

**Markets breathe easier as downside inflation surprise finally hits the UK;** following the release of much lower-than-expected CPI of 7.9% (on the year) in the UK – the last stronghold of persistently high inflation within the developed economies. While still a historically high print, Wednesday's release was the biggest dip since the February 2021 figure. Fixed income markets, as expected, rallied on the news with yields plunging across the curve and falling to a lesser degree elsewhere. The impact on GBP has been fairly obvious too, coming under an intense bout of pressure with the year's high around 1.3142, established last Friday, now firmly out of sight even in the midst of broader USD weakness. It does also illustrate how sensitive exchange rates still are to a shift in the perceived trajectory of central bank policy.

**US Initial Claims and Philly Fed offering a contrast;** while Initial Jobless Claims came in lower than expected at 228,000, going with the generally strong labour market theme in the US, this messaging has, of late, contrasted against wider economic activity indicators, such as business surveys. The release of the Philly Fed this week, unchanged at -13.5 came in lower than expected with the New orders and employment components being the main driver of the undershoot. Interestingly however, the 'prices received' component roared higher which will be food for thought for a market expecting a precipitous and swift decline in inflation back to the 2% target.



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