MINERVA
INVESTMENT MANAGEMENT SOCIETY

Investment Research

Global Outlook
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MARKETS REVIEW

MACRO OUTLOOK

United States: *Monetary Policy and Economic Trends*

The United States is currently at a critical juncture in its monetary policy, with the Federal Reserve maintaining interest rates at 5.25-5.50%. Headline inflation is approaching its 2% target, with the last figure coming out at 3.2%, but core inflation is still high at 4% and the Fed's stance remains steady, buoyed by long-term inflation expectations staying anchored. The country witnessed a robust revised GDP growth of 5.2% in the third quarter, the highest since 2021, largely driven by consumer spending, which was up by 4%. This surge in consumer activity is attributed to the pandemic-era savings and a strong labor market. However, the rising borrowing costs, evidenced by a spike in the average 30-year fixed mortgage rate to 8%, have impacted housing affordability, with the price-to-income ratio reaching its highest level since the 1980s, and pose threats in terms of delinquency ratios and probabilities of default.

Canada: *Economic Slowdown Amid Rising Borrowing Costs*

In contrast, Canada experienced a stagnation in economic activity in mid-2023, primarily due to increased borrowing costs affecting businesses and households. The real GDP remained flat in the third quarter, marking a stark difference from the U.S. economic growth. Canada's vulnerability to interest rate hikes is highlighted by a 4.2% increase in household debt compared to the previous year. This has led to a reduction in borrowing and an increase in savings among households.

United Kingdom: *Stagnation and Uncertain Outlook*

The UK's economy has been treading water, narrowly avoiding a decline in Q3. The Bank of England, in a surprising move, held interest rates at 5.25% at the last meeting, despite the then prevailing high inflation rate of 6.7% in September (followed by a 4.6% print in October), well above the 2% target. This decision signals a possible conclusion to the policy tightening phase. The country is facing a slowdown, with GDP expected to rise by only 0.3% in 2023 and a further decrease of 0.8% in 2024. The economic outlook is further clouded by uncertainties surrounding the 2024 election, demand strength, and the trajectory of interest rates.

Euro Area: *Modest Growth Amid Challenges*

The Euro Area has seen modest economic growth in the first half of 2023, despite challenges such as a backlog of manufacturing orders. The European Central Bank has paused further rate adjustments, keeping its rate steady at 4%. This decision stems from a belief that current monetary conditions are adequate to curb inflation. However, policymakers are continuing to signal that a cut is not even in sight currently. Germany, pivotal to the Eurozone economy, is grappling with declining exports, possibly due to reduced demand from China.

Japan: *Overcoming Deflationary Challenges*

Japan has emerged from the deflationary trap that characterized the "Lost Decades" of economic stagnation. This transition, facilitated unexpectedly by supply-chain disruptions and the Russia-Ukraine conflict, has seen inflation in Japan reach 3% in September 2023, with core inflation at 4.2%. In October, though, inflation came out well below expectations, at 2.6%. Despite a 0.5% contraction in Q3 2023, there are expectations of an economic rebound in Q4, driven by a recovery in domestic demand. The Yen touched historic lows, overcoming the 150 threshold against the dollar.

China: *Persistent Slowdown Amid Real Estate Crisis*

China, expected to recover post-pandemic, is facing a slowdown with a contracting manufacturing sector and a downturn in the real estate market. The country's inflation rate has slightly increased from

- 0.3% to 0.1%, with an interest rate at 3.45%. The IMF forecasts China's GDP growth at 5.4% for 2023, an upward revision from earlier projections. However, the real estate sector, a major contributor to China's GDP, faces significant challenges, indicating a more complex recovery path. The Government and the PBOC are continuing to announce more and more interventions, and some promising data are starting to emerge, in particular in the manufacturing sector and regarding consumer attitude towards spending.

LATAM (Latin America and the Caribbean): *Trade Dependence and Inflation Response*

Latin America and the Caribbean have surpassed pre-pandemic GDP levels, but growth remains subdued compared to other developing regions, with an expected increase of only 11% between 2019 and 2025. The region's heavy reliance on China, a crucial trade partner, has influenced its economic dynamics. Weakness in China's post-pandemic recovery and real estate issues have impacted Latin America's trade exports. Despite high commodity prices boosting export value in the past two years, trade volumes have remained stable. In response to inflationary pressures, LAC's central banks have undertaken aggressive rate hikes, effectively stabilizing inflation expectations. While inflation in the region is slightly above US and EU levels, Argentina remains an outlier with rapidly escalating inflation, reaching 143%, primarily driven by the government’s monetary financing of its fiscal deficit.

Middle East: *Economic Growth and Inflation Dynamics*

The Middle East and North Africa (MENA) region is projected to grow at 2% in 2023, a decrease from 5.6% in 2022, with an expected rebound to 3.4% in 2024. This slowdown is attributed to reduced oil production and tighter policy conditions. Inflation, although cooling down, remains a concern, with some countries facing high Consumer Price Index (CPI) growth rates. The average inflation rate for the MENA region is expected to peak at 17.5% in 2023 before declining to 15% in 2024.

Russia: *Economic Performance Amid Sanctions*

Russia's economy has faced significant challenges following the imposition of extensive sanctions due to its invasion of Ukraine in spring 2022. The World Bank, IMF, and OECD report negative growth in Russia for 2022 and 2023, with estimates varying from -2.5% to -0.2%. Contrarily, Russian President Vladimir Putin has presented an optimistic growth rate exceeding 3% for 2023. Despite the sanctions, increased public spending, especially in war-related areas, has aided Russia in recovering faster than expected from the initial post-invasion economic shock.

2024 OUTLOOK: WHAT MAJOR FINANCIAL INSTITUTIONS EXPECT

Despite ongoing uncertainties in both the economic and geopolitical sphere, a somewhat clearer trajectory for the future of monetary policy is emerging. The prevailing consensus is that major developed market (DM) central banks, excluding Japan, have reached the peak of their tightening cycles and that the 'higher for longer' scenario is credible and will realize. However, it is essential to note some disparities among economists from major financial institutions worldwide.

Goldman Sachs shows a relatively optimistic view, and predicts inflation slightly exceeding targets, unemployment rates below long-term levels, and GDP growing at a steady pace in 2024. As a result, they do not anticipate US rate cuts until the last quarter of 2024, unless there is weaker-than-expected growth. The European Central Bank (ECB) and Bank of England (BoE) may initiate cuts earlier, potentially in early 2024.Upon the stabilization of policy rates, Goldman Sachs anticipates central banks maintaining rates above their current long-term sustainable projections. They propose an increase of 50 basis points in the long-term policy rate forecasts for major DMs, reaching 3.5-3.75% in the US, 2.5% in the Euro area, and 3% in the UK.

BlackRock Research identifies a key risk for Q1 2024 as a reacceleration in inflation or a slowdown in progress over recent months. They maintain the view that the likelihood of rate cuts in 1H 2024 is high, particularly in the US, where the growth-inflation mix is more favourable than in the Euro Area and the UK.

Morgan Stanley foresees earlier rate cuts than its US counterparts. If inflation continues to decrease, they expect rate cuts in the US and Europe by mid-2024. In particular, in the US, they expect a first 25 bps cut in June 2024, followed by one in September and others at every meeting from the 2024Q4, with a terminal rate of 2.375% by the end of 2025. They also anticipate US inflation normalization triggering rate cuts across Latin America. Japan might ease policy controls in early 2024, possibly leading to a rate hike in July 2024, while China is expected to maintain low rates due to subdued inflation.

JPMorgan opines that central banks are unlikely to proactively cut rates without a significant slowdown in economic activity. They project rate cuts to occur later than market expectations, not before the second half of 2024, but with a deeper impact than predicted.

