



Good day,

2023 comes to an end with a series of concerning developments for the coming year. In Canada, the battle against inflation is far from over. In the United States, numerous small and medium-sized enterprises (SMEs) face significant financial challenges due to persistently high interest rates, hindering their ability to grow and innovate. In Europe, the economic activity in the Eurozone has come to a standstill, while the economy of the United Kingdom is contracting. Meanwhile, China is now grappling with the specter of deflation.

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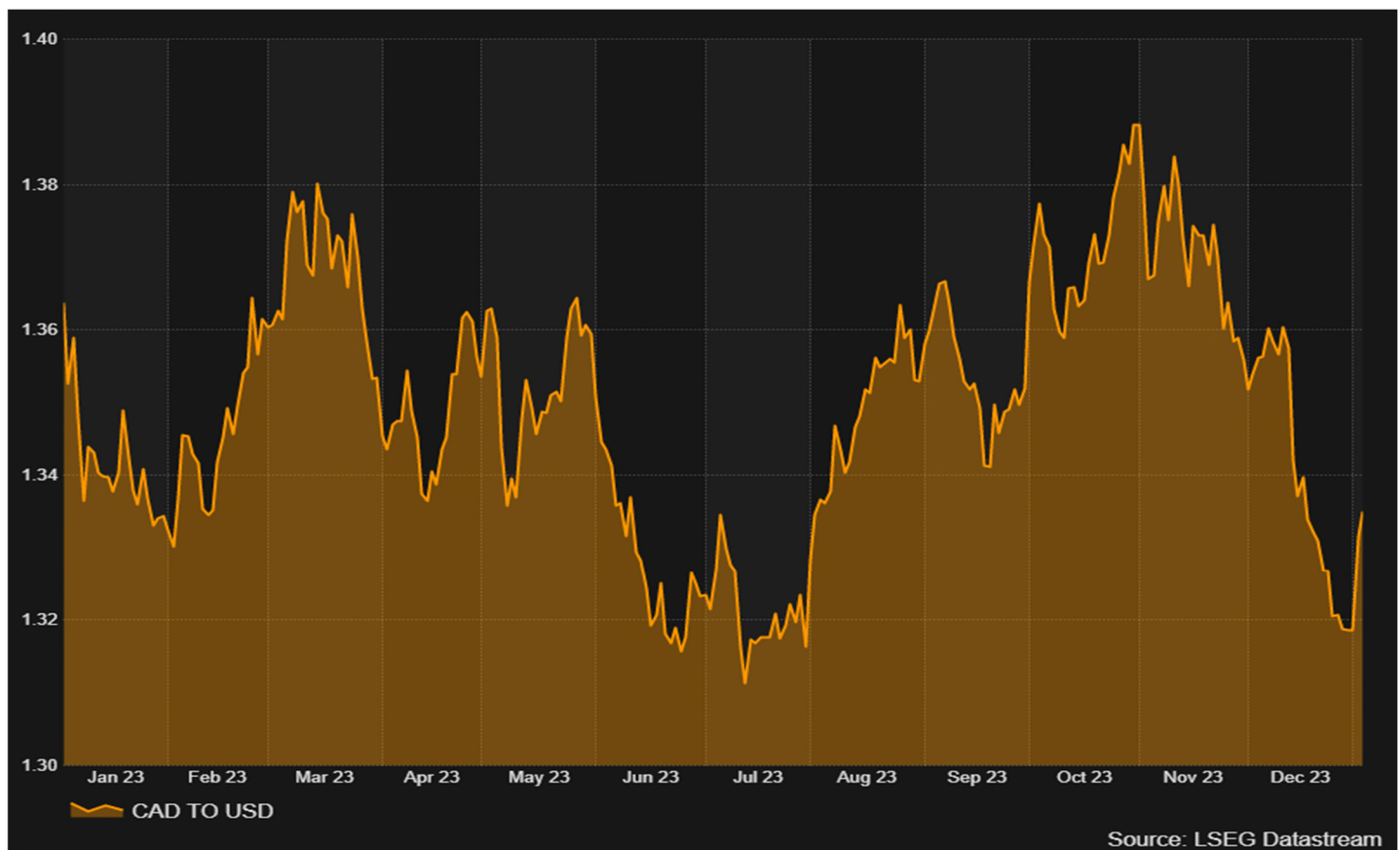


CAD

In December, the USDCAD pair saw its value drop from 1.3562 to 1.3245. The Bank of Canada maintained its benchmark interest rate at 5% in its latest decision for 2023, citing signs of economic slowdown. However, inflation remained stagnant, with the Consumer Price Index (CPI) unchanged at 3.1% in November compared to October, according to Statistics Canada data. "This indicates that our fight against inflation is still far from over, contrary to some beliefs," notes Douglas Porter, Chief Economist at BMO, emphasizing that the central bank's 2% target is still a distant goal.

