

U.S. Watch

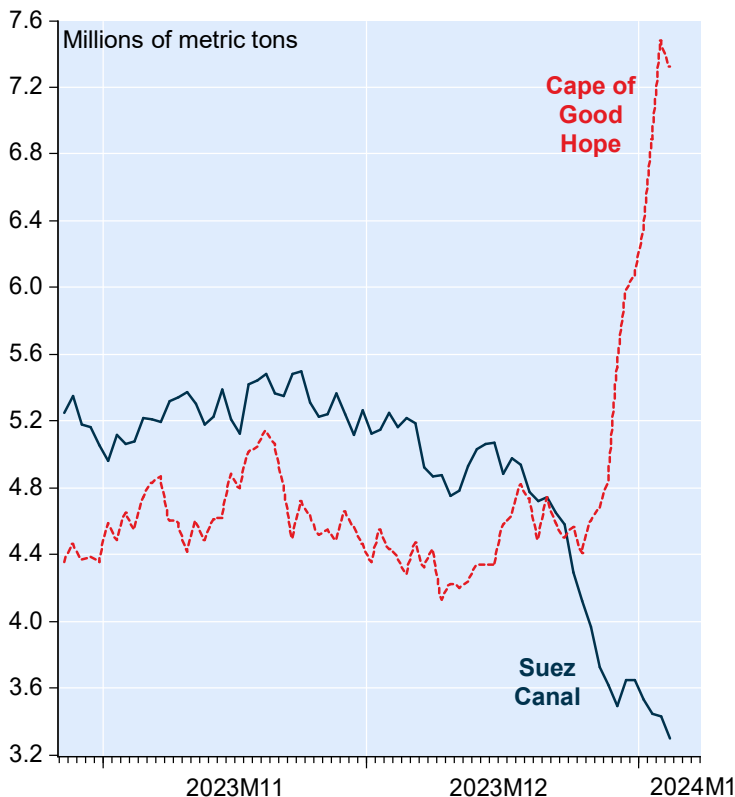
By Jocelyn Paquet

The December inflation report came out a little stronger than expected this morning. While the core measure was in line with consensus expectations (+0.3% m/m), the headline index rose at a slightly faster pace than economists had envisaged (+0.3% instead of +0.2%). Nevertheless, most market participants continue to see the central bank starting to ease monetary policy in March. Despite our well-below-consensus growth forecast, this seems a little early to us, given a still-resilient labour market and, more importantly, vigorous wage growth that could keep core services inflation high for some time. Not to mention the risks associated with a possible escalation of the Middle East conflict. The exchange of rockets between Houthi rebels and the U.S. Navy in the Red Sea is already forcing the re-routing of several merchant ships transiting between Asia and Europe. Instead of using the Suez Canal, the latter now have to go around the Cape of Good Hope, a longer (and more expensive) route. As today's Hot Chart shows, this has already led to a tripling of shipping prices on the Shanghai/Rotterdam route. In the short term, this situation shouldn't pose too many problems, as sea freight contracts are generally fixed for long periods. However, should this situation persist, it could exert upward pressure on goods prices (via higher shipping costs) and make it more difficult for global inflation to return to its target. This is particularly true in a context where the capacity of other important trade routes has also had to be reduced in recent times. Excessively low water levels have indeed forced the Panama Canal authorities to reduce the number and size of ships using the waterway.

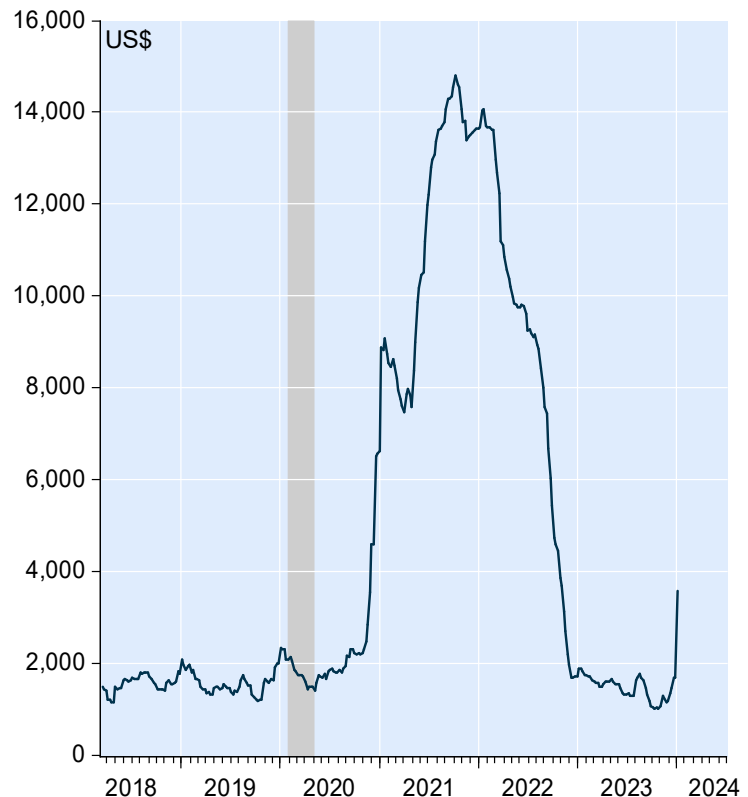
We still think policy accommodation will be necessary going forward but we believe it will take until the end of the second quarter before the data are consistent with the Fed starting to ease monetary policy.

World: Global conflicts cast some doubts on goods disinflation

Daily transit trade volumes in selected shipping chokepoints, 7-day moving average



Price to ship a 40-foot container from Shanghai to Rotterdam



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