Treasury Monthly Market Commentary - February

Marketing Communications

January inflation rise forestalls US rate cut expectations – market participants kicked rate cut bets into firmly into H2 last week, following a surprise uptick in consumer prices which rose 0.3% on the month to January, up from 0.2% in December, arresting the recent trend of solid disinflation. On the year, the rate is down 0.3% to 3.1% with core inflation holding at 3.9%. The 0.85% on the month uptick in core services ex housing – a closely watched metric by the Fed – was a particular cause for concern. Some commentators have mentioned that the composition of the Consumer Price Index is at odds with the Fed's preferred PCE measure and that the January CPI number will have contained some seasonality that has historically affected the figure. Producer prices however, released on Friday, having also risen by a larger than expected margin, have further complicated matter. The odds of a May rate cut now stand at just 25% as compared to around 70% earlier in the week.

Inflation in the United Kingdom meanwhile came in lower than expected in January, falling 0.6% month over month while holding steady at 4% year over year. Core inflation was unchanged at 5.1%.

US retail sales surprises to the downside - January retail sales fell 0.8% against expectations; the prior two months' readings were also revised lower. It should be noted that retail sales account for only about a quarter of consumer spending, services for the rest.

On the growth front - Both the UK and Japan reported a second consecutive quarter of negative economic growth in the fourth quarter of 2023. Japan's economy shrank 0.4% last quarter while the UKs pulled back by 0.2%. Despite these technical recessions, economists do not fear deep economic pullbacks in the countries since labour markets remain strong there.