Amundi Investment Institute

Weekly Market Directions

26 January 2024

"The impact of Red Sea traffic suspensions is more regional than global, but duration will be the key factor to watch. At this stage, it is no game-changer for our outlook".

Monica Defend
Head of Amundi Investment Institute

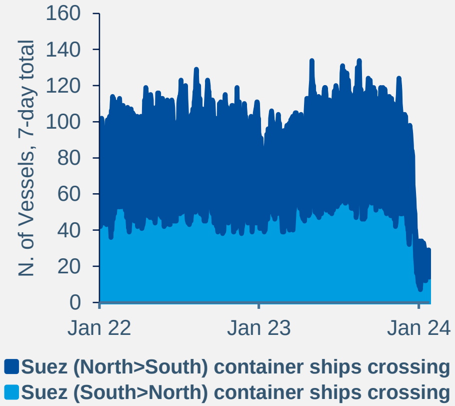
Red Sea disruptions: small impact so far, but a risk to watch

Disruptions to shipping via the Suez Canal may impact the economy through two channels: prices and supply chains.

Key factors to watch are the duration of the stress and whether disruptions spread to energy goods.

With additional uncertainty around inflation, the ECB will be cautious in assessing the next steps.

Disruption in the Suez canal ship traffic



Source: Amundi Investment Institute, Bloomberg as at 26 January 2024.

The intensification of attacks against cargo ships in the Red Sea has led the majority of large shipping companies to suspend transit through the Suez canal. This mostly impacts Asia-Europe trade flows, which need to take the longer and more expensive route around Africa.

So far, the situation is far from a repeat of the Covid crisis, as flows (mostly Europe-Asia trade) are delayed, not interrupted. Currently weak demand in Europe means that higher costs, if short term, are likely to be absorbed by companies rather than translated into higher selling prices.

Impacts on European growth and inflation would rise should disruptions last or extend to the energy sector. By themselves, these tensions are not a game-changer for ECB decisions later in the year, but they may be an additional incentive for the ECB to be more cautious before cutting rates.

Actionable ideas

Euro Money Market

With the ECB deposit rate at 4.0%, Euro money markets are attractive. This will only last longer should geopolitical and other uncertainties lead the ECB to wait more before cutting.

Euro fixed income

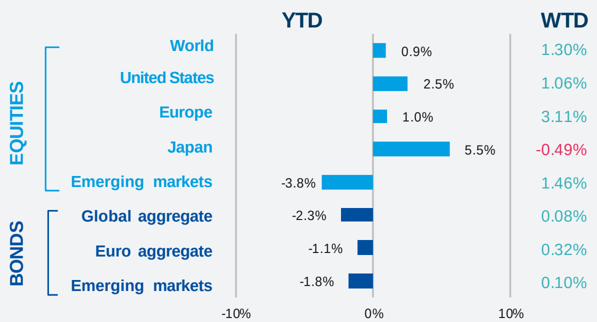
After dropping sharply at the end of 2023, Euro bond yields have rebounded in January, providing now better entry points for investors. An active approach is key as markets adjust their expectations on growth and inflation.

This week at a glance

US and Euro equities rose on positive economic figures. Chinese equities were supported by policy measures. Bond yields declined as central bank (esp. ECB) communication was slightly more dovish than expected. Oil rose on strong US growth and persistent geopolitical stress.

Equity and bond markets

Asset class performance year to date and week to date



Source: Bloomberg, data as at 26 Jan 2024
Please refer to the last page for additional information on the indices.

Government bond yields

2 and 10 years government bond yields and 1 week change

	2YR		10YR	
US	4.35	▼	4.14	▲
Germany	2.63	▼	2.30	▼
France	2.57	▼	2.79	▼
Italy	3.09	▼	3.82	▼
UK	4.33	▲	3.96	▲
Japan	0.04	▲	0.71	▲

Source: Bloomberg, data as at 26 Jan 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Commodities, FX and short term rates

Gold USD/oz	Crude Oil USD/barrel	EUR/USD	USD/JPY	GBP/USD	USD/RMB	Euribor 3M	T-Bill 3M
2018.52	78.01	1.09	148.15	1.27	7.18	3.89	5.36
-0.5%	+6.3%	-0.4%	+0.0%	+0.0%	-0.2%		

Source: Bloomberg, data as at 26 Jan 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Amundi Investment Institute Macro Focus

Americas

US Real GDP growth of Q4 2023 was a strong upside surprise

US Real GDP growth in Q4 strongly surprised expectations of growth on the upside rising 3.3% (SAAR), as basically all major components had a positive contribution. However, domestic demand moderated (but less than expected), and this was also confirmed by the moderation in imports (which positively contributed to the upside surprise in GDP growth).

Europe

Flash PMIs improvement sustained by manufacturing, services edge down

Business surveys (Flash PMIs) were broadly in line with consensus expectations for the Euro area. Even though still in contractionary territory, Flash PMIs in Europe posted encouraging signs as rates of contraction keep decreasing. However, while Manufacturing is improving Services indicators slightly decreased, in January's print. Positively, the Employment component shows overall stability (around 50 points) while new jobs expanded.

Asia

Japanese inflation falls

Tokyo CPI inflation fell faster than expected to 1.6% yoy in January from 2.4% yoy in the previous month. Core CPI eased in sequential terms, bringing the annual rate to 3.1% yoy in January from 3.5% in December. The critical question is whether this trajectory will lead Japan back into deflation. We believe not, and expect a sustained moderate inflation rate of 1.5% in late 2024.

Key Dates

31 Jan	FOMC meeting
1 Feb	Caixin China PMI
2 Feb	EU CPI, Europzone Manufacturing PMI

Amundi ASSET MANAGEMENT

NOTES

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Equity and bond markets (chart)

Source: Bloomberg. Markets are represented by the following indices: World Equities = MSCI AC World Index (USD) United States = S&P 500 (USD), Europe = Europe Stoxx 600 (EUR), Japan = TOPIX (YEN), Emerging Markets = MSCI Emerging (USD), Global Aggregate = Bloomberg Global Aggregate USD Euro Aggregate = Bloomberg Euro Aggregate (EUR), Emerging = JPM EMBI Global Diversified (USD)

All indices are calculated on spot prices and are gross of fees and taxation.

Government bond yields (table), Commodities, FX and short term rates.

Source: Bloomberg, data as at 26 January 2024.

*Diversification does not guarantee a profit or protect against a loss.

GLOSSARY

CPI: consumper price index is an inflation indicator

ECB: European Central Bank

FOMC: The FOMC, or Federal Open Market Committee, is the branch of the Federal Reserve bank that is in charge of short and long-term monetary policy decisions.

GDP: Gross Domestic Product.

MoM: month over month growth.

Purchasing Managers' Indices (PMI): PMI Indices are economic indicators derived from monthly surveys of private sector companies. A reading above 50 indicates an improvement, while a reading below 50 indicates a decline.

SAAR: Seasonally adjusted annual rate.

YoY: Year over year growth.

YTD: Year to date.

BoJ: Bank of Japan

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