Citi economists anticipate a slowdown in growth next year due to restrictive monetary policy. However, they posit that this combination of slower growth and tighter policy will drive inflation back to target.

UBS predicts a global growth slowdown, expecting, contrary to the markets view, a recession in the US but the EU to avoid it. Such a scenario would allow central banks to initiate rate-cutting cycle very soon, in March 2024, to decrease rates by 275 basis point through the next year, more than two times what markets are now pricing. This would bring the federal funds rate between 2.5% and 2.75% by the end of 2024, and UBS strategists forecast further cuts in 2025, foreseeing the terminal rate at 1.25%.

Bank of America envisions 2024 as a year for central banks to successfully orchestrate a soft landing, although acknowledging downside risks. They foresee global inflation gradually decreasing, enabling many central banks to cut rates in the latter half of 2024, averting a global recession.

Lastly, despite the global economy's resilience and anticipated inflation decline, **Barclays** does not foresee rapid changes that would trigger significant monetary easing cycles.

From the analysis above, two takeaways emerge very clearly. On the one hand, major financial institution agree on that the focus is shifting from the sole fight to inflation to a trade-off between finally defeating inflation and supporting growth, which is starting to give signs of faltering; for this reason, rates will soon start to go down. On the other hand, though, it is evident that there is a lot of uncertainty ahead, with great divide on the impact of policies implemented so far and the magnitude of the measures that will follow before the World economy reaches a new equilibrium.

ISRAEL-PALESTINE CONFLICT: HISTORY AND ECONOMIC EFFECTS

In the picture of modern history, few regions have been as deeply involved in prolonged conflict as the area known today as Israel and Palestine. This land, with ancient names like Canaan, Judea, and Israel, has been a cradle of religious significance for Judaism, Christianity, and Islam, making it a focal point of historical and cultural interest.

The narrative of this land took a pivotal turn in 1917 with the British government's Balfour Declaration, which supported the establishment of a "national home for the Jewish people" in Palestine. This promise was made with the stipulation that the civil and religious rights of the non-Jewish communities already residing there would not be compromised. However, the British Mandate period, spanning from 1920 to 1948, was a time of escalating tensions. This era saw a significant influx of Jewish immigrants seeking refuge from European persecution, and this migration increased the conflict between Jewish and Arab communities.

A landmark moment in this chronicle occurred in 1948 with the declaration of the State of Israel, which ignited the Arab-Israeli War. This conflict reshaped the region's map, creating a large number of Palestinian refugees and setting temporary borders that failed to address the underlying tensions.

The ensuing decades were marked by a series of conflicts and upheavals, including the notable Six-Day War in 1967 and the Yom Kippur War in 1973. During these difficult times, there were small signs of hope for peace, such as the Oslo Accords in 1993 and the Camp David Summit in 2000. Unfortunately, these attempts, while significant, did not lead to a lasting resolution, and the region continued to be trapped in a cycle of violence and negotiations.

The conflict once again escalated on the 7th of October when Hamas declared an official war on Israel, attacking a music festival taking place in Re’im, murdering hundreds of civilians and kidnapping many.

On the 8th of October, Israel formally declared a state of war, the first time since the 1973 Yom Kippur War. In the following week, there was a heavy exchange of missiles between the two regions. Israeli warplanes have destroyed universities, hospitals and other civilian buildings while Hamas has continued its threats against Israeli soil. On the 12th, Israel announced that the Gaza Strip would not receive water, electricity or fuel until the hostages were given back. This has raised humanitarian concerns in the UN. Following the news, Iranian authorities have warned the UN that Iran would intervene in the conflict if Israel started a ground invasion operation in Gaza. This has increased the tension in all the Middle Eastern states, including Turkey, Lebanon and Egypt.

The risk of war spreading caught global attention in the commodities market as six of the thirteen countries in OPEC are located in the Middle East and North Africa (MENA). After Iran’s ultimatum, natural gas was the most impacted energy commodity, with a 9% weekly price increase, followed by Brent oil with 8%. This appreciation was of course backed by a potential supply shock and the historical data suggesting a strong correlation between commodity prices and conflicts in the Middle East. It should be taken into account that oil prices had increased more than 130% after the 1990 Kuwait Invasion and nearly 45% after the 1979 Iranian revolution. After a rapid panic period in October in the global financial markets, as of now, everything seems to be settled down with decreasing prices of energy commodities, and well-performing indices, as a result of talks about a ceasefire agreement.

Alongside the global markets, it is important to mention how the war is expected to affect the regional economy. Some estimates from global think tanks suggest that the war could create a 400bn USD loss in Israeli economic activity in the next decade. Currently, the Bank of Israel holds its 4.75% interest rate, the highest since 2006, amidst the possibility of inflationary pressure caused by the war.

Although Israel's economy is relatively stable, the war has almost destroyed the Gazan economy, which lost 61% of its employment, equivalent to 182,000 jobs. The Gaza conflict has created turmoil also in the West Bank, which has now lost 24% of its employment, or 208,000 jobs. This translates into a labor income loss of 16 million USD daily, an unmatched humanitarian crisis within the last decades.

The recent developments in the conflict show that it will not be ending in the near future, as starting from the 4th of December the ceasefire agreement has ended and Israeli Defense Forces has started a ground invasion in Southern Gaza.

NEW PRESIDENT IN ARGENTINA: POLITICAL AND ECONOMIC IMPACTS

What Happened: *Javier Milei won Argentina's presidential runoff, pledging major market-driven economic reforms from December 10, 2023.*

Javier Milei, representing La Libertad Avanza (LA), emerged victorious in Argentina's presidential runoff, securing 55.7% of the vote against Sergio Massa's 44.3%. Massa, from Union por la Patria (UP), has agreed to facilitate an orderly transition. As the president-elect, Milei recognized the significant challenges ahead but committed to a major overhaul of the country's economic model towards market-driven policies. He emphasized that the current administration remains responsible until his inauguration on December 10, and assured that his government will honor existing commitments without gradual policy shifts.

Policy: *Argentina's incoming administration plans significant FX, fiscal, and monetary policy changes, facing political challenges and constraints*

