



R&R Weekly Column
By Brunello Rosa



Central Banks Weighing Their Next Moves in The January Round of Meetings

In the middle of the January round of major central bank policy meetings, we can start making some preliminary conclusions.

In Asia, [the Bank of Japan has once again left its policy stance unchanged](#), providing no indication that a change in policy stance is imminent. Clearly the Bank's [new governor Kazuo Ueda and its MPC would like to eventually exit from the extraordinary easing measures](#) introduced in the last few years, including Quantitative and Qualitative Easing (QQE) and Yield Curve Control (YCC) and negative rates. But inflation, [which had finally gone above target in 2022](#) as a result of the pandemic, the war in Ukraine and the energy crisis, still does not provide enough reassurances of being able to remain close to target on a sustainable basis in coming years.

In Europe, the [European Central Bank has left its key policy rates unchanged](#), as well as its *forward guidance* and balance sheet policy. During its press conference President Lagarde said that the Governing Council found a consensus around the fact that it was "premature" to discuss rate cuts at this stage, when key figures around wage growth are not available yet. It may be premature to make public what its internal discussions are, but the reality is that the discussion has been ongoing for some time.

The two extreme positions here are represented by Mario Centeno, governor of the Central Bank of Portugal, who [would likely be in favour of a rate cut already in March, but could wait until April](#). On the other side of the spectrum, there's Robert Holzmann, Governor of the Austrian central bank, [who thinks that policy rates should not be cut in 2024](#). The consensus of the GC is likely in the middle of these extremes; as Lagarde hinted recently, [probably favouring a rate cut in the summer](#). The market still attributes around 70% probability of a first rate cut taking place in April. We believe that Q2 is the correct compromise, possibly in April, almost certainly by June.

The [Bank of England will hold its policy meeting this week](#). It is likely to keep its stance unchanged in February, but will likely need to change its *forward guidance* to show that the next move will likely be a cut in interest rates and/or a tapering of its balance sheet reduction plans. The updated forecast of the latest Monetary Policy Report will provide assistance to this process.

Finishing this world tour in America, the US Federal Reserve will also keep its policy stance unchanged at the FOMC meeting this week. But with inflation now back in check, the FOMC will need to start to remove its still-existing tightening bias. This could occur with a signal on rates with a change in forward guidance, or with a tapering of the balance sheet reduction.

From these preliminary considerations, it is clear that the unchanged policy stances of the various central banks are hiding heated discussion over their next moves, which we expect to occur broadly speaking mostly in Q2 this year, as we also discussed in [our recently-published global outlook](#).

Our Recent Publications

- 🔗 [Flash Preview: BoE To Start Signalling A Shift In Its Policy Stance in January](#), by Brunello Rosa and Nato Balavadze, 26 January 2024
- 🔗 [Review: ECB Tries To Push Back Expected Time of First Rate Cut To The Summer](#), by Brunello Rosa and Nato Balavadze, 25 January 2024
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- 🔗 [Review: BOJ Suggests The End of Extra Easing Is On The Cards, But The Timing Remains Uncertain](#), by Brunello Rosa and Nato Balavadze, 23 January 2024
- 🔗 [Preview: ECB to Push Back Against Market Expectation of Early Rate Cuts](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 23 January 2024
- 🔗 [Preview: BOJ To Keep Its Policy Stance Unchanged Post Earthquake](#), by Nouriel Roubini and Nato Balavadze, 22 January 2024
- 🔗 [A Nation Divided? An Analysis of the 2024 Taiwanese General Election and the Road to Détente or Destabilisation](#), by Scott Mackie, 18 January 2024

Looking Ahead

The Week Ahead: EZ GDP To Shrink Q/Q; EZ Inflation To Fall; US Unemployment To Increase; CBs To Stay On Hold

In the US, in January, the unemployment rate is expected to edge up to 3.8% (*p*: 3.7%). NFPs are likely to increase by 173K (*p*: 216K). In January, S&P Global Manufacturing PMI is expected to edge down to 47.3 (*p*: 47.4).

