AXA Investment Managers

24 January 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

The great election year

Key points

- Geopolitical tensions are rising with tit-for-tat attacks rising in the Middle East. This raises the risks of an escalating conflict. And is already beginning to affect the inflation outlook as shipping diverts to avoid the area.
- Non-economic developments look set to play an important part of 2024 as around half the world's population goes to the polls – the great election year.
- The US election in November – already underway in primaries – will be the most consequential globally. European parliamentary elections are due in June and UK elections are expected in H2 2024.
- Around 60 emerging market economies go to the polls, including the most populous India, Indonesia and Mexico. We also note important elections in South Africa and local elections in Turkey.
- Central banks are pushing back more obviously against excessive market rate cut pricing.

Global Macro Monthly

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The great election year

Global Macro Monthly Summary January 2024

David Page
Head of Macro Research

Non-economic risks still threaten

Given the events of recent years, notably the pandemic and Russia's invasion of Ukraine, we have been hoping for more peaceful times. Hamas' attack on Israel and Israel's response in Gaza put paid to those hopes in the near term. Recent Middle East developments continue to pose a risk to this year's global outlook. Notably, Houthi rebels from Yemen continue to launch attacks on commercial shipping in the Red Sea, to which an international coalition, led by the US, has responded with strikes in Yemen. Commercial shipping is as a result delaying or re-routing passage through the straits of Bab al-Mandab. This is raising shipping costs again, something that could dampen the post-pandemic deflation driven by core goods. Moreover, Iran and Pakistan have also exchanged strikes on each other's territory. All serve to remind of a delicate situation that risks escalating across the region and could result in economic consequences not in our baseline forecasts.

Indeed, 2024 is likely to be a year where non-economic developments have a marked impact on financial and economic events as it will be a historic year for elections, with around half the world's population going to the polls. Most influential of these will likely be the US Presidential election in November, which despite legal cases and primaries still looks likely to be a tight race between President Joe Biden and former President Donald Trump. European Parliament elections are due in June and the UK is likely to hold a General Election in Q4. Taiwan has just re-elected its incumbent government for a third term, Indonesia will see the most people go to the polls on any one day on Valentine's Day, while India will witness the most voters in April and May. Elections also take place in important countries including South Africa, Mexico and South Korea. Just because elections are held does not mean they will be free and fair (Russia holds elections in March), nor that they will be economically significant. But with an ongoing shift in geopolitics, markets will watch these developments as closely as economic progress. We preview the most important of these elections in a recently published research note[1] and summarise the key themes in this month's *Theme of the Month*.

[1] Macro Research Team, "Elections 2024 around the world: The who's who and the so what?", AXA IM Research, 23 January 2024

Aggressive market forecasts begin to soften

Last year closed with markets expecting developed economy central banks to pivot sharply and aggressively in 2024 – spurred on by a lack of resistance to such a notion from Federal Reserve (Fed) Chair Jerome Powell at the Fed's final press conference of 2023. This in turn resulted in a sharp swing in longer-term global bond yields and the 10-year US Treasury yield fell from touching 5% in mid-October, to closing the year below 4%.

In the absence of a clear further deceleration in economic activity in major economies, or a marked loosening in labour markets, we believe market policy rate expectations are too aggressive. While we expect central banks to cut rates in the face of easing inflation pressures, we think that for differing reasons most banks are likely to hold off easing until nearer to mid-year – and central bankers are starting to make this clear. European Central Bank (ECB) President Christine Lagarde delivered the clearest push back from Davos, suggesting that while ECB rate cuts were "likely" this year, the ECB was awaiting key labour market data that would only be available in "late spring" – the main reason we forecast easing beginning in June. Despite Powell's ambiguity in December, more recently voting Fed members Loretta Mester, Raphael Bostic and Christopher Waller have all suggested an 80% likelihood of a March cut was wrong, saying March would likely be too early for a first cut in their opinions. Rate markets have started to take heed, reducing the probabilities of near-term cuts and the extent suggested over the course of 2024. We believe this process has further to go.

Term yields have also started to react to this re-pricing of policy rates, with sovereign 10-year yields rising by at least 30-40bps since year-end in key advanced economies. With bond volatility elevated from 2022, we have recently published research looking into the drivers of 10-year US Treasury yields[2] specifically. We identify key structural determinants to the increase in yields over the last couple of years and provide a basic macro model to guide the outlook for yields going forward. Our analysis suggests that on our forecasts, with the US economy avoiding recession and the Fed easing policy across 2024, but avoiding slashing rates, we do not expect 10-year yields to return to the 2% rate which characterised yields between the financial crisis and the pandemic. Rather, we are not convinced that yields will fall materially below the 4% mark, around which they have recently traded.