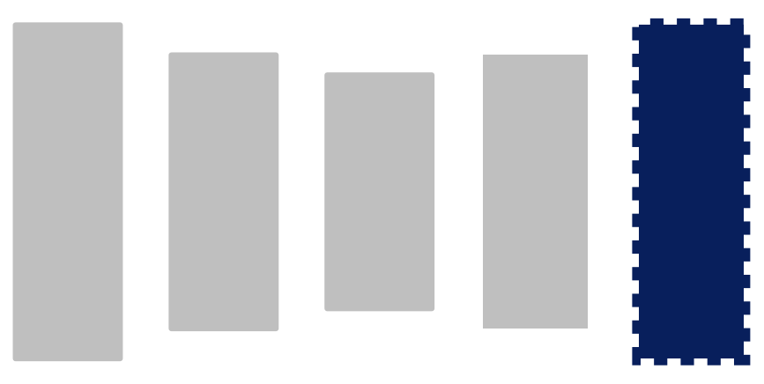
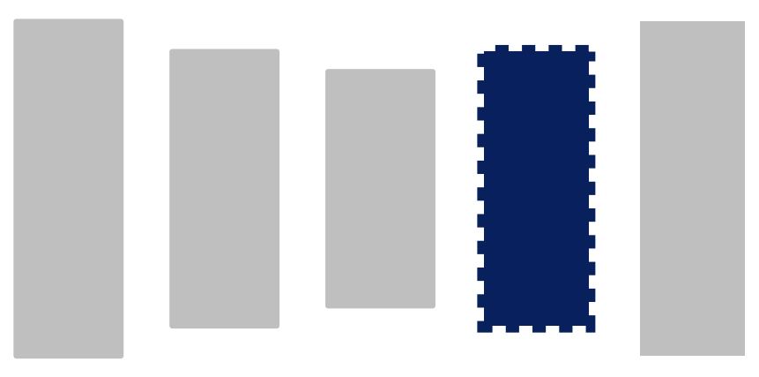
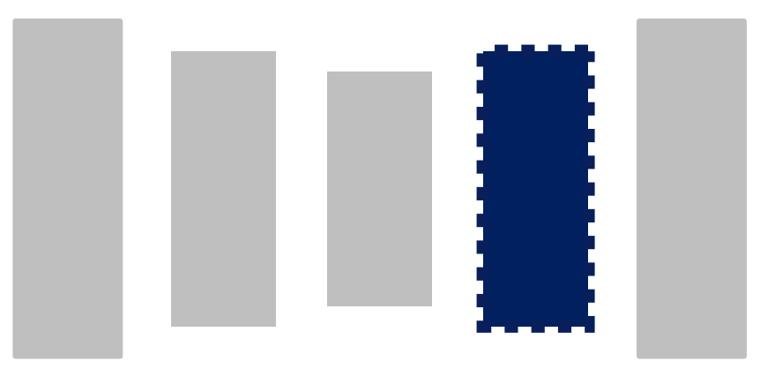
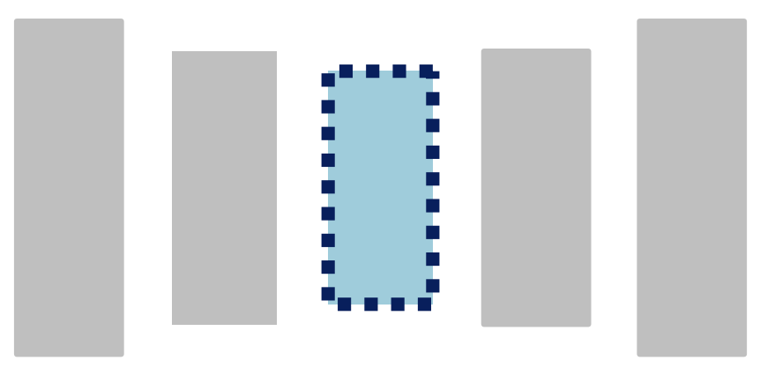
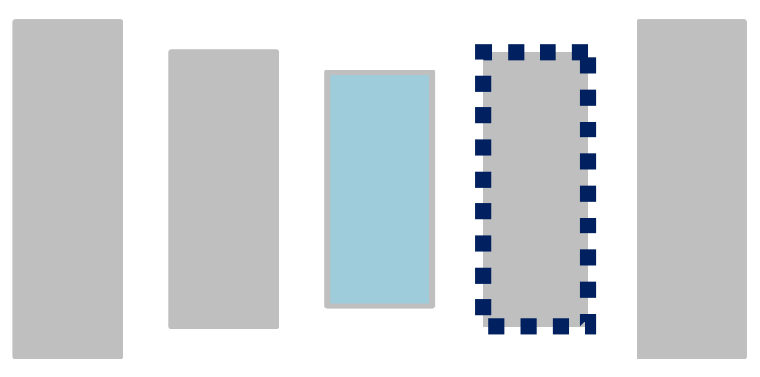
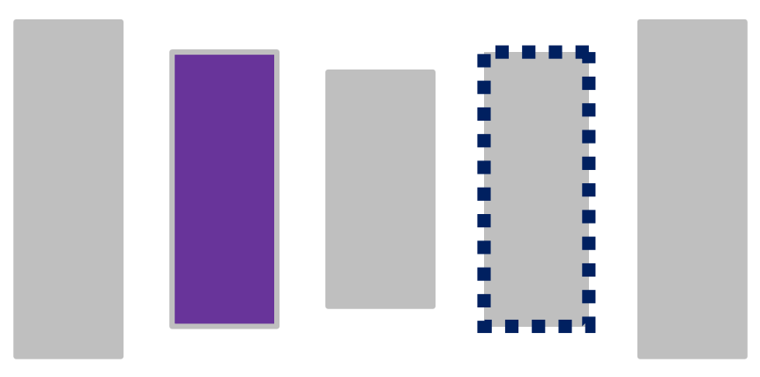
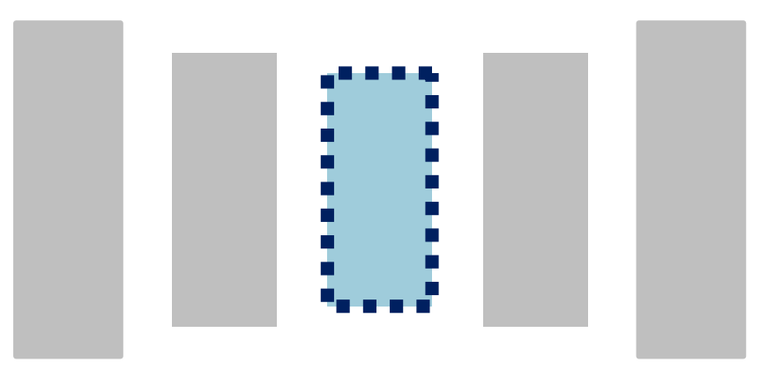
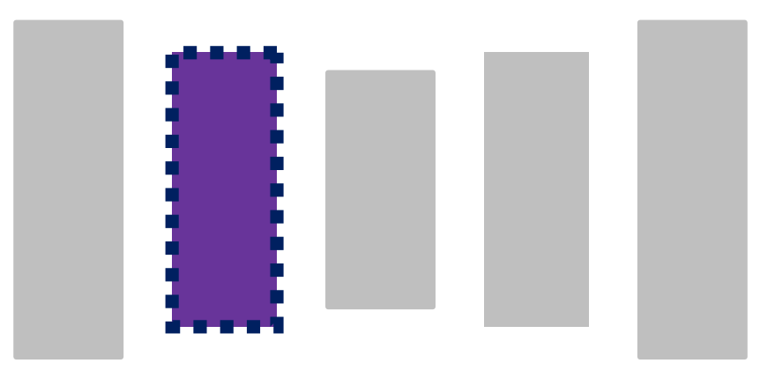
The government, with limited legislative support, anticipates adjusting the official foreign exchange (FX) rate significantly in December. This adjustment aims to address pent-up FX inflows and manage the backlog of FX outflows, with an expected increase in FX reserves by about US$10 billion. In fiscal policy, the president-elect intends to eliminate the primary fiscal deficit through substantial spending cuts and tax reversals, targeting a balanced primary fiscal account next year. On the monetary front, interest rate hikes are anticipated to prevent further FX overshooting, with a potential move towards a dual-currency system. The administration plans to negotiate a new Extended Fund Facility with the IMF and anticipates staying current on FX debt payments. These policy shifts are expected to drive a rapid rise in inflation, surpassing 250% annually in the first half of 2024. The government will also focus on carefully managing capital and import restrictions, particularly concerning stocks, to ensure economic stability.

Impact on Asset Class: *Argentina's new administration provides high risks and rewards for sovereign credit, equity, and fixed income strategies.*

Sovereign credit strategy indicates a positive initial reaction for bonds, but heightened risks compared to previous policy shifts. Key market catalysts include a major adjustment in the official FX rate, fulfillment of external bond interest payments, and a potential IMF agreement. However, challenges like negative net FX reserves, high inflation, and political limitations pose risks, especially for external bond restructuring. Equity strategy suggests a positive response to the election results, with potential for market-friendly government coalition and moderate executive approaches. Equity markets are expected to remain volatile, with positive reactions to policy changes and cabinet appointments, but potential setbacks if political capital is insufficient for macro stabilization and structural reforms. We expect a 'wait and see' approach from investors.

