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Strong messages from central bankers

Overview

Investors took the firm messages from rate setters and the mixed bag of US statistics in their stride last week, while concerns about the global economic outlook outweighed the slowdown in inflation figures.

Bond yields eased in response, with the US 10-year yield back below 3.50%, while the German 10-year yield held steady around 2.15%.

In the US, manufacturing activity in New York State contracted sharply in January, with the index on current business conditions plunging 22 points to -32.9. Retail sales also fell by more than expected in December, decreasing by 1.1% after a 1% decline in the previous month. Excluding the automotive sector (vehicles, parts and petrol stations), retail sales contracted by -0.7%. Producer prices edged down by 0.5% in December month-on-month but rose by 0.1% excluding food, energy and trade services. On a 12-month basis, producer prices climbed by 6.2% in unadjusted terms and by 4.6% excluding food, energy and trade services. This compares with +7.3% and +4.9% respectively in November.

Manufacturing activity contracted sharply in New York State last month

After dipping by 0.6% in November 2022, US industrial production dropped again last month by 0.7%, which was harsher than expected.

In contrast, the US labour market remains sturdy. Initial jobless claims fell by 15,000 in the week beginning 9 January to 190,000, down from 205,000 in the previous week. The number of people receiving regular benefits increased by 17,000 to 1,647,000 in the week beginning 2 January.

In China, gross domestic product (GDP) expanded by 3.0% in 2022 – one of the slowest growth rates in almost half a century – due to lockdowns and the property market collapse. Industrial production growth slowed to 1.3% year-on-year in December after rising by 2.2% in November, while retail sales fell by 1.8% last month after a 5.9% drop in November. However, the Chinese government's decision to reopen the economy offers the welcome prospect of a sizeable recovery at a time when Western economies are facing headwinds.

Chinese government's decision to reopen the economy offers the prospect of a sizeable recovery

The S&P 500 ended the week down by 0.27% while the tech-heavy Nasdaq, which is more sensitive to interest rate expectations, swung upwards by 1.27%. The Stoxx 600 Europe Index edged down by 0.10%.

Earnings releases will continue this week. Market participants will be watching for indications about how hard the economic slowdown is going to bite.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.92	1.00	11'295.02	4'119.90	15'033.56	6'995.99	7'770.59	3'972.61	11'140.43	26'553.53	1'036.24
Trend	➡	➡	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆	⬆
YTD	-0.46%	0.92%	5.27%	8.60%	7.97%	8.07%	4.28%	3.47%	6.44%	1.76%	8.35%

(values from the Friday preceding publication)

Gold regains its shine

The gold price looks set to continue gaining from persistently high inflation, the falling dollar and the state of economic activity.

Historically, gold has outperformed during periods of slowing global growth. In 2022, it was held back by a strong dollar and sharp rises in interest rates. In recent months, central banks – particularly in emerging economies and especially in China – have been buying up gold to replenish reserves and protect against inflation. This has supported gold demand.

Gold price

But they are not alone. Investment flows into gold ETFs have increased as investors also seek to hedge against inflation and the economic slowdown.

As a result, despite higher real rates, a possible recession plus high inflation and the prospect of further US rate cuts will support the price of gold.

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