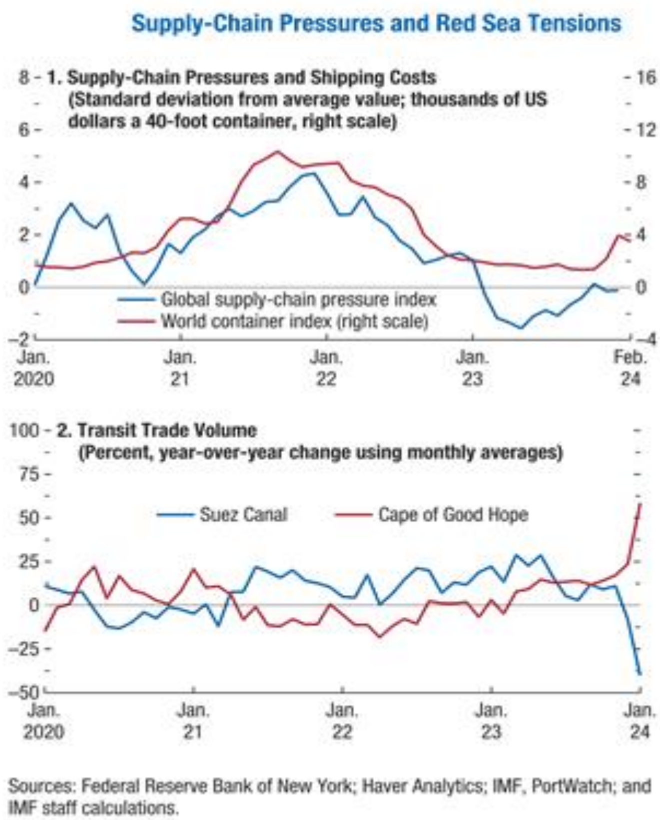
Monitoring of Macro-Economic Variables: Quarter 1, 2024.

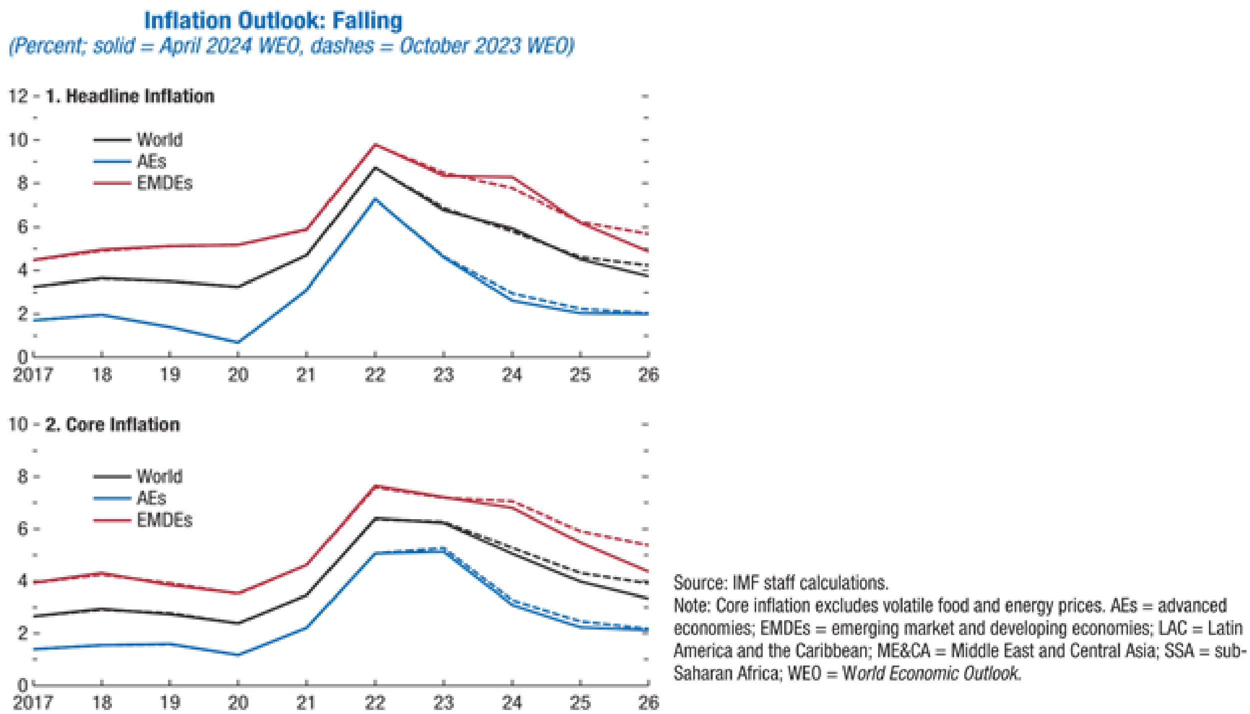
As the world embarked on the journey of 2024, it found itself navigating through a landscape portraying various tensions, particularly in the Middle East region. Heightened concerns over security, energy supply disruptions, and regional conflicts cast a shadow over global economic prospects. Additionally, these tensions in the Middle East impacted international trade, with military escalations unfolding in the Red Sea, further complicating the development of the economic outlook. However, amidst these challenges, the International Monetary Fund (IMF) recently announced that the likelihood of a global recession remains low. This optimism stems from the resilience demonstrated by the US economy and the performance of emerging markets in their recent economic endeavors.