ASSET CLASSES PREFERENCES

OVERVIEW

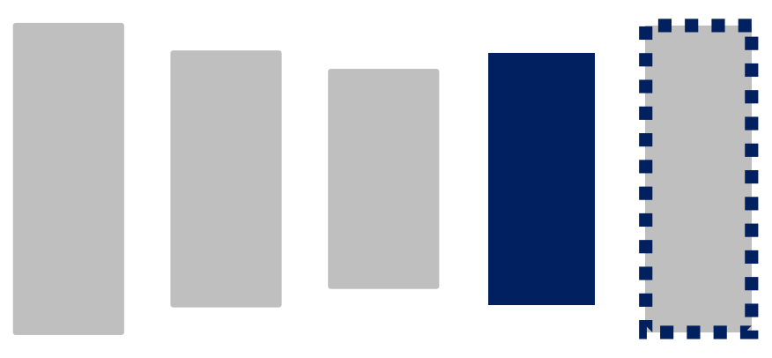
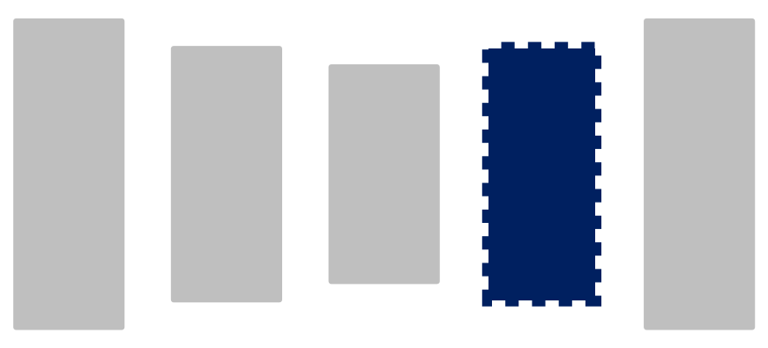
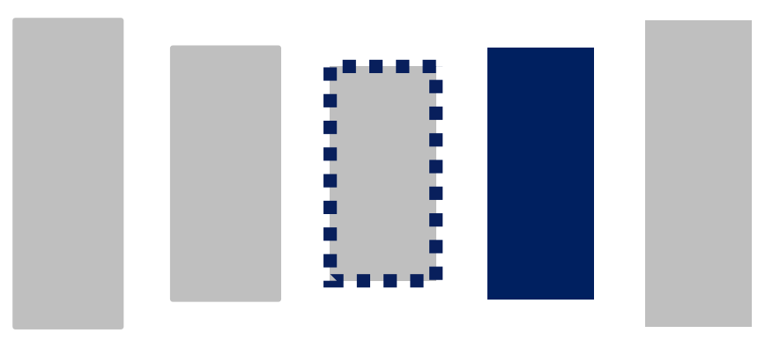
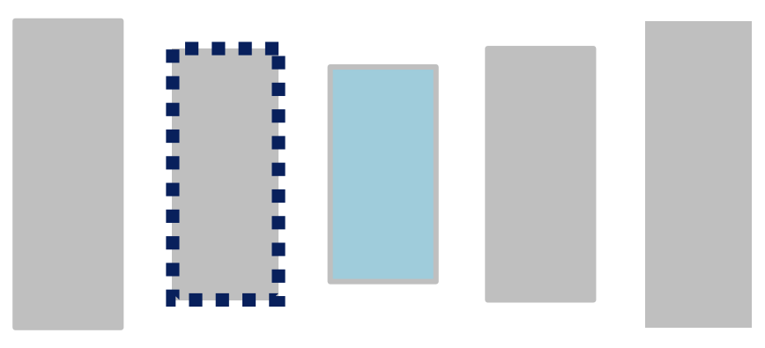
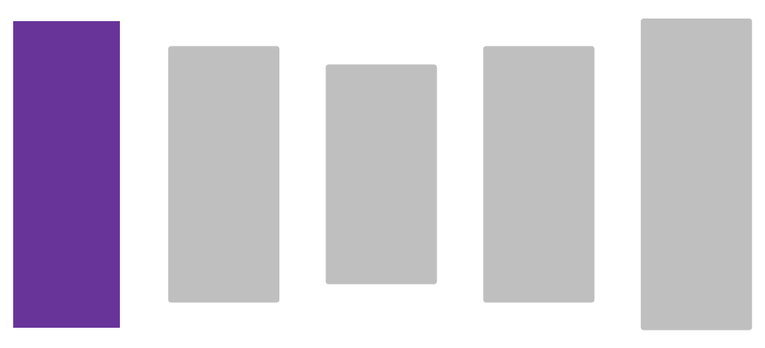
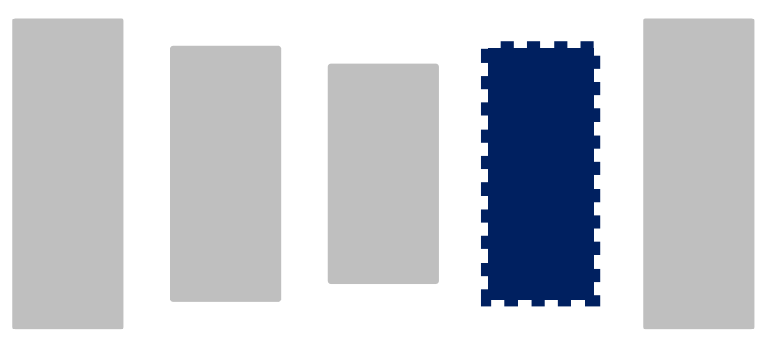
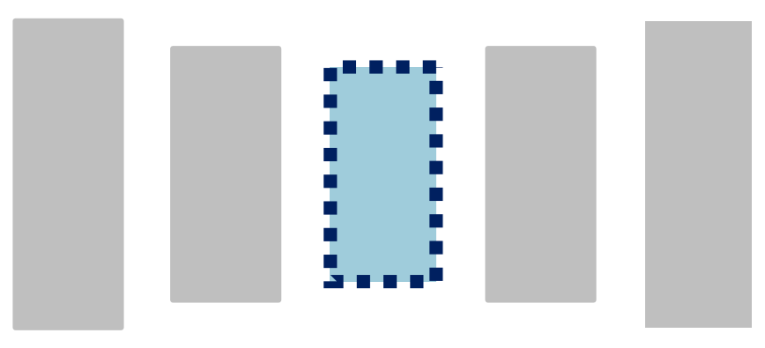
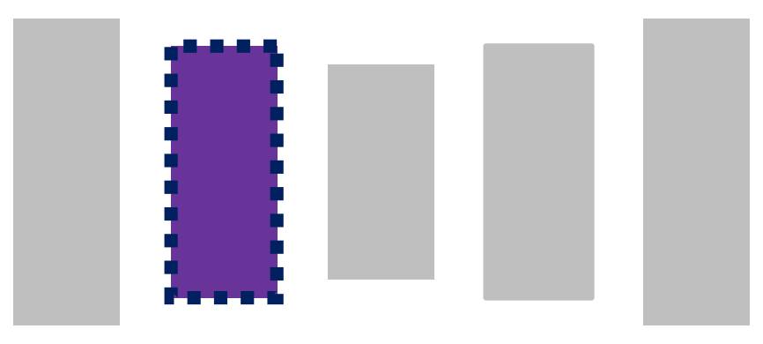
	STRATEGIC VIEW	TACTICAL VIEW	COMMENTS
FIXED INCOME			We recommend a higher-than-benchmark exposure to Fixed Income. Our belief is that all the main Central Banks already reached the end of their hiking cycle. In the US, with inflation heading in the right direction without strong signs of economic slowdowns, we believe in the higher for longer scenario pushed by the Federal Reserve and therefore do not expect cuts before the second half of 2024. In the EU, instead, signs of a faltering economy suggest the ECB will implement rate cuts sooner than its American counterparty. In the UK, we think that it is reasonable to expect a technical recession at the turn of the year, and therefore we think the BoE will be the first to start cutting rates in the first half of 2024. Nonetheless, a few risks should be closely monitored: a rise in oil prices could make inflation stickier, and high interest rates could be hard on businesses.
GLOBAL EQUITIES			In our strategic equities outlook, we take a cautiously optimistic approach. This perspective is shaped by regional economic conditions, with a particular focus on the US and EU regions. Here, we see potential for growth in equities, supported by forecasted GDP growth and easing inflation. However, our outlook on Emerging Markets is more reserved, due to volatility in regions like Latin America and the Middle East, despite steady growth in India. We advise a selective investment strategy in these markets. While long-term equity valuations appear balanced, we adopt a tactically underweight position in Developed Market stocks, while neutral on Japan. Additionally, we are neutral in US and European equities in the short term. Tactically, our strategy is neutral, influenced by a combination of limited earnings growth and inadequate risk compensation. In the context of Emerging Markets, we find debt more attractive than equity, for the current diminishing growth trajectory.
COMMODITIES			Commodity prices are currently being affected by great uncertainty due to the several different factors. Oil and natural gas prices are being impacted by the developing news on the situation of the Ukrainian War but also to the more recent conflict in Israel, which can have potentially great consequences on the markets. Industrial metals prices depend on the information on the industrial production, particularly those on the Chinese economy. In the last weeks Chinese production and import demand has seen positive data. Production in the rest of the world has yet not been much affected by the worldwide tight monetary policies. Prices of precious metals, such as gold, also depend on the interplay of interest rates and exchange rates, on both of which there is still uncertainty.
EURO			Regarding the euro, we are negative in the short term due to low inflation and poor economic growth, with Germany leading the downward trend. We expect that the interest rate cut will happen earlier in the European Union than in the US, which is why we are underweight.