In the EZ, in Q4, according to the flash estimates, the economy is expected to shrink by -0.1% q-o-q (*p*: -0.1%) and stall y-o-y (*p*: 0.0%). In January, according to flash estimates, headline and core inflation is likely to ease off to 2.8% y-o-y (*p*: 2.9%) and 3.2% y-o-y (*p*: 3.4%). December's unemployment is expected to remain unchanged at 6.4%. In January, economic sentiment is seen falling to 96.2 (*p*: 96.4). Consumer confidence is likely to deteriorate to -16.1 (*p*: -15.1). In January, HCOB Manufacturing PMI is expected to edge up to 46.6 (*p*: 44.4).

Among the largest EZ economies, according to preliminary estimates, in Q4, the GDP growth rate is likely to: *i*) stall q-o-q (*p*: -0.1%) in France; *ii*) shrink by -0.3% q-o-q (*p*: 0.0%) and -0.2% y-o-y (*p*: -0.4%) in Germany; and *iii*) stall q-o-q (*p*: 0.1%) and advance by 0.3% y-o-y (*p*: 0.1%) in Italy.

In the UK, in January, S&P Global Manufacturing PMI is expected to edge up to 46.9 (*p*: 46.2).

CBs are expected to stay on hold. In the US, the Fed is expected to keep rates on hold. In the UK, the BoE is likely to hold.

The Quarter Ahead: Israel's War In Gaza; 2024 US Presidential Elections; Trump's Defamation Trial

Israel's war in Gaza. US, UK, and Finland among others paused funding to the main UN agency in Gaza after allegations that 12 staff members were involved in the October 7, 2023, attacks by Hamas in Israel. Hospitals in the southern enclave struggle with dwindling supplies amid alleged Israeli forces' siege. Houthi rebels targeted a commercial ship off Yemen's coast, claiming it was to pressure Israel to cease the Gaza conflict, prompting US and UK retaliatory strikes.

2024 US presidential elections. Trump defeats Haley, while she vows to stay in the race. Trump is leading with 32 delegates at the moment with wins in Iowa and New Hampshire Republican presidential primaries.

Trump's defamation trial. A New York jury has instructed Donald Trump to pay \$83.3 million for defaming columnist E. Jean Carroll in 2019. This follows a prior case where Trump was found guilty of defamation and sexual assault against Carroll in the 1990s. Trump intends to appeal, dismissing the case as a witch hunt and criticising the verdict.

Last Week's Review

Real Economy: Q4 QoQ GDP Decelerated In US; PCE Prices Remained Unchanged in US; ECB And BOJ Remained On Hold

In the US, in Q4, according to an advance estimate, GDP growth decelerated to 3.3% q-o-q (*c*: 2.0%; *p*: 4.9%). In December, the PCE Price Index was unchanged at 2.6% as expected, while the core PCE Price Index eased off to 32.9 y-o-y (*c*: 3.0%; *p*: 3.2%).

In the EZ, in January, consumer confidence contracted by -16.1 (*c*: -14.3; *p*: -15.1).

CBs stayed on hold. In the EZ, the ECB kept rates on hold. In Japan, the BOJ hold the policy unchanged.

Financial Markets: Stock Prices Rose; Long-term Bond Yields Unchanged; Dollar Index And Oil Prices Rose, While Gold Prices Fell

Market Drivers: The S&P 500 and the Dow inched above their previous week's record highs after the data showed the US economy remained resilient throughout 2023. In Europe, stocks rose as the ECB kept unchanged interest rates, hinting at a more dovish outlook.

Global Equities: Increased *w-o-w* (MSCI ACWI, +1.3%, to 733.77). The US S&P 500 index edged up (+1.1% *w-o-w*, to 4,890.97). In the EZ, share prices rose (Eurostoxx 50, +4.2% *w-o-w*, to 4,635.35). In EMs, equity prices increased (MSCI EMs, +1.5%, to 985.10). Volatility fell slightly to 14.14 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: *w-o-w*, the 10-year US Treasury yields virtually changed (+1 bps to 4.14%). The 2-year US Treasury yields decreased (-3 bps to 4.36%). The German 10-year bund yields are virtually unchanged (+0 bps to 2.30%).

FX: *w-o-w*, the US Dollar Index increased (DXY, +0.2%, to 103.5; EUR/USD -0.4%, to 1.09). In EMs, currencies edged up (MSCI EM Currency Index, +0.2% *w-o-w*, to 1,721.48).

Commodities: *w-o-w*, oil prices increased (Brent, +6.5% to 83.68 USD/b). Gold prices fell *w-o-w* (-0.5% to 2,018.20 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year