Despite the prevailing uncertainties, this article will provide an overview over some main economic indicators that shaped the macroeconomic landscape of the first quarter of 2024.

Inflation and Interest Rate

Amidst the economic fluctuations of recent years, a notable trend emerged in 2023 with a gradual decrease in the inflation rate in the majority of the main economies. In facts and according to the IMF, global inflation is forecasted to exhibit a steady decline, transitioning from 6.8% in 2023 to 5.9% in 2024, and further down to 4.5% by 2025. Notably, advanced economies are anticipated to achieve their inflation targets sooner compared to emerging market and developing economies. However, the trajectory of core inflation is expected to exhibit a more gradual decline.



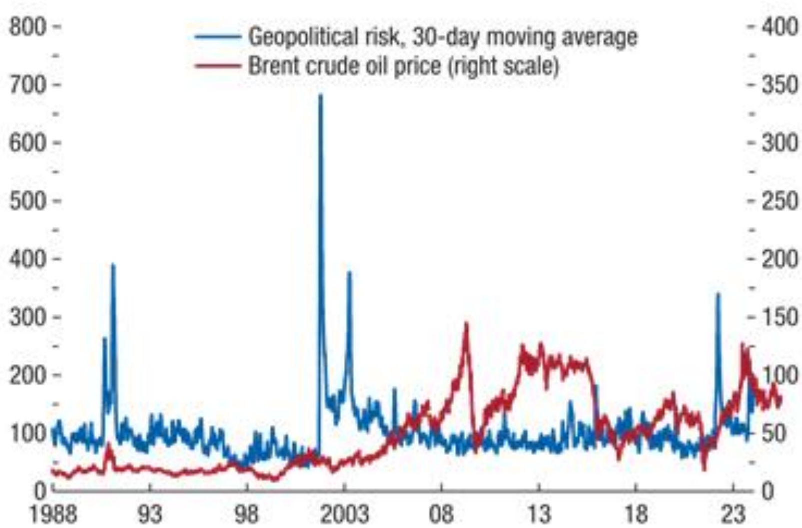
Taking a closer look on inflation levels of eight major economies during 2023 as well as the first quarter of 2024, decreasing trends in inflation can be highlighted.