🟪 Underweight 🟦 Neutral ■ Overweight ⬚ Previous view

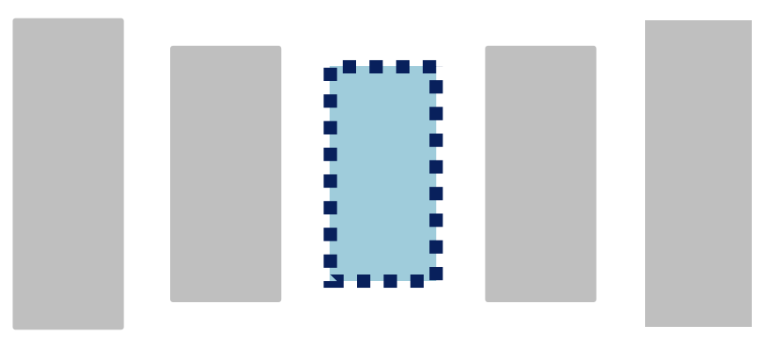
ASSET CLASS BREAKDOWN

Six to 12-month tactical views on selected assets vs. global asset classes, by level of conviction

FIXED INCOME

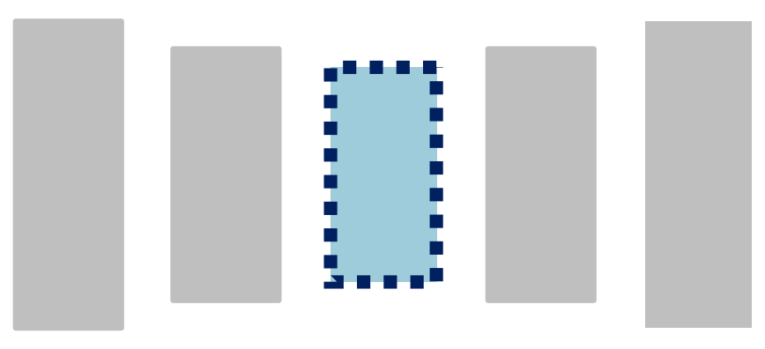
US Treasuries Short duration		Yields are still attractive, and we believe in the higher for longer dynamic. Hence, on one hand reinvestment risk will be contained, while on the other hand investors will start to collect capital gains. However, as Central Banks reference rates start going down, short duration will start losing attractiveness.
US Treasuries Long duration		High real yields, uncertain US growth, and a commitment by the Fed to keep rates restrictive to bring down inflation should support US duration. We see multiple reasons to invest, among them the possibility of locking high rates for a long time, and the possible benefits in the case of cuts. However, we should consider the possibility of investors demanding even greater term premiums, bringing the long-term yields up further, and the effects of the deluge of supply from the Treasury announced in August.
Euro Area Government bonds		We don't think more hikes will come, and slowing growth suggests cuts could come before markets expect. The high yields offered by safe core countries are preferred over peripherical ones. An eye must still be kept on a possible second wave of inflation, but this risk is fading away
Global IG Credit		We think that the set-up for higher rated Credit is supportive, given the good technicals and the generous valuations above the historical average. That being said, we expect a weaker fundamental outlook also showed by the fact that latest results in Q3 are starting to reflect the impact of tight policy and slowing growth.
Global HY Credit		We prefer IG over HY because we expect more tiering and wider spreads for leveraged credit, as still high-rates and a lower growth will erode credit quality, keeping defaults and downgrades high.
EM Government Bonds		Competitive yields combined with the improving economic conditions of some countries make investing in this asset class interesting. We would avoid countries with both high inflation and deficit. Since a strong dollar and possible rate cuts threaten local currencies, we prefer hard currency investment opportunities.
Inflation-linked Europe		Our preference leans towards Eurozone when compared to US counterparts, primarily due to prevailing market uncertainty compounded by the potential for a resurgence of inflation. We hold the view that markets may be undervaluing the persistence of inflationary pressures within the European context.
Inflation-linked US		Given the latest sign of resiliency of the economic conditions in the United States, we have confidence in the Federal Reserve's ability to manage inflation with higher for longer interest rates. At the same time, markets are underestimating the risk of sticky inflation.

EQUITIES - REGIONS

United States		In our latest analysis, we forecast US GDP growth at 2.1% for the year, outpacing market consensus. Notably, inflation in the US is expected to ease, moving towards stabilization and away from previous escalating trends. This aligns with anticipated Federal Reserve policy shifts towards a more accommodative stance. Consequently, interest rates are likely to be lower, with long-term rates projected between 3.50% and 3.75%. This update reflects our adaptive approach to the changing economic conditions both in the US and globally.

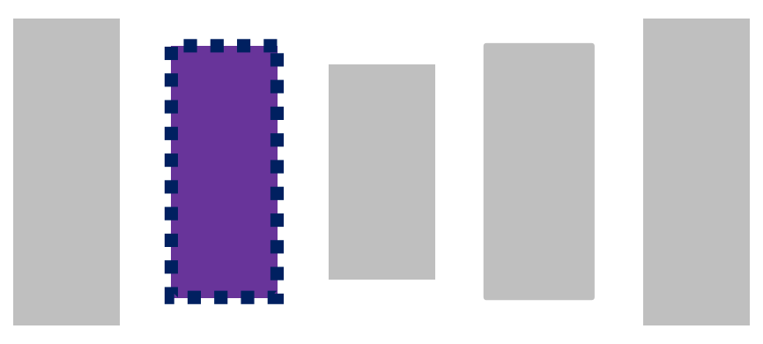
🟪 Underweight 🟦 Neutral ■ Overweight ⬚ Previous view

Europe



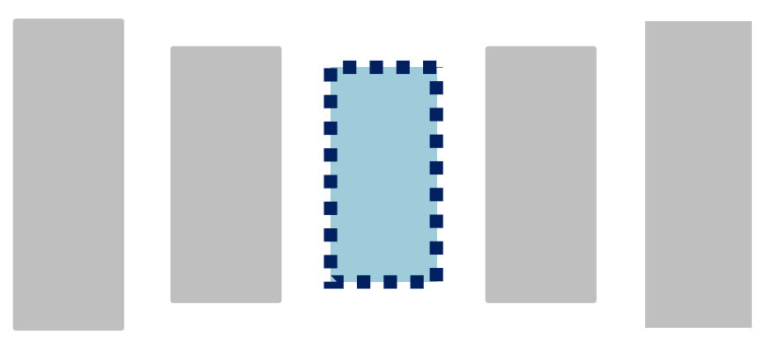
Our stance on EU equities remains neutral as we continue to monitor the impact of key market indicators. While the ECB's hawkish policy has resulted in a noteworthy 2.4% inflation rate, Germany's reduced production and China's declining imports still obscure our enthusiasm. We acknowledge that there is promise in the near future, as we believe ECB's tight policies have come to an end.