[2] Page, D., "The key drivers of US 10-year Treasury yields", AXA IM Research, 18 January 2024

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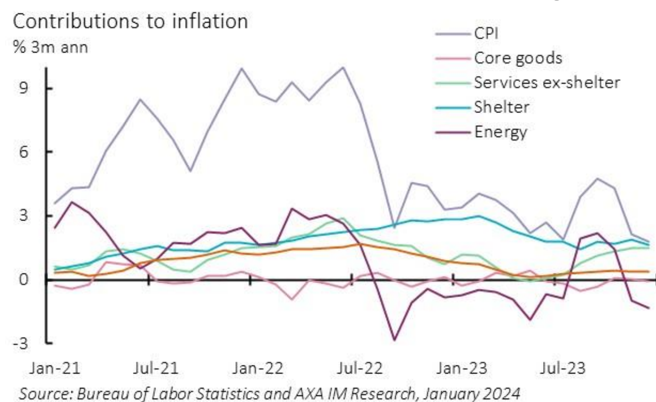
Global Macro Monthly – US

David Page
Head of Macro Research

What slowdown?

We had noted the strength of Q3 GDP, now recorded a little softer at 4.9% (saar), as being down to strong consumer spending which we expected to slow in Q4. Retail sales fell by 0.3% in October. However, a 0.3% rise in November and 0.6% gain in December still left quarterly retail growth at 4.0% annualised, suggesting total (real) consumption was more than 2%. This paves the way for a stronger Q4 than we had forecast, with the Atlanta GDPNow tracker suggesting 2.4% growth for the quarter. We still consider this above long-term trend rates, let alone on the back of such a strong Q3. As such, we have raised our outlook for 2023 GDP growth to 2.4%.

Exhibit 1: Convinced of inflation's return to target?



Source: Bureau of Labor Statistics and AXA IM Research, January 2024

We still expect softer consumer spending to slow GDP over H1 2024. For now, there is little sign of it: consumer activity remains buoyant, sentiment is rising, and jobless claims are falling. There are signs of weakness: both the household employment measure and January's Empire State manufacturing survey endured their sharpest fall since the pandemic. However, payrolls and the Philadelphia Fed index – comparable series – remained stable. Given an expected stronger Q4, we raised our 2024 GDP forecast to 1.4% (from 1.1%) but leave 2025 unchanged at 1.6%. This suggests more of a slowdown in 2024 than the Federal Reserve (Fed)'s latest forecasts.

Consumer Price Index (CPI) inflation rose to 3.4% in December from 3.1% in November to average 4.2% across 2023. The monthly rise reflected base effects from sharp falls in fuel prices and used cars in 2022, that saw gains in 2023. Core inflation was unaffected, dipping to 3.9% from 4.0% (averaging 4.8% in 2023).

Exhibit 1 shows that momentum in headline inflation has been driven by energy. Looking ahead there are reasons to believe headline inflation may prove stickier over the coming months. Oil prices may continue to rise as Middle East tensions increase (or recession fears ease). Core goods prices may also be impacted by rising shipping costs as Red Sea diversions mount. The Fed may consider both temporary developments and dismiss them. However, services price inflation excluding shelter has accelerated sharply. This most likely reflects domestic conditions, specifically a tight labour market with 3-month annualised wages ending 2023 at 4.3%.

Our own forecast is for inflation to average 3.1% across 2024, broadly holding around current levels, before easing back to target in 2025 and averaging 2.5%. However, these presuppose a marked deceleration in economic activity and a softening in the labour market – not apparent yet – as well as the Fed easing in a more measured manner (see below) and no prolonged disruption to global shipping through the Red Sea/Suez. We therefore question how confident the Fed should be that it will return inflation to target over the forecast horizon.

Fed only now starting to discourage market pricing

Fed Chair Jerome Powell's lack of resistance to market pricing – despite official Fed projections suggesting three cuts in 2024 – and his speculation of avoiding being behind the curve spurred rate cut expectations further in December. At the time, markets saw a 25% chance of a cut this month, fully priced a cut in March and expected six cuts by year-end. More recently, four voting Fed committee members have pushed back harder against such expectations, and pricing has shifted to close to below a 50% chance in March and chances more like five cuts this year. With few signs of economic softening, a tight labour market and inflation expected to become stickier again, we doubt the Fed will act this aggressively. For now, we maintain our outlook that the first cut will be in June, and our 25bps per quarter prediction reflects the "methodical" reduction that Fed Governor Christopher Waller suggested.