Inflation (%)	Jun23	Jul 23	Aug23	Sep23	Oct23	Nov23	Dec23	Jan-24	Feb-24	Mar24
USA	3.00	3.20	3.70	3.70	3.20	3.10	3.40	3.10	3.20	3.30
United Kingdom	7.90	6.80	6.70	6.70	4.60	3.90	4.00	4.00	3.40	3.20
France	5.30	5.00	5.70	5.70	4.50	3.90	4.10	3.40	3.20	2.40
Italy	6.40	6.00	5.50	5.60	1.80	0.60	0.50	0.90	0.80	1.30
Germany	6.80	6.50	6.40	4.30	3.00	2.30	3.80	3.10	2.70	-
Japan	3.30	3.30	3.20	3.00	3.30	2.80	2.60	2.20	2.80	2.70
South Korea	2.70	2.30	3.40	3.70	3.80	3.30	3.20	2.80	3.10	3.10
China	0.00	-0.30	0.10	0.00	-0.20	-0.50	-0.30	-0.80	0.70	0.10

Source: Trading Economics

Decline in inflation has been driven by the decline in energy prices, however, geopolitical risks remain a main variable in shaping forecasts and expectations. Given the graph below, the level of geopolitical risk as well as the price of the Brent Crude Oil match those of previous global shocks.

Geopolitical Risk and Oil Prices
(Index, 1985–2019 = 100; US dollars a barrel, right scale)



Sources: Caldara and Iacoviello 2022; and Haver Analytics.
Note: The Geopolitical Risk Index is constructed by Caldara and Iacoviello (2022) to measure adverse geopolitical events and associated risks based on automated text search results of the electronic archives of several newspapers covering geopolitical tensions.

Regarding interest rates, cuts are more likely to be delayed. The main drivers for this delay are job growth, inflationary trends and strong retail spending. Surprisingly, Japan ended its negative interest rate history adopted for the past 8 years. The BoJ overnight rate has been set within a range of 0 to 0.1%.

Interest Rate	**March 2024**
USA	5.50%
United Kingdom	5.25%
European Union *(ECB marginal lending rate)*	4.75%
	4.75%
	4.75%
Japan	0.00%
South Korea	3.75%
China	3.45%