United Kingdom



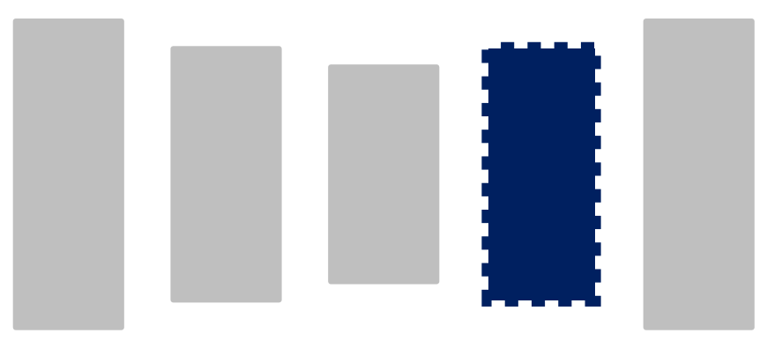
The United Kingdom is currently grappling with a complex economic scenario characterized by still rather high inflation, an underperforming housing market, and historically low consumer confidence. Despite the government's move to halt interest rate hikes to prop up the economy and higher unemployment rates, the country's economic performance continues to deteriorate. These indicators suggest that the UK is headed towards a challenging period ahead. The economy maintains its downward trajectory. This implies that the country is likely to go on with the challenging period in the near future.

Japan



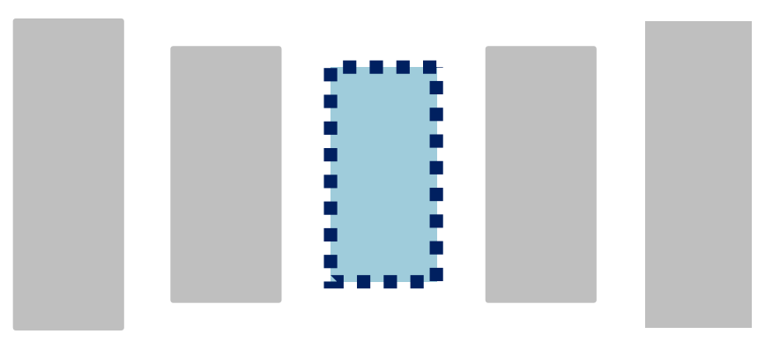
We expect Japan's GDP growth to slow to 1.5% in 2024 (from 1.9% in 2023). 2024 is an important year for this country, we need to observe whether inflation can be sustained above 2% for the third straight year. Finally, we expect an exit from YCC Policy in April after the SHUNTO spring wage negotiations.

China



China is currently facing potential deflation. As evidenced by the negative PPI, CPI is unlikely to turn positive for a considerable period in the future. With the government issuing special sovereign bonds, we anticipate China's GDP growth rate to rise to around 5.0% by 2024. However, we maintain an optimistic view on the Chinese stock market for 3 reasons: potential appreciation of CNY in 2024 against USD; the possibility of substantial government stimulus policies, and the expectation that the Federal Reserve's interest rate cuts will enhance global capital's preference for China-onshore assets.

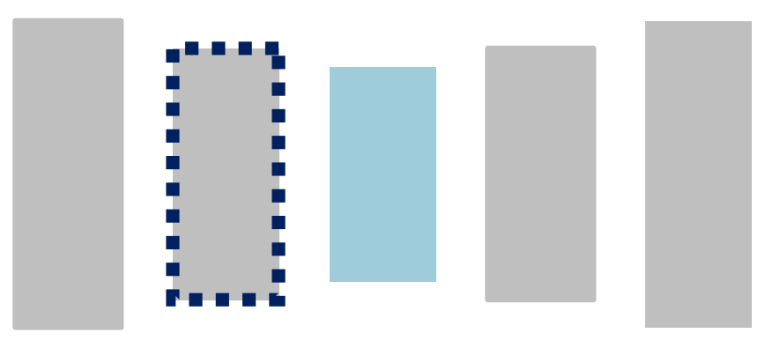
Emerging Markets (excl. China)



Although India has demonstrated consistent growth over the past two months, many Latin American states, particularly Argentina, as well as Middle Eastern countries such as Turkey, remain susceptible to political instability, leading to volatile market conditions. Consequently, we still observe better investment prospects in other markets rather than Emerging ones.

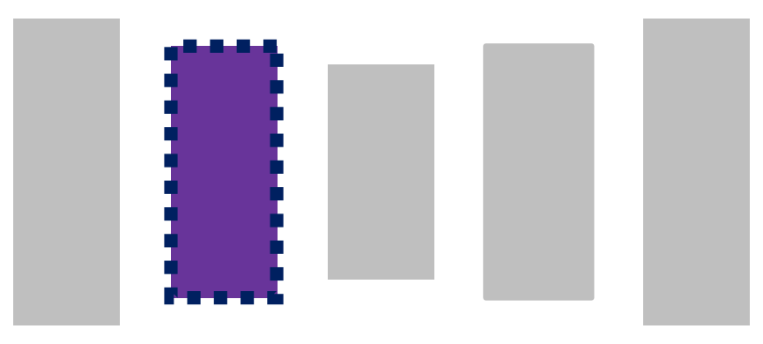
EQUITIES - SECTORS

Telecom



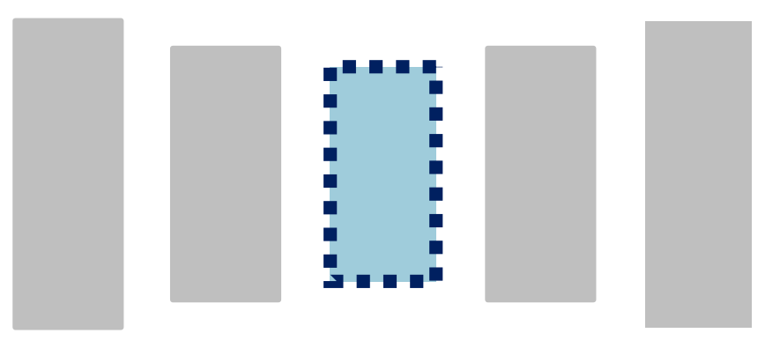
The telecom sector is a mature and essential industry that is undergoing significant transformation due to technological advancements, evolving consumer behavior and changes in regulatory. Despite facing challenges such as cord-cutting and intense competition, the neutral view is driven by increasing demand for data services, 5G rollout, and expanding emerging markets.

