

December

The Macro Month Ahead

December 2024

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Some central banks' treats in the Advent calendar

The festive season has arrived and 2025 is in sight, but the first weeks of December will keep investors busy with a heavy agenda of highly anticipated central banks meetings and economic data. The coming weeks will provide early insights into the impact of Donald Trump's election on sentiment among US households and businesses. As the President-elect unveils the composition of its future administration and the first measures that he will implement, the world prepares for significant shifts. GCC countries will hold their annual summit in Kuwait in the upcoming days. In China, Mexico, Canada, Europe, Ukraine and the Middle East, leaders set themselves for a major shake-up in their relationship with the US. All major central banks will hold their last monetary policy meeting of 2024 this month, and the outcome of many of those meeting has reached an unusual level of uncertainty with the latest economic developments. In short, don't lose sight of the events calendar when opening the Advent calendar!

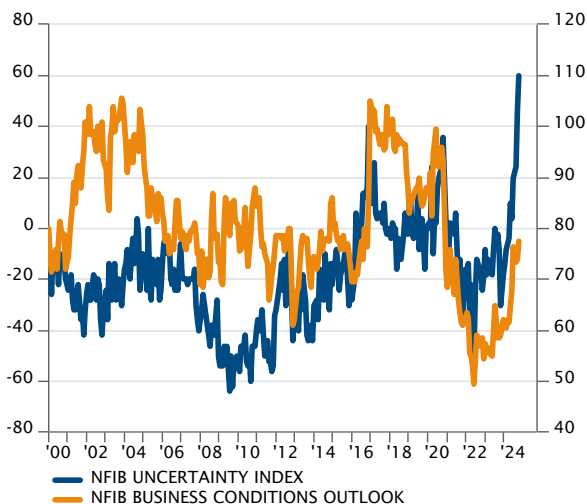
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Assessing Trump's impact on US sentiment and on Fed's policy stance

The US economy has continued to defy fears of hard, soft or any landing at all so far this year, as GDP is on track to grow again by close to 3% in the fourth quarter. The first indicators of post-election sentiment will show whether the prospect of pro-business and pro-growth policies under the Trump 2.0 Administration reinforces the robust dynamic of the world's largest economy. Regional indicators point to a potential rebound in the ISM Manufacturing in November (2/12), while it will be interesting to see whether the ISM Services holds around the 2-year high reached in October (4/12). Confidence among small businesses will also be scrutinised (NFIB index, 10/12), in particular as the Uncertainty index had reached a record high level ahead of the election. Regional indicators and early estimates of activity in December will also be important to get a sense of the growth dynamic before entering 2025 (Flash PMIs 16/12, Empire Manufacturing index 16/12, Philadelphia Fed index 19/12). On the consumer front, the preliminary release of the University of Michigan consumer confidence index for December (6/12) will provide insights on the impact of the election on households, while retail sales for November (17/12) will reveal the strength of US consumption ahead and during the all-important Thanksgiving period.

The election of Donald Trump can be expected to reduce uncertainty for small US businesses, and significantly improves the outlook for business conditions as it had after Trump's first election in 2016.

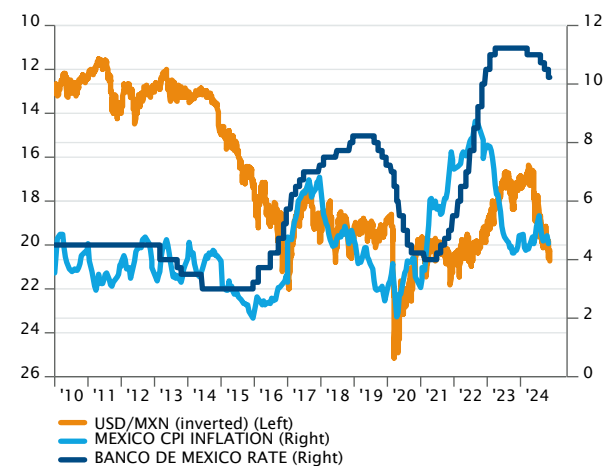


The United States' economic highlight of the month will likely be the FOMC meeting of the Fed (18/12), the decision of the Fed to continue (or not) the rate cut cycle initiated in September, and the update of economic and rate projections for the coming year. The resilience of economic activity and an unexpected pickup in inflation dynamics have recently instilled doubt on the opportunity for the Fed to cut rate at the December meeting, especially ahead of a year when the US economy will likely benefit from solid fiscal policy support. In that respect, the Employment report (6/12) and inflation data for November (CPI 11/12, PPI 12/12, import prices 13/12) could well be the factors tipping the balance one way or the other regarding a 25bp cut in December.

