

Comment by Axel Botte, Global Strategist at Ostrum AM on US inflation

US inflation [CPI] came in in line with expectations at 6.5% year on year in December. The monthly decrease in the headline CPI index amounts to 0.1%_m. Energy contributed negatively (most notably gasoline), but piped gas service (+3%_m) did not yet reflect the fall in prices observed on the natural gas futures markets. As a result, electricity costs increased by 1%_m in December. Inflation excluding energy and food rose by 0.3%_m in December and reached 5.7% year on year. Disinflation remains curbed by housing, which will take into account the already visible adjustment in rents and real estate prices (via owner-equivalent rents) several months later. The prices of medical care services, which fell significantly in October-November, are stabilizing. Used car prices keep falling despite a slight rise in prices at used car auctions in December.

Thus, disinflation continues at the expected pace. The market remains of the view that the Fed will not raise rates as much as it indicated in the December DOTS projections. Fewer expected rate hikes create favorable market dynamics for risk assets (equities, credit, even duration) against a backdrop of a declining dollar. However, it cannot be ruled out that the reopening of China will induce an early rebound in oil prices. The improved outlook is already visible in industrial metal prices. In this case, market expectations would reconverge towards the levels indicated by the FOMC... which could lead to renewed weakness in equities.

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