Consumer Discretionary



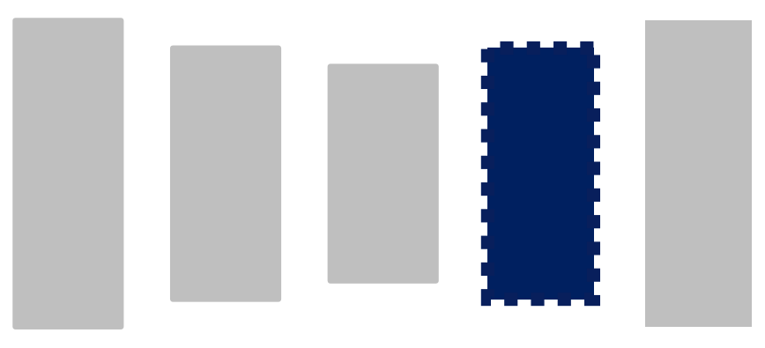
Export conditions are anticipated to improve due to the Federal Reserve's reduction in monetary tightening and future decrease in inflation. Nevertheless, we expect a simultaneous rise in unemployment, alongside growing accumulations of student loan payments in the US, which are diminishing consumers' purchasing ability.

Consumer Staples



Our stance on Consumer Staples remains neutral. This sector has shown an historical reputation for being defensive, offering a solid hedge against potential future shocks. However, with decreasing demand and limited growth prospects, along with projected reduced spending power, it appears that the growth witnessed in this sector during the COVID era has likely plateaued

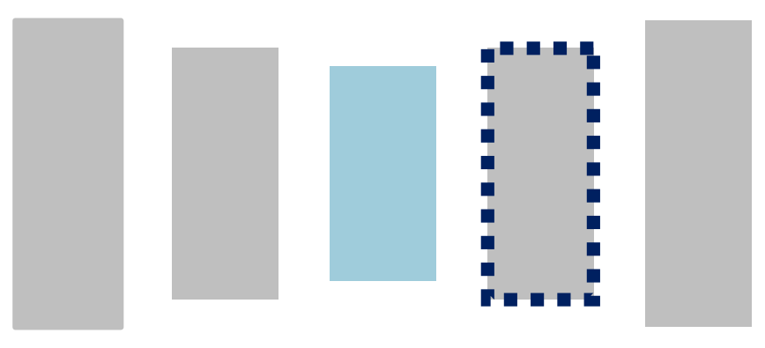
Industrials



The industrials sector shows a promising bullish trend because of key factors like substantial investments in green initiatives, ongoing industry consolidation, robust infrastructure expansions, and the resurgence of reshoring manufacturing. However, there remains a minor concern regarding the potential impact of changing global conflict situation, which may have a direct impact on the oil prices and future outlooks

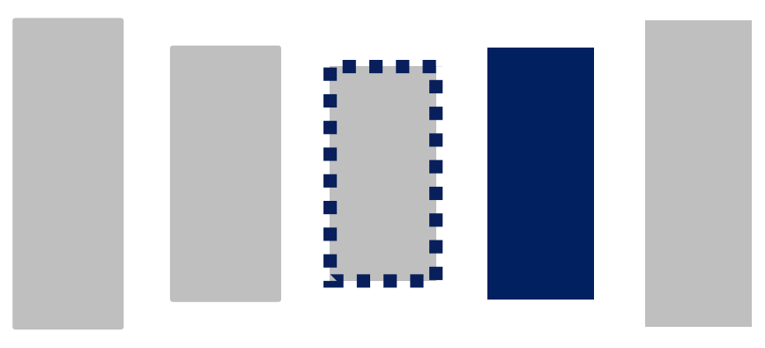
🟪 Underweight 🟦 Neutral ■ Overweight ⬚ Previous view

Energy



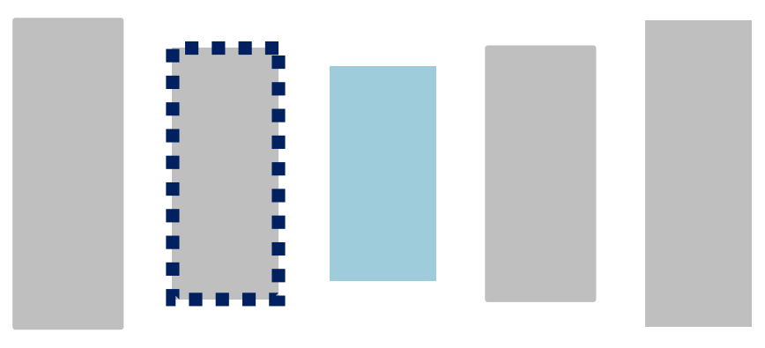
The industry's reliance on investments mandates substantial loans for infrastructure upkeep and green energy plant development to capitalize on government benefits. However, with the nearing conclusion of the aggressive economic policy, we anticipate the sector flourishing through fresh investments. Also, we anticipate that the oil price has already hit its nadir.

Information Technology



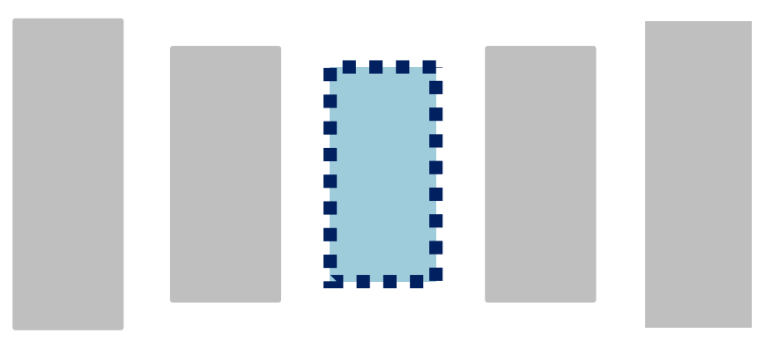
Given the spotlight on AI, the advancing competition in AR, the increasing innovation for better productivity, and the microchip crisis nearing its resolution, we continue to foresee a robust earnings season ahead. Despite most factors already being priced in by the market, we anticipate the growth witnessed over the past 12 months (approximately 50% YTD return) to persist.

Financials



As we anticipate lower interest rates after the third quarter of 2024, we predict a decline in profit margins within the financial sector. Also, we see a risk in increased delinquency ratios and probabilities of default. The banking sector anticipates a decrease in acquisitions but an increase in mergers due to sector maturity. Macroeconomic factors such as inflation impact the risk tolerance of private equity (PE) and hedge funds, leading to a higher acceptance of risk. However, Fintech projects a substantial 25% Compounded Annual Growth Rate (CAGR), from $245 billion to $1.5 trillion by 2030.

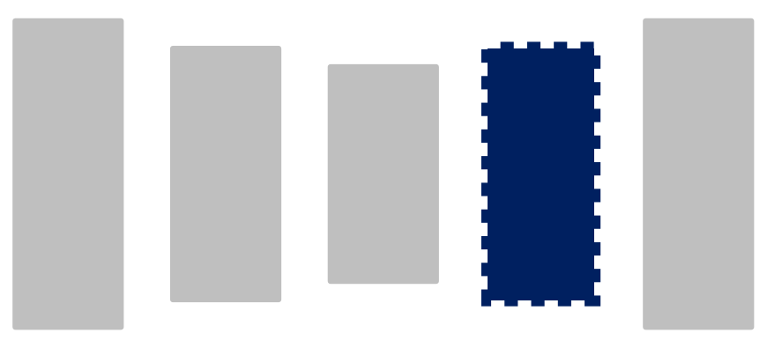
Healthcare



The healthcare sector's defensive nature might prompt existing investors to shift towards sectors with higher beta values as the economic forecast improves. We assess current company valuations as fair with limited growth potential. This sector offers decent dividends and serves as a hedge against potential market fluctuations.

