0.2	0.6	0.6	1.6	1.9
Japan	3.3	2.5	2.6	1.9	1.5
UK	7.3	2.4	2.6	1.8	2.0
Switzerland	2.1	1.3	1.3	1.3	1.3
Canada	3.9	2.6	2.5	2.6	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 23 July 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

24 July 2024

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
United States - Fed	Dates	5.50	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
	Rates		-0.25 (5.25)	-0.25 (5.00)	-0.25 (4.75)	unch (4.75)	-0.25 (4.50)	unch (4.50)
Euro area - ECB	Dates	3.75	12-sept	17 Oct 12 Dec	30 Jan 6 Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep
	Rates		-0.25 (3.50)	-0.25 (3.25)	-0.25 (3.00)	-0.25 (2.75)	unch (2.75)	unch (2.75)
Japan - BoJ	Dates	0 - 0.1	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
	Rates		+0.10 (0.1-0.2)	+0.10 (0.2-0.3)	+0.10 (0.3-0.4)	+0.10 (0.4-0.5)	unch (0.4-0.5)	unch (0.4-0.5)
UK - BoE	Dates	5.25	1 Aug 19 Sep	7 Nov 19 Dec	6 Feb 20 Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec
	Rates		-0.25 (5.00)	-0.25 (4.75)	-0.25 (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)
Canada - BoC	Dates	4.75	24 Jul 4 Sep	23 Oct 11 Dec	Jan Mar	Apr Jun	Jul Sep	Oct Dec
	Rates		-0.25 (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)	-0.25 (3.5)	unch (3.5)

Source: AXA IM Macro Research - As of 23 July 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our July Investment Strategy

24 July 2024

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

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