A separate debate has begun about the outlook for quantitative tightening (QT) after recent Fed meeting minutes stated it would be appropriate to discuss factors to guide a decision on slowing the pace of QT "well before such a decision was reached". Some suggest the Fed will slow QT from March (and even end it in June), to ease policy and help defer rate cuts. We believe, barring a sharp economic slowdown, it will treat each policy tool separately. Dallas Fed President Lorie Logan suggested slowing the pace of QT as the overnight reverse repo (currently around $1tn) falls to zero could achieve an optimal distribution of reserves amongst commercial banks. Her comments suggest the Fed is nearer to slowing policy than we had expected. We now suggest that the Fed will halve the pace of QT from June this year, before ending it around mid-2025.

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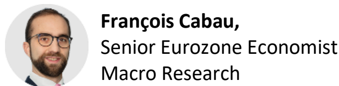
Global Macro Monthly – Eurozone



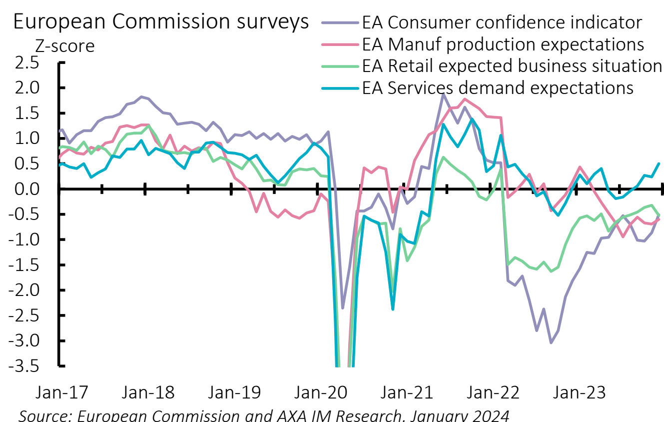
François Cabau,
Senior Eurozone Economist
Macro Research

Hugo Le Damany,
Eurozone Economist
Macro Research

Manufacturing sector keeps shrinking

Eurozone activity likely bottomed out in November, dragged down again by the manufacturing sector. Manufacturing production fell by 2.4%yoy and is now broadly at the same level as Q4 2020. Germany and Italy are performing very poorly due to high energy costs while France posted a small rebound in November. Unfortunately, headwinds persist. Manufacturing Purchasing Managers' Index (PMI) and European Commission (EC) industrial sentiment surveys remained depressed in December, respectively at 44.4; up 0.2 percentage point (ppt) and -9.2 (+0.3ppt), showing no clear turnaround in the near term. By contrast, we are seeing improvement in the services sector according to the latest PMIs and sentiment surveys, with both signalling a rebound from October's trough – respectively at 48.8, +0.7ppt and 8.4, +2.9ppt (Exhibit 2).

Exhibit 2: The services sector looks set to emerge



Source: European Commission and AXA IM Research, January 2024

Preliminary eurozone Q4 GDP growth released on 30 January should be unsurpringly weak. The consensus is currently pencilling in another mild contraction (-0.1% quarter on quarter) that would officially see the bloc in technical recession. We were initially a tad more optimistic, projecting mild expansion (+0.1%) but acknowledge downside risks to our forecasts, as hard data, notably on the consumption side, has been weaker than expected. Overall, our 2024 outlook is unchanged; we expect a sluggish recovery in the coming quarters.

Centrists back the hawks

Inflation rose to 2.9%yoy (+0.5ppt) in December, driven by a large base effect in energy. The core measure (excluding energy and food) slowed further, reaching 3.4% (-0.2pp), driven by non-energy industrial goods (2.5%; -0.4pp) while services inflation was flat at 4%. Interestingly, the ECB's seasonally adjusted measure of service prices is showing gradual, but continued, deceleration. But this will bring limited comfort as the level remains too high. Moreover supply chain issues (in part reflecting the tensions in the Red Sea), the end of energy support measures and ongoing wage negotiations are raising uncertainties about how soon the ECB can get back to its inflation target.

Most ECB speakers, including the dovish chief economist Philip Lane, pushed back against market rate cut expectations, conditioning any future rate cuts to wage developments consistent with the target. Barring substantial downside surprises on the upcoming inflation figures, the ECB is likely to wait until wage data is published before end-April. In Davos, ECB President Christine Lagarde said the central bank is very unlikely to engage in rate cuts before late spring, "at the earliest". This reinforces our view that it will wait for June to implement the first. We forecast two more cuts, reaching 3.25% by year-end. The ECB also announced it will partially reinvest pandemic emergency purchase programme (PEPP) redemptions from July 2024 (50%) and fully stop from January 2025. This announcement came earlier, but was in line with our expectations.

