Eagerly awaited CPI print underwhelms expectations: With only a few weeks left in the year, investors had been cautiously awaiting two of the most important remaining US macro data points: the US consumer price index reading for November (released Tuesday) and the conclusion of the December FOMC (Wednesday). After peaking at 9.1% year over year in June, US consumer price inflation eased more than expected in November to its lowest level in almost a year, bolstering the Federal Reserve's plans to slow the pace of interest rate rises this week. The rate of increase in the consumer price index fell to 7.1 per cent last month, lower than the 7.3 per cent forecast by economists and down from 7.7 per cent in October. It is the lowest level since December 2021.Overall CPI rose 0.1 per cent from the previous month, less than the 0.4 per cent increase in October. US stocks initially soared after the release, as investors bet that the central bank might not have to squeeze the economy as aggressively as feared to bring inflation under control. Those gains ebbed throughout the trading day. Government bonds also rallied, sending the yield on two-year US Treasury bonds, which is sensitive to changes in interest rate expectations, down by 0.22 percentage points to about 4.18 per cent at one point. It later traded at about 4.2 per cent.

Meanwhile, the FOMC on Wednesday: raised its benchmark policy rate by half a percentage point and signalled its intention to keep squeezing the US economy next year, as central banks on both sides of the Atlantic enter a new phase in the battle against inflation. At its final gathering of the year, the Federal Open Market Committee voted unanimously to increase the federal funds rate to a target range of 4.25 per cent to 4.5 per cent. It was a step down in the pace of tightening that marked a string of 0.75 percentage point increases. In a press conference following the decision, Fed chair Jay Powell said: "We've covered a lot of ground and the full effects of our rapid tightening so far are yet to be felt. We have more work to do." Powell welcomed a reduction in headline price growth in the US in October and November but warned "it will take substantially more evidence to give confidence that inflation is on a sustained downward path".

The pivot to smaller rate rises was followed internationally: with the European Central Bank and the Bank of England both hiking by half a percentage point on Thursday. The Bank of England raised interest rates to 3.5 per cent, the highest level in 14 years, and warned that further tightening of monetary policy was likely. In a vote showing a majority on the central bank's Monetary Policy Committee for "forceful" action against high inflation, six of the nine MPC members supported the 0.5 percentage point rate increase, and one favoured a larger 0.75 percentage point rise and two preferred to remain unchanged. Sterling fell and yields on UK government debt rallied after the announcement. The BoE has now increased interest rates at each of the past nine MPC meetings: the most aggressive set of rises since 1989. The ECB raised its deposit rate from 1.5 per cent to 2 per cent, its highest level since the global financial crisis in 2008, and signalled that it would increase borrowing costs repeatedly by half a point in the coming months. "Interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation," the ECB said. Christine Lagarde, ECB president, said during a press conference on Thursday that it was "pretty much obvious that on the basis of the data we have at the moment" that rate-setters expected "to raise interest rates at a 50 basis-point pace for a period of time".

Weak economic backdrop, rising inventories send oil to this year's low: West Texas Intermediate crude oil futures fell to $71.10 a barrel on Thursday, the lowest level of 2022, more than erasing the gains made after Russia's invasion of Ukraine. Rising US inventories, weak global growth and fading hopes that China's reopening will go smoothly helped send the commodity lower this week. The belief that the US Department of Energy could begin to refill its Strategic Petroleum Reserve could cushion significant further downside price action. Early this week, OPEC+ kept its output steady.