Adding to the challenges in combating inflation is a demographic shift. The country's population increased by over 430,000 people in the third quarter, according to Statistics Canada, marking an unprecedented growth since 1957, bringing the total population to 40.5 million. Laurent Martel, Director of the Demography Division at Statistics Canada, attributes this increase to both permanent and temporary immigration. How will the economy be affected? Marc Desormeaux, Senior Economist at Desjardins, explains that this sudden population surge is likely to stimulate demand for goods and services, potentially increasing pressure on prices.

Moreover, the labor shortage continues to worsen, much to the dismay of businesses. A Statistics Canada data point highlights the current situation: there are now 1.7 unemployed individuals for every job vacancy, compared to over 2 before the COVID-19 pandemic. This means that finding workers has become more challenging than ever, and employers seem resigned to the fact: job offerings increased by only 0.3% in the third quarter, a significant slowdown compared to the 1% growth in the same period last year.



USD

The DXY Index declined from 103.36 to 101.38 in December. The Federal Reserve (Fed) maintained its benchmark interest rates in the range of 5.25%-5.50% in the same month, where they have been since July. Most analysts now expect the Fed to gradually reduce its benchmark rates, lowering them by 75 basis points by the end of 2024. They particularly view the sharp decline in inflation in the second half of 2023 as a precursor, with it dropping to 3.1% in November from 9.1% in June 2022.

Currently, businesses are suffering. A survey by the U.S. networking group for entrepreneurs, Alignable, revealed that 58% of SME owners now see their businesses adversely affected by "high" interest rates, up from 45% in June. Notably, 24% of SME owners highlight one of their major current challenges as the near impossibility of obtaining new loans, a necessity for those aiming to grow or innovate.

In the metallurgical sector, the days are numbered for US Steel as an American company, once the backbone of the national economy. Its management has accepted the \$14.1 billion acquisition offer, \$55 per share, from Nippon Steel, the largest Japanese steelmaker. Less than a year before the U.S. elections, American lawmakers and the United Steelworkers union have strongly criticized the move. In the White House, the U.S. administration believes that the acquisition of this iconic company by a foreign entity, even that of a close ally, requires a thorough examination in terms of national security and supply chain reliability, said Lael Brainard, Joe Biden's chief economic adviser, in a statement.