Fiscal rules: A complex path ahead

On 20 December EU leaders agreed on an amended framework for fiscal rules, although these are yet to be adopted by the EU Parliament. Upcoming EU elections will make this approval process challenging in time for application this year. In line with initial drafts the rules introduce a new key instrument: net primary expenditures, requiring a four-year planned growth rate agreement with the EC. Plans can be extended to seven years if countries continue to nationally finance reforms. And in the case of an Excessive Deficit Procedure (EDP), corrective measures should aim at reducing the country's structural (not primary) deficit by 0.5% of GDP per year until the deficit is back below 3%. Finally, a country specific approach has been removed: all member states with a public debt ratio above 90% need to reduce the debt ratio by 1% per year. The outcome is that decent nominal growth (compared to interest rates) and the exemption of interest payments should avoid drastic, painful fiscal consolidation. However, it is unclear that these new rules (and application) will be adequate to reduce debt burdens sufficiently to avoid additional market discipline over the next few years.

Investment Managers

Global Macro Monthly – UK

David Page
Head of Macro Research

Finding the bottom

Third quarter (Q3) GDP growth was revised lower to -0.1%. We await Q4's total – October fell by 0.3% before November's 0.3% rise. A flat December would see Q4 negative overall – a technical recession for the first time since the pandemic and the financial crisis before that. In truth, the difference between a couple of quarters of -0.1% and Bank of England (BoE) Chief Economist Huw Pill's description of "bouncing around zero" is small and a far cry from the previous recessions. But it would lower growth to 0.3% for 2023 (below our initial 0.5% forecast). Things may be modestly firmer ahead. November's Autumn Statement provided more loosening than expected and we expect further easing in the Budget on 6 March. Also, the fall in yields has led to a reduction in offered mortgage rates. Payments will still jump for some households but this will be less than envisaged. Overall, we have upped our 2024 forecast modestly to 0.2% (from 0.0%), and 2025 to 0.6% (from 0.5%), still below consensus of 0.4% and 1.2%.

A weak economy appears to be loosening the labour market. Vacancies continue to fall and annual pay growth, though still elevated, slowed to 6.5% in the three months to November. Suspension of key job market statistics leaves significant uncertainty; temporary data point to broadly stable employment and unemployment, the latter at 4.2%. Consumer Price Index (CPI) inflation has fallen sharply – headline to 4.0% in December, core to 5.1% and services to 6.4% – all below the BoE's forecasts.

The BoE should ease policy in 2024 as weak activity increases economic capacity and weighs on inflation which should drop below target next year. It will consider any further fiscal loosening and want to see new labour statistics "in the spring". We expect the first cut in August but risks are skewed to an earlier June move. We envisage the BoE cutting by 0.25% in almost each successive meeting to 3.75% by May 2025. The upcoming Monetary Policy Report may well forecast inflation remaining above target on current market rate expectations, which we consider too aggressive.

2024 is likely to see a General Election. Prime Minister Rishi Sunak said he expects it to probably occur in the second half. We had considered October as likely but have heard rumours of 14 November. The opposition Labour Party holds a strong 23ppt lead in the latest polls and if the election were tomorrow would probably form the next government.

Global Macro Monthly – Canada

David Page
Head of Macro Research

BoC in the teeth of the trade-off

Third quarter (Q3) GDP was weaker than expected, falling by 1.1% on an annualised basis. October's GDP defied flash estimates of a rebound to come in flat, while November's flash estimate was 0.1%. Overall, we now see Q4 GDP rising by 0.2%, with GDP up 1.1% for 2023 as a whole, as forecast. A more upbeat Q4 is consistent with stronger real retail sales in September and October, although November retraced somewhat. Consumer confidence has also risen from November's low to its highest since September while housing starts, and home sales rebounded in December. We remain cautious over the outlook for growth, predicting a sluggish 0.5% in Q1 and Q2, but expect Canada to avoid contraction. We maintain our 0.5% growth outlook for 2024, now the consensus, and expect this to rise to 1.7% in 2025. Ongoing lagged tightening from 2023's interest rate hikes skews risks to the downside both for the household sector and overall.