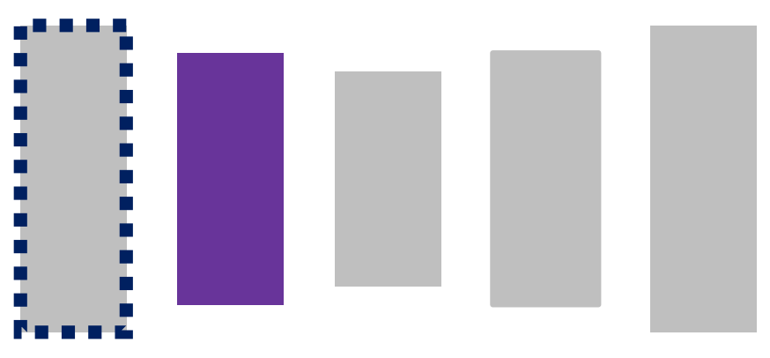
CURRENCIES

US Dollar



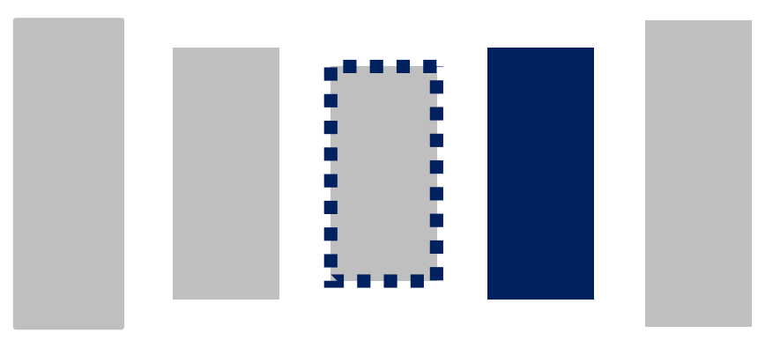
Our outlook remains positive, even after the release of the inflation and the unemployment data on November 14, which led to the depreciation of the dollar. We remain positive about the prospects of economic growth and the core inflation that remains persistent. As compared to other major central banks, we expect the FED to lag in cutting interest rates, potentially no sooner than in the second half of 2024.

UK Pound



United Kingdom economy is stagnating. Therefore, we expect that a future interest rate cut might be all the more necessary to sustain the economy, and that it will come here before than in the US, likely in the first half of 2024. Also, the inflation, even if decreasing, is still high (4.6% in October), worsening the economic outlook and hence the appeal of this region.

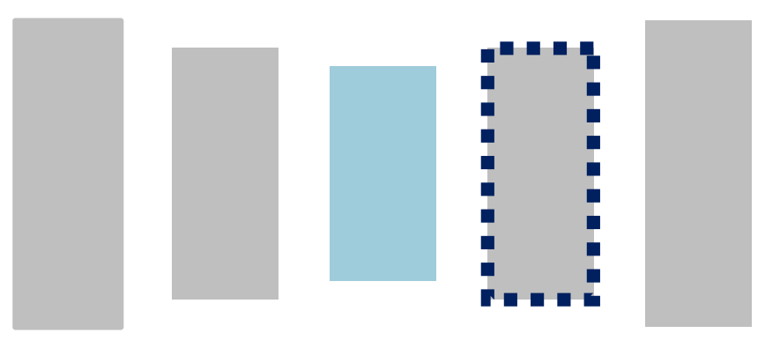
Japanese Yen



On the yen we are overweight. We hold a positive view driven by the likely release of the Yield Curve Control in 2024 and by the fact that we expect the BoJ to prevent the USDJPY pair to go beyond the 150 level while trying to make the currency appreciate. Bottom line, worsening carry will be positive for the Yen. Slowing core inflation may be interpreted as a dovish signal, but wage inflation remains sustained. We will keep an eye on the actions of the BoJ and the SHUNTO in April 2024.

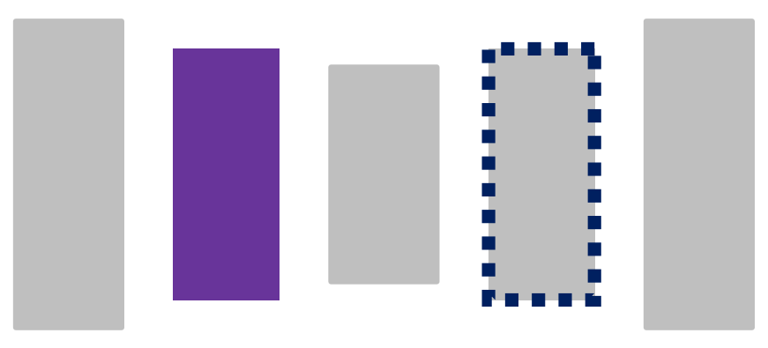
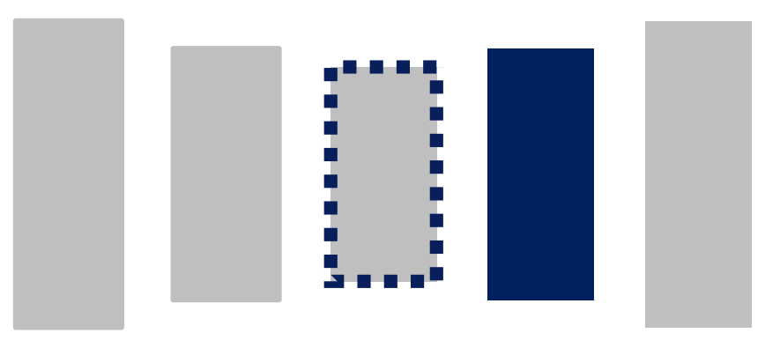
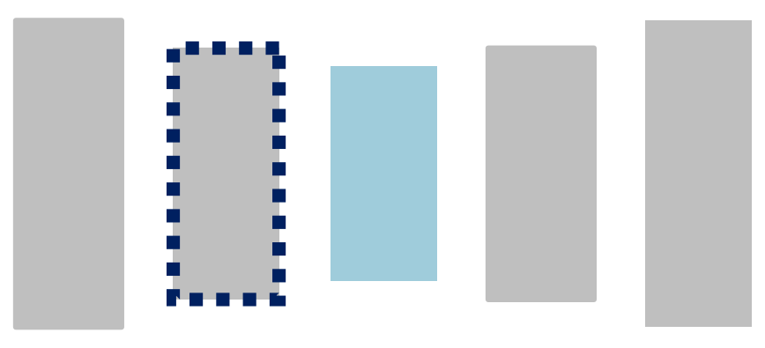
COMMODITIES

Oil



Oil price has decreased for six weeks, making it cheaper, but we acknowledge that oil is losing momentum. Even though the SPRs have increased more than expected, US still have to refill them. Nonetheless, we see signs of weakness in the OPEC+ which recently struggled to find a common agreement for new quotas. Moreover, despite the 900.000 barrels cut announced, the market reaction was bearish.

🟪 Underweight 🟦 Neutral ■ Overweight ⬚ Previous view

Natural gas		We foresee weak demand and expect less frictions. LNG prices benefitted from the improvement of the situation regarding strikes in Australia, particularly those of Chevron LNG workers. Both Henry Hub prices and the Dutch TTF prices (benchmark for the European natural gas market) will benefit from these conditions. Moreover, UE's gas reserves were already 90% percent full in August and they have been slightly used due to the warm autumn we are experiencing.
Industrial metals		Positive data on Chinese industrial production and exports led to an increase in prices of the main industrial commodities, in particular of steel and copper, which is very sensible to Chinese economic cycles. In particular, we have a bullish view on copper.
Gold		We have a neutral view on gold. The appreciation of the dollar could lead to an depreciation of gold, which has shown to be more sensitive to the movement of the dollar than to signals of imminent future interest rate cuts. Furthermore, the gold price has recently hit an all-time high. This, in our view, might be counterbalanced by the will of central banks to hold more gold as reserves. Another positive factor is China's massive procurement of this commodity.

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🟪 Underweight 🟦 Neutral ■ Overweight ⬚ Previous view