

It's ugly, but its not disorderly

What is happening in stock and bond markets currently is not pleasant to watch and will be delivering pain to some, but it is not a disorderly move - this is a correction, not a meltdown



Ugly, but not disorderly

-2.02%

S&P500 year-to-date change in index level

Could be worse

Inflation in the headlamps

After last week's void on economic data, markets do get some economic hooks on which to hang their market convictions this week. Most important of these will be January US consumer price inflation on 14 February. The consensus is looking for a decent 0.3%MoM increase (more than 3% at an annualised rate), but which would result in the year on year rate of growth actually dipping to 1.9%YoY from 2.1%, thanks to a 0.5% MoM bump in the January CPI in 2017.

That dampening base effect completely drops out in February, when the base comparison from the previous year was zero, and then in March 2017, CPI fell by 0.2% MoM. So if the CPI index notches up two 0.2%MoM gains in the coming two months after a 0.3% for the figures released

this week, then US CPI inflation should increase to 2.3%YoY by March, more if there is a genuine upturn in inflation.

Adding to this week's soft US CPI date, we may also see an uncharacteristically soft 4Q17 GDP figure from Japan. The consensus is for something close to zero. We have stuck our necks out with a negative figure. We don't actually have any problems with Japanese growth but look for a pull-back in 4Q as inventory destocking and net exports provide a temporary correction.

All this inflation moderation and temperate growth ought to weigh on recent long-term bond yield increases, and could provide some support for the beleaguered stock market, But with Chinese New Year coming at the end of the week, we imagine a lot of risk will be taken off the table this week. So the backdrop would remain quite risk averse.

1.9%YoY

Consensus forecast for January
US Headline CPI

Down from 2.1%YoY in December 2017

Senate passes bill - finally

The US Senate passed their budget bill after a lot of effort last week that resulted in a mini-government shutdown on Thursday night running into Friday. The bill raises budget caps by \$300bn over the next 2 years, increases the debt ceiling accordingly and offers around \$90bn in hurricane disaster relief to Texas, Florida and Puerto Rico. To bring Democrats on board, which was necessary to offset the dissenting Republicans, a week has been offered to debate the festering immigration issue.

Elsewhere in politics, the GBP has not responded well to further verbal bashing of the UK Brexit negotiations by EU lead negotiator, Michel Barnier. That said, not all on the EU side are happy at the aggressive tone Barnier is striking, which they fear increases the chance of the UK crashing out of the Union with no deal (worst case scenario for all sides).

And In Japan, BoJ Governor Kuroda looks as if he is going to get another term at the helm of the central bank. This may dampen any thoughts that BoJ policy may move towards some form of taper later this year, though we continue to think this is likely.

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