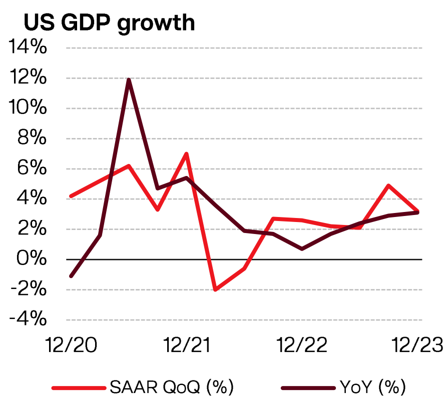
Market Monitor – United States

Pushed back expectation aligns better with the Fed's dot plot

- US GDP growth rate for Q4 2023 was revised slightly lower, with moderating growth momentum more recently.
- Core PCE inflation edged lower to 2.8% year-on-year (YoY) in January 2024 with service prices stayed sticky, indicating a slow pace of disinflation in the last mile.
- Latest inflation data push back rate cut forecast to align better with the Fed's dot plot.

Moderating growth momentum after a decent Q4 2023

Q4 2023 growth was revised one-tenth lower to 3.2% in seasonally adjusted annual rate (SAAR) term. The slight revision mainly reflected the decline inventory investment and a smaller contribution from net exports while the growth of personal consumption expenditures and government spending were revised higher to 3.0% and 4.2% SAAR, respectively. The upward revision of personal consumption indicated that the solid job market continues to support the consumer and household sectors despite the tight monetary environment at least until late 2023.

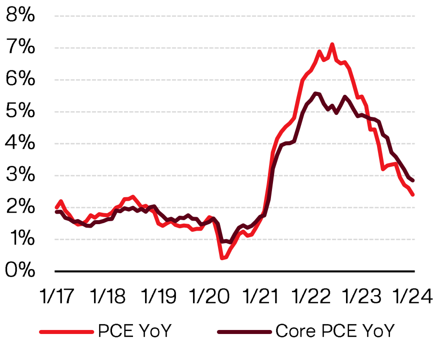


Source: Bloomberg

Moderating growth momentum in early 2024. First, the Conference Board consumer confidence index declined from 110.9 to 106.7 in February, and the University of Michigan consumer sentiment index was also revised down from 79.6 to 76.9 between the preliminary and final February reports. Both indicators pointed to some moderation from the solid private consumption as showed in Q4 2023. Second, both the manufacturing and service indicators also recorded a slowdown in February. ISM manufacturing PMI fell to 47.8 in February from 49.1 in January, marking the 16th straight months in the contraction territory. Its manufacturing employment index also turned noticeably weaker to 45.9, marking the lowest reading in seven months. Meanwhile, ISM Service PMI stayed in the expansion territory, but its latest reading declined from 53.4 to 52.6 in February. Both of its employment and supplier deliveries also weakened, signalling supply chain and job market are likely moving towards the right direction to support further disinflation ahead.

Core PCE inflation stayed somewhat firm in January. The US PCE headline and core inflation, the Fed's preferred inflation gauge rose 0.3% and 0.4% month-on-month (MoM), respectively, leading to a slight deceleration of two-tenths and one-tenth to 2.4% and 2.8% YoY, respectively. Most of the strength in January PCE price index came from core service prices, which saw a rapid 0.6% MoM growth, up from 0.3% growth in December, marking the largest jump since July 2022. Similarly, the consumer price index (CPI) also stayed stronger than expectations in January, with the headline and core indices rising 0.3% and 0.4% MoM, respectively. Their respective YoY growth fell 0.3 percentage points to 3.1% and remained unchanged at 3.9%. The increase in core CPI was mainly driven by higher core services prices rather than core goods prices, with the former rising 0.7% MoM and 5.4% YoY and the latter declining 0.3% in both MoM and YoY term, respectively. In January, not only shelter costs grew strongly by 0.6% MoM and 6.0% YoY, respectively, robust readings were recorded throughout other core services categories, indicating a slow pace of disinflation in the last mile.

US PCE Inflation



Source: Bloomberg, data as of 29/02/2024

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The Fed minutes revealed concern about premature rate cut. The January FOMC meeting minutes stated that "most participants noted the risk of moving too quickly to ease the stance of policy" whereas "a couple of" Fed policymakers voiced out concern about keeping restrictive policy rate for too long. In addition, the minutes also indicated "participants highlighted the uncertainty associated with how long a restrictive monetary policy stance would need to be maintained." In the recent testimony, Fed Chairman Powell said "we're waiting to become more confident that inflation is moving sustainably at 2%. When we do get that confidence – and we're not far from it -, it'll be appropriate to begin to dial back the level of restriction." This showed that the pushed back market expectation is increasing aligned with the Fed's expectation, and the first rate cut could come around mid-2024.

US 10-year Treasury Yield

Source: Bloomberg, data as of 29/02/2024

Firm inflation data pushed treasury yields notably higher

Key equity indices reaching record high despite rising treasury yields. In February 2024, the S&P 500, Nasdaq, and Dow Jones Industrial Average (DJIA) went up by 5.2%, 6.1%, and 1.7%, respectively. All these indices reached their new historical highs despite notable increase in treasury yields. Firm inflation data has pushed up 10-year Treasury yield by around 34 bps to 4.25% by the end of February 2024. As such, US dollar index up 0.9% to 104.156 at the end of February 2024.

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