ECONEWS

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EUROZONE

Rising inflation in December and drop in economic sentiment. According to Eurostat's preliminary flash estimate, harmonised inflation rose from 2.2% to 2.4% y/y in December, driven up by services (from 3.9% to 4.0%) and the exit from energy price deflation (from -2.0% to 0.0%). At the same time, household inflation expectations rose in November, both one-year expectations (0.1 pp to 2.6%) and three-year expectations (+0.3 pp to 2.4%). The European Commission Economic Sentiment Indicator (ESI) fell in December to its lowest level in five years. The unemployment rate in the eurozone remained more or less stable in November, standing at 6.3%, but the outlook for household unemployment is rising.

FRANCE

Household confidence contracted again in December from 90 to 89, after already losing 5 points in the previous two months, driven by prospects for growth of unemployment. Close to its historical average in October, this balance of opinion has gained 20 points in two months. As a result, households are more negative about the prospects for changes in living standards, which is expected to penalise consumption. Nevertheless, the proportion of respondents planning to buy a property within two years has risen (9.5% in December compared to 7% in June), and transactions are already on the up (+20% y/y in Q4 for the Century21 network).

ITALY

Deterioration. The European Commission ESI plunged in December (to 98.2, the lowest level since November 2023), driven down by the deterioration in industrial activity. Confidence in this sector has fallen back to its lowest level since November 2020, penalised by the deterioration in hiring expectations for the months ahead (-2.7). Although it had improved over the past three months, consumer confidence has fallen (-15.6, but above average since the beginning of 2023), due to the sharp rise in unemployment expectations (at their highest level for 2 years).

UNITED STATES

Vigorous activity and downward revision of monetary easing expectations. December's ISM Non-Manufacturing Index surprised on the positive side by gaining 2.0 pp to 54.1. The Business Activity sub-component is at a particularly high level at 58.2 (+4.7 pp). It should also be noted that the input price index jumped to 64.4 (+6.2 pp), the highest since February 2023. **A positive surprise also seen in terms of the creation of non-agricultural salaried jobs**, which reached the highest level since March at +256k compared to a consensus of +135k. At the same time, the unemployment rate fell -0.1 pp to 4.1%, and wage growth slowed both in monthly terms (+0.3%) and in annual terms (+3.9%). Nevertheless, employment is still falling in goods production, by more than 80k over 2024. The University of Michigan preliminary survey reports a **drop in the consumer sentiment index** in January (-0.8 pt, to 73.2), ending 5 months of progress. In particular, inflation expectations rose to +3.3% over a 1-year and 5-10-year horizon, a record not seen since 2008 in the latter instance. The minutes of the December FOMC meeting and the more recent communications from its members confirm that the Fed now considers it necessary to proceed cautiously with its monetary easing.

BOND MARKETS

Strong rise in yields driven by the United States and affecting the United Kingdom in particular. Yields required by investors to buy 10- and 30-year US and UK bonds hit highs not seen for several decades last week, as growth expectations in the US were revised upwards and the Fed's policy easing tapered. European interest rates and spreads were also driven up, pushing France above 80 points once again.

ERMERGING COUNTRIES

Significant slowdown in industrial activity. In December 2024, around 2/3 of manufacturing PMI indices fell compared to the previous month. The index is below 50 for half of the countries. The deterioration reflects much more the downturn in domestic demand than in export orders.

Brazil: Capital flight. Preliminary data from the Brazilian Central Bank (BCB) show that net sales of financial assets by non-residents (including portfolio investments, direct investments, derivatives and other investments) totalled almost USD 29 billion in December 2024, helping to explain the large currency pressures over the past several weeks. This marks the largest monthly net outflow since 1982. Another historic milestone - oil became the country's main export item in 2024.

China: Pessimism on the financial markets fuelled by concerns about economic growth. The stock market correction has continued since the beginning of the year; yields on Treasury bonds are at historically low levels (10-year rates: 1.63% on average since 1st January), and pressure on the yuan has intensified. These movements reflect market concerns about low inflation (CPI: +0.1% y/y in December) and growth prospects. Since 6 January, the USD/RMB spot exchange rate has remained at 7.33, sticking to the upper limit of the permitted fluctuation band.

COMMODITIES

Oil prices continued to rise this week against the backdrop of pressure on crude supply. Some Asian operators are limiting their oil imports from Iran, anticipating a tightening of US sanctions on Iranian crude exports. This has led to an increase in total barrels exported to Asia by some Gulf countries. In addition, better compliance by OPEC+ members with production quotas is putting more pressure on crude supply. Also, the United States has significantly tightened its sanctions on the Russian oil sector, potentially affecting 1/3 of Russian oil exported by sea. Conversely, in Europe, the absence of pressure on gas supply, despite the end of Russian exports via Ukraine, has meant the European TTF benchmark has fallen by more than 10% this week.