INFLATION SLOWS FURTHER BUT CENTRAL BANKS WILL WANT MORE EVIDENCE BEFORE CHANGING TACK

This week we got new data on inflation, job creation and growth, all of which have been scrutinised intensively to see if there is any sign central banks might be able to start cutting interest rates in the near future. On that front it was a bit of a mixed bag. Inflation in the US continued to slow, although it remains far too high still, employment growth is still strong, although not as strong as it was, and the UK and Europe are growing a bit more than expected.

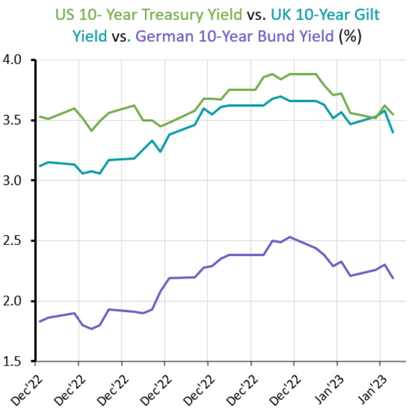
This has been largely interpreted as good news, with inflation appearing to fall without needing a recession. However, the effects that people associate with a recession - such as rising unemployment - typically happen after economies have been shrinking for a while and are not a good marker of a recession starting. It is good news that prices are starting to moderate, but there is still a long way to go before central banks can relax. If monthly data continues in the same vein as this month we will indeed get a soft landing, but January is quite early to call it a done deal.

THE MARKETS THIS WEEK

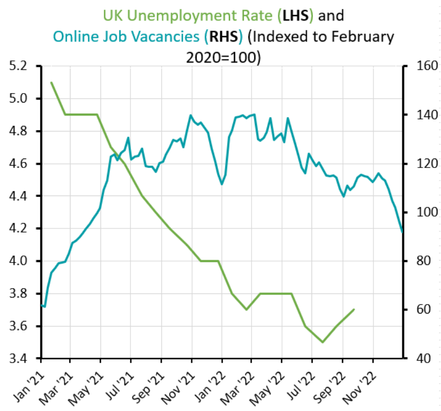
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
+1.23%	+2.26%	+1.83%	+1.80%	+3.56%	-0.12%	-0.13%	+6.26%	+0.12%	+0.95%	+0.90%

INFLATION: US CPI FALLS TO LOWEST IN 12 MONTHS

US inflation continued to slow as it dropped to the lowest level in 12 months. The headline Consumer Price Index slowed to 6.5% for the year to December. This is the sixth straight monthly decline for CPI and core inflation (excluding more volatile food and fuel costs) also slowed to an annual rate of 5.7%, down from 6% in November. The decline in CPI was caused by lower petrol prices as well as second hand cars falling in value. Bond markets were relatively unmoved by the inflation update, and the dollar fell slightly.



Thursday also saw the release of US unemployment which showed the number of job losses hit a three-month low. US Federal Reserve officials have been trying to reinforce the bank's commitment to raising rates and two members this week as they said rates will need to rise above 5% and remain there for an extended period to make sure inflation is brought under control. This sentiment was echoed by the head of the Spanish central bank who said the European Central Bank will increase rates significantly at its next few meetings.



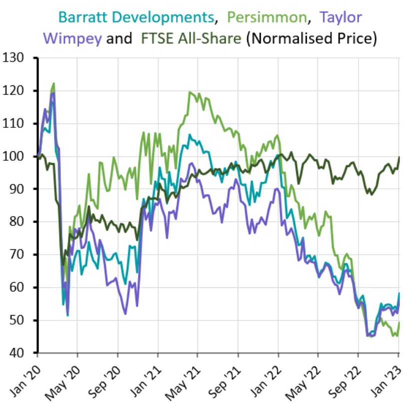
UK: JOBS MARKET MAY BE STARTING TO COOL AS NEW HIRING FALLS

New jobless claims in the US were lower than expected, but there are signs that labour markets there and in the UK are starting to cool. The number of people hired in the UK fell for the third month in a row, according to the Recruitment & Employment Confederation, which also reported that starting salaries increased at the slowest rate in almost two years. The Office for National Statistics reported that the number of online job adverts dropped in early January (usually a busy month for recruitment) and the number of vacancies is around 16% lower than the same period last year.

Recruitment firms Robert Walters and PageGroup both reported significant slowdowns in their earnings in the last quarter of 2022. Robert Walters said it was particularly affected by drop in recruitment among US tech firm as it warned profits will be lower than expected. PageGroup also reduced its forecast for profits as it reported fewer candidates for advertised positions as well as companies cutting back on their recruitment plans.

EQUITIES: BUILDERS LOOKING FOR THE POSITIVE IN A TOUGH MARKET

The financial regulator issued a stark warning about the number of people in financial distress due to rising mortgage costs. Bank of England rate hikes as well as the disastrous mini-budget in September helped push the average rate of a two-year fixed rate mortgage from around 1.4 % in January 2022 to above 6% in November. This has reduced slightly since then but the Financial Conduct Authority warns that 200,000 households are already in arrears and warns that a further 570,000 households are at risk of defaulting as their fixed term deals come to an end over the next two years.



Housebuilders are facing a sharp slowdown in demand caused by higher mortgage costs and falling house prices. Barratt Developments, Persimmon and Taylor Wimpey all released updates this week. Despite Barratt and Persimmon reporting considerably lower advance sales, investors appeared relaxed about plans to cut back on new developments and reassured by strong balance sheets as shares rallied this week.

Data sourced from FE Analytics and FactSet