CPI inflation closed the year at an annual 3.4%, off recent lows and broadly flat since early 2023. Core inflation has also been sticky, ending the year at 3.6%, only 0.3ppt lower than May's reading. The Bank of Canada (BoC) has warned of inflation persistence. Wage growth remains elevated at an annual 5.2% with strong 0.6% and 0.5% monthly gains in recent months. Our forecasts envisage wage growth slowing towards 3% by year-end but signs of such a deceleration are yet to be seen. Even allowing for this, productivity growth remains woeful (-1.6%yoy in Q3 2023). This suggests that without material improvement – difficult with a subdued growth outlook – unit labour costs would remain elevated even if wage growth softens. We forecast inflation falling further, averaging 2.9% this year and 2.3% next, but see upside risk from the Middle East conflict.

The BoC faces the usual difficult trade-off: a weak economy, with risks of recession, versus an inflation outlook where upside risks persist. In the short term this is likely to lead it to keep policy on hold at 5.00%. Looking ahead, interest rates are likely to fall. Market expectation is for the BoC to ease policy by June. Our forecast is for the first cut in July and then for the BoC to cut rates by 150bps over the next 12 months – also reflecting our view that the US Federal Reserve will hold until June. The risks to our outlook are for an earlier start from the BoC, but our forecast for it cutting to 3.5% by mid-2025 is only a little above current market expectations.

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Global Macro Monthly – China

Yingrui Wang
Economist (China)
Macro Research

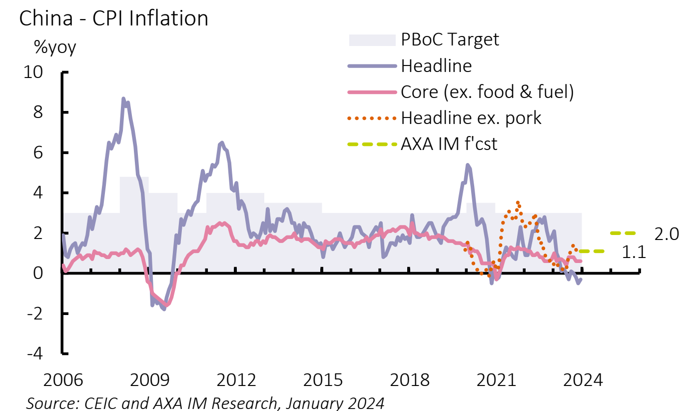
Target met for 2023 but concerns deepen

China's economy expanded by 1.0%qoq (5.2%yoy) in Q4 2023, meeting the year-end growth target of "around 5%", delivering total annual growth of 5.2% – in line with our forecast. Yet, despite achieving this, the post-pandemic restriction recovery was uneven and annual growth was flattered by comparison to a weak 2022, which grew by a mere 3.0% with lockdowns running into year-end before the removal of restrictions. Missing from last year's growth was a strong economic rebound and the release of excessive consumer savings, while the ongoing property downturn and subdued prices continued to exert downward pressure on the economy. Beijing resorted to its familiar investment-driven stimulus that will also be the strategy for this year. While increased investment appears to be lifting GDP, the transition to the household sector could be slow, while decreasing capital efficiency and risks of overcapacity in China's economy suggest reduced efficacy of this channel of stimulus. What truly needs policy attention is household demand. Reduced incomes, rising job insecurity, a loose labour market and devalued properties have collectively eroded consumer confidence. Without restoring this, meaningful recovery and sustainable growth will be challenging.

Moreover, we consider two misalignments in economic performance in 2023. First, persistent divergence between sales in consumer goods and services. The drag from consumer goods continued to outweigh the resilience in services sales, suggesting consumer reluctance to make purchases, especially in big-ticket items, in turn indicating deeper concerns over financial security. Second, muted sales in consumer goods and weaker exports contrasted with the relatively better performance in the manufacturing sector. This could increase the risks of overcapacity and oversupply over the coming months, exacerbating the resource misallocation further.

Accompanying the economy's patchy recovery were deflationary headwinds, which were at their strongest in decades (Exhibit 3). Looking at the weak prices across 2023, deflationary pressure is attributable to several factors. First, the policy-favoured production side has recovered quicker than consumption with the disappointing rebound exacerbating the imbalance between supply and demand, dampening consumer prices. Second, the decline in food prices, especially pork reflecting huge supply volume growth, suppressed headline CPI in 2023. Lastly, weak global commodity prices in 2023 also weighed on China's consumer prices. The restoration of consumer sentiment and stabilisation in pork prices should ease deflationary pressures this year. However, it is likely to take until the end of 2025 before CPI inflation enters a healthier range around 2%.