Assessing dynamics in economies targeted by Donald Trump's trade policies

A cornerstone of Donald Trump's economic agenda is tariffs on US imports of goods from almost all economies, and he has already announced that he will impose 25% tariffs on imports from the US's two neighbour -- Mexico and Canada -- along with an increase in tariffs on Chinese imports. Whether those tariffs will be fully implemented, how and when remains to be seen but the threat will certainly already be in the mind of central bankers when they meet this month. The Bank of Canada (11/12) will have to decide between a 25bp and a 50bp cut in a context of disappointing economic data recently, but also firmer-than-expected inflation dynamics. The Mexican Central Bank has already cut its rate in November and the decision at its December meeting (19/12) will likely depend on the Fed's decision the day before, after the peso has lost more than 15% against the dollar already this year. As for China, no rate cut is expected in December after the package of economic measures in previous months, but economic data for November will be closely watched to gauge the impact of the stimulus on economic activity: PMI activity indices for the manufacturing (2/12) and service (4/12) sectors, retail sales and industrial production (16/12), as well as CPI inflation (9/12) and the trade balance (10/12). Besides those three economies explicitly targeted by Donald Trump, the central banks of India and of Japan will also hold meetings in December. The former appears unlikely to change rate (6/12) while the later could opt for a small rate hike (19/12) after recent higher-than-expected inflation data.

The Banxico would have room to cut rate given contained inflationary pressures, but the weakness of the peso and rising trade tensions with the US plead for a cautious approach.

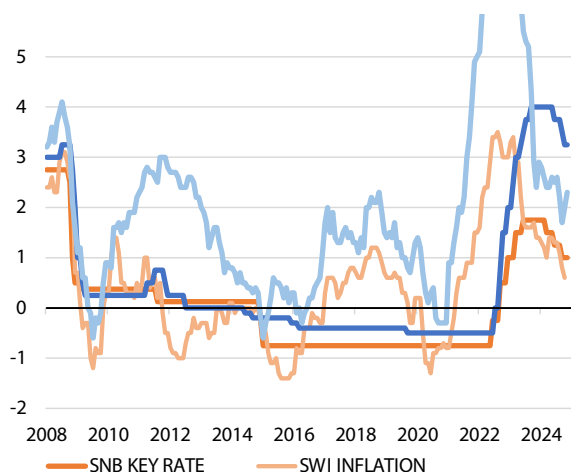


The ECB and the SNB cut rate as the European economy chokes

While uncertainties have risen in the US on the probability of a December rate cut, the uncertainty ahead of the ECB and the SNB meetings this month (both on 12/12) are on the size of the rate cut to come (25bp or 50bp). Indeed, in the Eurozone, economic activity indicators have deteriorated further in November according to preliminary estimates, extending the negative dynamic at play since the spring. Business confidence indicators in Germany are at recession levels, and Europe is currently flirting with

recession. The release of November PMI activity indices in the manufacturing (2/12) and service (4/12) sectors, as well as December data for PMI indices (16/12), for German (17/12) and French (19/12) business confidence may help assessing whether the recession is materialising or if the economy is “simply” stagnating when entering 2025. The unemployment rate of the Eurozone (2/12) will be important to gauge whether the so far resilient part of the economy, households’ consumption, is under threat.

Inflation is slowing down in the Eurozone and in Switzerland, warranting more rate cuts from the ECB and the SNB



Switzerland is directly impacted by the situation of its neighbouring economies. Weak demand from Germany weighs on Swiss exporters, and the strength of the CHF/EUR exchange rate, fueled by political instability in France and Germany, affects Swiss exporters’ profitability while exerting downward pressures on inflation. Swiss inflation has been slowing more than expected in the recent months, and the November update (3/12) will be important for the following SNB decision on rates (12/12).

The situation is different in the UK, where the pickup in inflation witnessed in October, if confirmed by November data (18/12) in a context of supportive fiscal policy, suggests that the Bank of England will pause and refrain from cutting its base rate at the December meeting (19/12). In Norway, the Norgesbank will also likely keep rate unchanged this month (19/12) while in Sweden, the Riksbank could lower its benchmark rate the same day (19/12).

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