

Markets weighing up the timing of rate cuts

- ◆ Economic activity remains solid, with global PMIs, retail sales and GDP growth faring well ...
- ◆ ... but this is stoking concerns about inflation not sustainably returning to target; services inflation remains particularly sticky
- ◆ It is becoming increasingly difficult for central banks to balance risks of leaving rates higher for longer or cutting too early

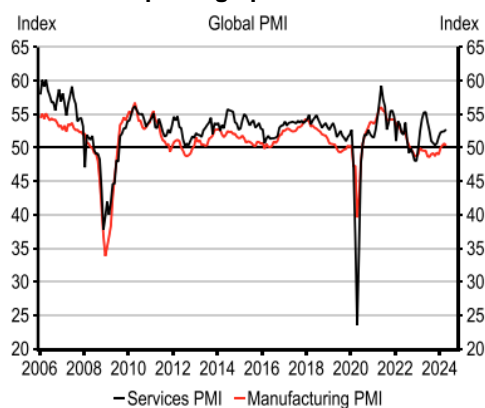
Markets have **continued to push the timing and magnitude of central bank rate cuts further out in recent weeks** on the back of better growth data and still-sticky inflation, particularly in key areas of services inflation. This repricing has caused ripples through financial markets, with some central banks responding to the USD strength, turning more hawkish, with a rate rise in Indonesia the clearest example. Equity markets have wobbled with the re-pricing of rate expectations.

Robust activity

For now, at least, the **activity side of the global economy is proving robust** (see Chart 1). April's PMI data broadly improved, with better data in Europe offsetting a drop in some of the US data, while India continues to be a standout from a global growth perspective. Whilst Q1 GDP in the US disappointed on the face of it, the underlying components showed strong growth and labour market data, although cooling, remain robust.

Global activity is healthy with India the standout

1. Global PMIs point to growth momentum picking up



Source: Macrobond

2. Business surveys are starting to recover in Germany



Source: Macrobond

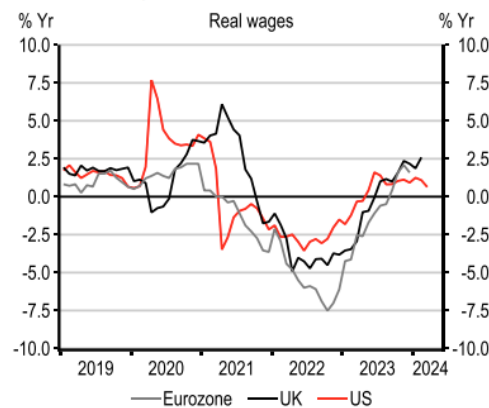
There has been more good news on the **trade and manufacturing front** (aside from the US PMIs), which could help keep overall growth momentum healthy for the coming quarters. Key trade data (such as in South Korea) and business surveys (like the German ifo, see Chart 2) picked up again in recent weeks alongside some better export orders in the PMI data.

Inflationary concerns

Robust growth and wages risk stoking inflation further

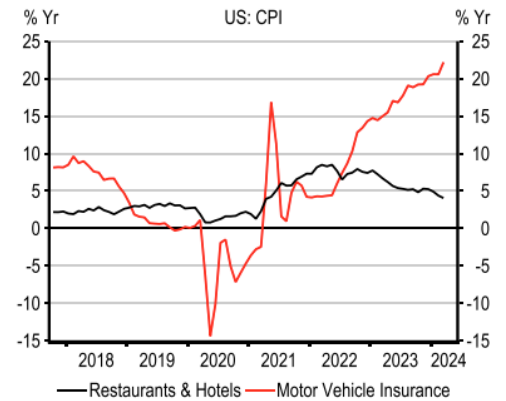
The concern is that robust growth and still-resilient labour markets (see Chart 3) **could stoke inflationary pressures further**, or at least make the last leg towards targets more difficult. But it doesn't appear to be so clear cut, with the biggest lifts in US inflation data coming from demand-agnostic areas, such as vehicle and health insurance (see Chart 4), while rental inflation remains elevated as it keeps catching up with historical moves in market rents.

3. Real wages remain positive, indicating demand may persist for some time



Source: Macrobond

4. Motor vehicle insurance is helping to push US inflation higher



Source: Macrobond

In Europe, it's a similar story, but with **wage growth staying high and productivity subdued**, there is a possibility the current rates of services inflation won't fall much further, and we're seeing an upturn in the sequential moves in services prices.

Balancing act

The timing of interest rate cuts is a delicate balance

As a result, it continues to be a tough balancing act for central banks thinking about when to start trimming interest rates. Cutting too soon could add fuel to the decent pace of growth, which **could in turn lift inflationary pressures**. But at the same time, cutting too late creates a risk this **resilient global backdrop will start to turn sour**. For now, there's little evidence of anything sinister happening in the data, but each month we're watching for signs of cracks appearing.

Key recent releases

Date	Market	Release	Period	Actual	Consensus expectation	Prior	Actual vs. Consensus
25 Apr	US	GDP (year)	Q1, flash	3.4%	2.5%	2.2%	↑
26 Apr	US	Core PCE price index (year)	Mar	2.8%	2.7%	2.8%	↑
30 Apr	Mainland China	Caixin manufacturing PMI (index)	Apr	51.4	51.0	51.1	↑
30 Apr	Eurozone	HICP (year)	Apr, flash	2.4%	2.4%	2.4%	→
30 Apr	Eurozone	GDP (quarter/year)	Feb	0.4%	0.2%	0.1%	↑
1 May	US	ISM Manufacturing (index)	Apr	49.2	50.0	50.3	↓
1 May	US	FOMC rate decision	-	5.25%-5.50%	5.25%-5.50%	5.25%-5.50%	→
3 May	US	Nonfarm payrolls, monthly change (thousands)	Apr	175	243	315	↓
3 May	US	ISM services (index)	Apr	49.4	52.0	51.4	↓

↑ Positive surprise – actual is higher than consensus, ↓ Negative surprise – actual is lower than consensus, → Actual is in line with consensus
 Source: Bloomberg, HSBC

Key upcoming events

Date	Market	Release	Period
15 May	Eurozone	GDP	Q1
15 May	US	CPI	Apr
16 May	Mainland China	Retail sales	Apr
19 May	Mainland China	People's Bank of China interest rate announcement	May
22 May	UK	CPI	Apr
23 May	EU/UK/US	PMIs	May
24 May	UK	Retail sales	Apr
31 May	Mainland China	NBS Manufacturing PMI	May
31 May	Eurozone	HICP	May

Source: Refinitiv Eikon, HSBC

Disclosure appendix

Additional disclosures

- 1 This report is dated as at 11 May 2024.
- 2 All market data included in this report are dated as at close 10 May 2024, unless a different date and/or a specific time of day is indicated in the report.
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