Exhibit 3: Deflationary headwinds were strong in 2023



Source: CEIC and AXA IM Research, January 2024

Imports and exports (in US dollars) experienced a subdued year in 2023, mirroring weak domestic demand and the tightening cycle in major economies. In 2024, we expect more favourable conditions for net exports as major importers appear to have reached peak rates, which look set to soften. Additionally, a soft renminbi should strengthen China's exports. Looking ahead the composition of exports continues to shift away from the 'old three': clothes, furniture, and domestic appliances, towards the 'new three': electric vehicles, lithium-ion batteries and solar cells. This transition is welcomed by Beijing but not so much by other countries' authorities, as these products penetrate their local markets. Geopolitical risks are likely and could pose headwinds to China's exports in the future.

That said, investment-driven stimulus should eventually contribute to broader activity and is what we had expected. As such, we maintain our outlook for 2024 – we expect the economy to expand by 4.5% as a whole. But downside risks surrounding the efficacy of policy outweigh the upside risks at this stage. A policy shift towards more direct consumer support would bring upside risks to our 2024 outlook.

As market expected, the People's Bank of China (PBoC) held the loan prime rates (LPRs) unchanged for January. 1-Year rate stayed at 3.45% and 5-Year at 4.20%. Next month, official monthly output releases will be paused as the country celebrates Chinese New Year. We still expect the PBoC to cut the reserve requirement ratio (RRR) and reduce the LPRs to provide further easing in the coming months. Additionally, the annual National People's Congress will commence on 5 March, during which the government sets the economic agenda for this year, including the government budget and 2024's GDP growth target.

Global Macro Monthly – Japan

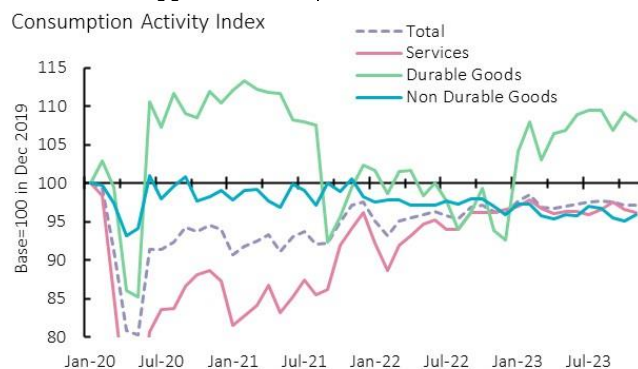
Hugo Le Damany,
Economist (Euro Area)
Macro Research

Waiting for better days

The Japanese economy appears to have stabilised in the fourth quarter (Q4) after a large and surprising fall in Q3 (-0.7% quarter-on-quarter). Large imports and inventories amplified the decline, but we can't dismiss the fact that all components were in negative territory. On a potential rebound, the most recent PMIs and Tankan surveys were mixed. December services PMI remains in expansionary territory but has declined to 51.5 by -0.5ppt while the manufacturing PMI stopped deteriorating but still signals contraction (47.9, +0.2ppt). These should be considered alongside Q4 Tankan surveys that highlighted broad-based improvements in business sentiments for manufacturing and services sectors (both small and large).

But private consumption is still weak. If durable goods consumption remains high, it should decelerate gently, but it is worrying that we do not see any material rebound from services that remain below their COVID-19 level (Exhibit 4).

Exhibit 4: Sluggish consumption



Source: Bank of Japan and AXA IM Research, January 2024

There are several explanations for this, but one lies with inflation that remains historically high, forcing households to cut spending. The latest headline inflation figures provide some good news on that front, decelerating again to 2.6%yoy in December. If it persists, it should provide some respite for consumers, especially if this year's pay gains are close to the unions' initial demand of 5%+. In such an environment, the Bank of Japan (BoJ) seems undecided, sending signals that they have never been so close to normalising rate policy but refraining from acting as the economy struggles. We continue to forecast that the BoJ will hike in April, once it has sufficient evidence that wages will be sufficiently high to deliver sustained inflation convergence close to 2%.