Source: Trading Economics

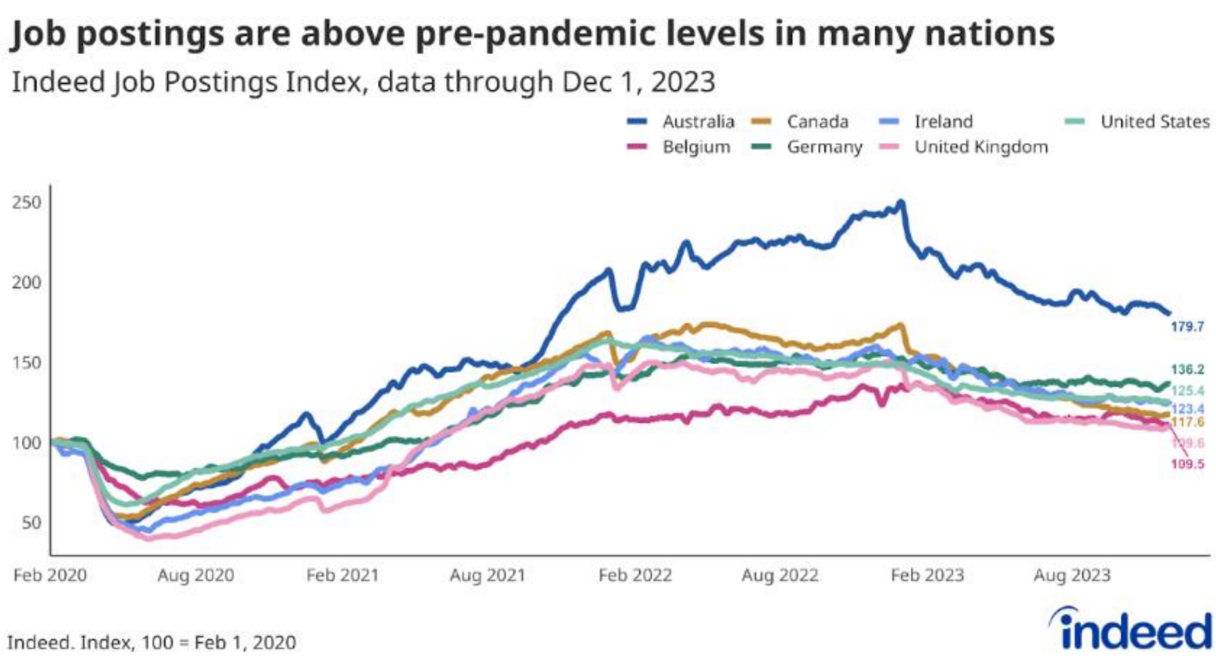
Unemployment

Employment opportunities are still trying to recover from the shocks lived in 2019 onwards. However, waves of lay-offs hit the technology sector during 2023. Demand by employers softened and total job postings declined but remained comfortably above pre-COVID-19 pandemic levels. Many employers are also reluctant to let go of their current employees. Layoffs, discharges and redundancy notifications in the US and the UK, for example are remaining historically low. If employer demand for workers levels off at or around current levels, 2024 could seem similar to 2023.

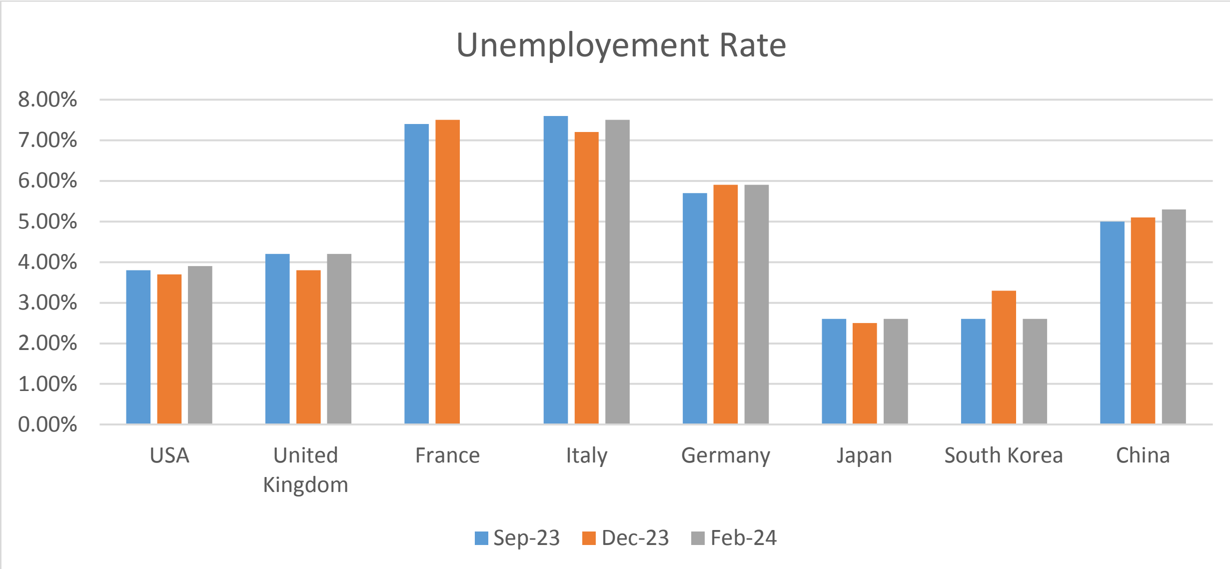
Accordingly, wage growth slowed alongside inflation but remained strong enough in many places to give workers a support in purchasing power. Future outlook will depend heavily on the dynamics in the labor market coming from either less hiring or more possible layoffs.

Another important concern is the cool down trends in price growth. With inflation remaining a concern, the pace of wage growth must be monitored closely through 2024 where it needs to compensate for the current inflation and sustain workers' purchasing power and the burden of the cost of living but without exceeding a threshold beyond which inflation could be created.

Current tight labor market would need a special attention from central banks in order to adopt an efficient monetary policy by changing the interest rate while taking into consideration inflationary pressures from job markets.



During the first quarter of 2024, unemployment trends can be described as being stable compared to 2023.



Forex Market for Main Pairs and Gold Prices

Gold prices reached historical levels mainly due to the escalations occurring in the Middle East with no clear cooling down of the situation in the near future.

Currency Pairs	Average Q1 2024
USD/GBP	0.79
USD/EUR	0.92
USD/JPY	149.5
USD/CNY	7.21