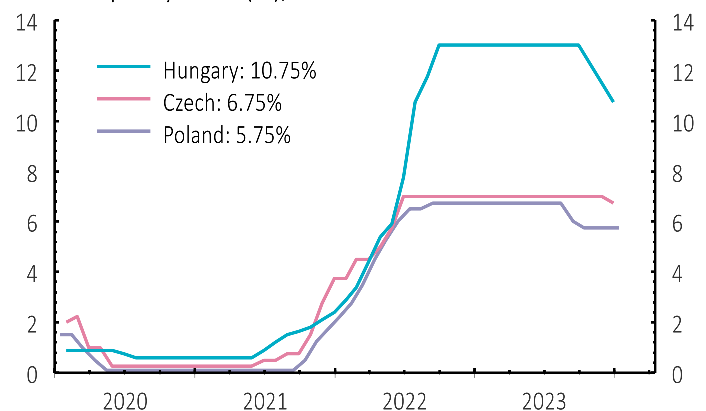
Global Macro Monthly – EM Europe

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

Easing cycle kicks off and may even accelerate

Inflation surprised to the downside across Central Europe in December, reaching 6.2%, 6.9% and 5.5%yoy in Poland, the Czech Republic and Hungary respectively – driven by slower food and fuel price inflation. Central Europe remains the worst performing Emerging Market (EM) region in terms of inflation levels but we expect quite strong base effects to support a disinflation trend in early 2024. This would appear to open the door for monetary policy easing (Exhibit 5), although we believe the pace will be gradual as central banks need to gain confidence that disinflation remains on track and they can sustainably reach their targets in the near future.

Exhibit 5: Central Europe's monetary policy easing



Source: LSEG Datastream and AXA IM Research Jan 24

Poland's central bank was the first in the region to cut policy rates, quite aggressively initially – by 75bps in September and 25bps in October – just ahead of the general elections which saw the pro-European opposition winning. It has kept rates on hold at 5.75% since. In a unanimous vote, the Czech National Bank lowered its key policy rate in December by 25bps to 6.75%, slightly earlier than we had anticipated. But it appears still cautious in terms of future policy guidance – concerned about the potential for indirect taxes to alter the pace of disinflation. In Hungary, the central bank appeared more dovish of late as economic data shows recovery is still muted while inflation has been coming off the boil more rapidly and should benefit from strong base effects into the start of this year.

Global Macro Monthly – EM Asia

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

Taiwan kicks off the 2024 election year

Taiwan's general elections took place on 13 January, kicking off a historical electoral year around the globe – while also being also the most geopolitically sensitive. The 23 million inhabitants of the island situated only 180km away from the Chinese coast elected their President and the 113 seats in its Legislative Yuan. The Democratic Progressive Party's pulled off a historic third consecutive presidential victory as Lai Ching-te took over the helm. Perceived as having been more hawkish towards China in the past than former president Tsai Ing-wen, Lai's win is a setback for Beijing which swiftly reiterated that reunification is inevitable despite Lai's restated commitment to the cross-strait status quo. Any escalation in tensions between China and the US needs careful monitoring.

Indonesia goes to the polls in February

Wednesday 14 February will be the world's biggest election day of the year, with more than 200 million Indonesians going to the polls to vote for the Presidential (first round) and House of Representative elections. Incumbent President Joko Widodo, popularly known as Jokowi, who has been in power for the last years, cannot constitutionally run for another mandate.

Political stability is nonetheless expected to prevail in Indonesia thanks to the practice of power sharing among political elites in the form of big governing coalitions. This practice has gone as far as seeing Jokowi include his political rival Prabowo Subianto, whom he defeated twice, in his 2019 government. Indeed, parties are not driven by ideologies or policy orientation, but rather by political calculations. This cooperative approach is evident from the absence of clear policy distinctions among the President/Vice President duos presented by the three coalitions formed for the upcoming election. So far, polls suggest a June run-off is highly likely.

All candidates pledged to raise GDP growth to 5.5%-7% per annum for the next five years, through increasing efforts to onshore metal refining capacities, which should reduce the sensitivity to commodity price volatility, as well as increasing agricultural production. Some candidates explicitly target a higher tax base, which is a well-identified weakness of the otherwise sound fiscal model of Indonesia.

Global Macro Monthly – LatAm

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

Inflation largely under control

Disinflation continued broadly across Latin America, as evidenced by Brazil and Chile which are already within their central banks' inflation target bands, and Peru and Mexico which are expected to converge by Q1. The outlier remains Colombia, though inflation there has declined rapidly in recent months. Against this backdrop, central banks should have ample space for sustained monetary easing throughout 2024.

Peru leads the region in the disinflation process, with December's yoy inflation reaching 3.2%, marking the 11th consecutive decrease and a significant drop from the 8.6% observed at the end of 2022. Core inflation stands at 3.1%, yet headline inflation remains above the central bank's ambitious 2% (+/- 1%) target.

In Chile, CPI surprised on the downside at -0.5% on the month, representing the most substantial monthly fall in prices since 2009. Annual inflation decreased to 3.9%, in line with the central bank's target band for the first time since June 2021. This, coupled with a persistently weak economy, may allow the central bank to consider an accelerated pace of rate cuts.

Brazil's disinflation process continues at a more moderate pace, with inflation declining to 4.5%yoy – at the upper limit of the central bank's target range for the first time since 2020. Likewise, core inflation continues to fall and is now at 4.3%. The central bank is expected to maintain a 50bp cutting pace in Q1 and potentially accelerate the easing in Q2.

Colombia stands out as the regional laggard, being the final country to adjust its monetary policy in response to the post-COVID-19 rebound and the ensuing bout of inflation. Inflation fell to 9.3% in December, still considerably above the central bank's target. Despite elevated inflation, Banco de la República initiated its easing cycle in December with a 25bp rate cut.

Mexico stands as the sole exception to December's disinflation trend, with inflation rising to 4.7%yoy. The upside surprise, driven by food prices affected by adverse weather, is considered a one-off event. Notably, core inflation surprised on the downside. As such, Banxico is still anticipated to start its easing cycle in February or March, remaining the only major country in the region yet to implement rate cuts.

Macro forecast summary

Real GDP growth (%)	2023*		2024*		2025*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	**3.0**		**2.8**		**3.0**	
Advanced economies	**1.6**		**1.0**		**1.3**	
US	**2.4**	2.4	**1.4**	1.2	**1.6**	1.8
Euro area	**0.5**	0.5	**0.3**	0.5	**0.8**	1.5
Germany	**-0.1**	-0.3	**0.2**	0.4	**0.7**	1.5
France	**0.9**	0.9	**0.6**	0.7	**0.7**	1.3
Italy	**0.7**	0.7	**0.0**	0.5	**0.5**	1.2
Spain	**2.3**	2.4	**0.9**	1.3	**1.3**	1.9
Japan	**1.9**	1.7	**1.2**	0.9	**1.0**	1.0
UK	**0.3**	0.5	**0.2**	0.3	**0.6**	1.2
Switzerland	**0.6**	0.8	**0.8**	1.1	**1.3**	1.5
Canada	**1.1**	1.1	**0.5**	0.5	**1.7**	1.9
Emerging economies	**3.9**		**4.0**		**4.1**	
Asia	**4.9**		**4.8**	4.0	**4.7**	
China	**5.2**	5.2	**4.5**	4.6	**4.2**	4.4
South Korea	**1.4**	1.3	**2.2**	2.1	**2.3**	2.2
Rest of EM Asia	**5.0**		**5.4**		**5.5**	
LatAm	**2.3**		**2.3**		**2.4**	
Brazil	**3.0**	3.0	**1.4**	1.6	**2.0**	2.0
Mexico	**3.3**	3.3	**2.0**	2.2	**1.5**	2.2
EM Europe	**2.4**		**2.0**		**2.7**	
Russia	**2.2**	2.7	**1.1**	1.7	**1.0**	1.1
Poland	**0.6**	0.4	**2.8**	2.8	**3.5**	3.4
Turkey	**4.3**	3.9	**2.0**	2.2	**3.6**	3.2
Other EMs	**2.3**		**3.5**		**4.0**	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 24 January 2024
**Forecast*

CPI Inflation (%)	2023*		2024*		2025*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	**4.7**		**2.9**		**2.3**	
US	**4.2**	4.1	**3.1**	2.6	**2.5**	2.3
Euro area	**5.5**	5.5	**2.7**	2.4	**2.2**	2.1
China	**0.4**	0.4	**1.1**	1.4	**2.0**	1.9
Japan	**3.2**	3.2	**2.2**	2.3	**1.6**	1.5
UK	**7.5**	7.4	**3.1**	3.1	**1.8**	2.0
Switzerland	**2.2**	2.2	**1.6**	1.6	**1.3**	1.3
Canada	**4.2**	3.9	**2.9**	2.5	**2.3**	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 24 January 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q1-24	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	31 Jan 20 Mar	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)	-0.25 (4.75)
Euro area - ECB	Dates	4.00	25 Jan 7 Mar	11 Apr 6 Jun	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		unch (4.00)	-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	-0.10	18-19 Mar	25-26 Apr 13-14 Jun	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (-0.10)	+0.10 (0.00)	unch (0.00)	unch (0.00)
UK - BoE	Dates	5.25	1 Feb 21 Mar	9 May 20 Jun	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		unch (5.25)	unch (5.25)	-0.25 (5.00)	-0.50 (4.50)
Canada - BoC	Dates	5.00	24 Jan 6 Mar	10 Apr 5 Jun	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 24 January 2024

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24 January 2024

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