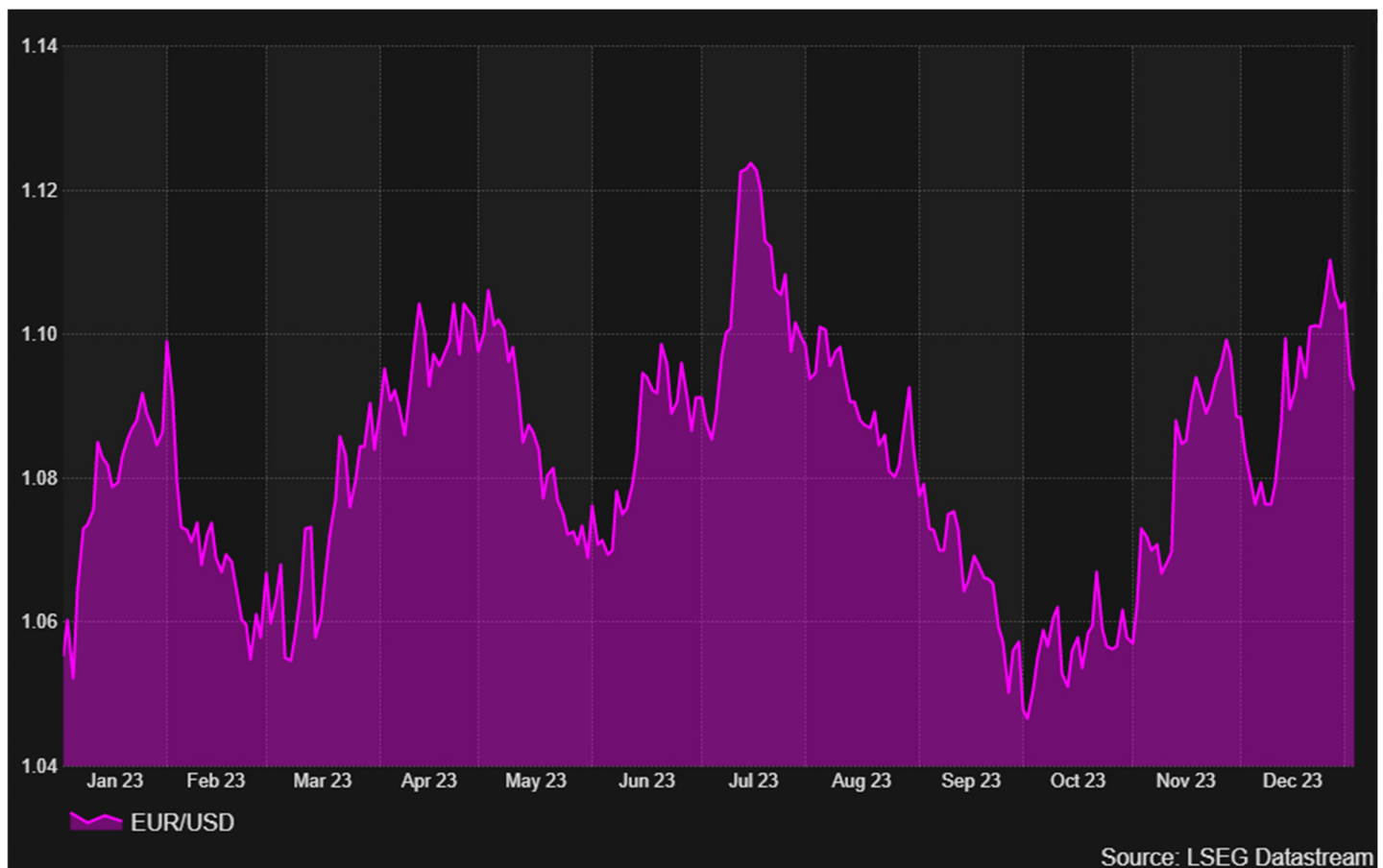


EUR

The value of the EURUSD pair increased from 1.0887 to 1.1036 in December. Inflation fell to 2.4% in November, according to Eurostat. This is its lowest level in over two years, far from the peak of 10.7% reached in October 2022. This new figure is close to the European Central Bank's (ECB) 2% inflation target, but this performance comes at a cost: economic activity in the Eurozone is now at a standstill.

Thus, industrial production (IPI) decreased by 0.7% month-on-month in October in the Eurozone; the previous month, it had already dropped by 1%. Meanwhile, the Eurozone's Purchasing Managers' Index (PMI) slightly increased to 44.4 in December, surpassing preliminary estimates of 44.2. (A score below 50 corresponds to a contraction in the relevant sector.) Worse, the services sector's index declined from 48.7 to 48.1. The result? Gross Domestic Product (GDP) declined by 0.1% in the third quarter, according to Eurostat. As a result, the Organisation for Economic Co-operation and Development (OECD) predicts that the annual growth will be only 0.6%, and that of 2024, only 0.9%. "Deflation is at our doorstep, and the ECB's monetary policy has not finished making its effects felt," explains Carsten Brzeski, Global Head of Macroeconomics at ING Research.

Economic stagnation contributes to the rise of the far right in Europe. In the Netherlands, Geert Wilders' Party for Freedom (PVV) came out on top in the last legislative elections. In Italy, Giorgia Meloni's Brothers of Italy party has been in power since October 2022. And in Finland, Latvia, and Slovakia, far-right parties are part of government coalitions. "The rise of the far right in Europe is characterized by the normalization and generalization of its ideology, marked by xenophobia and economic protectionism, especially among centrist and right-wing voters," says Dutch political scientist Cas Mudde, a professor of international affairs at the University of Georgia in the United States. This may eventually have "direct consequences on international trade," he points out.

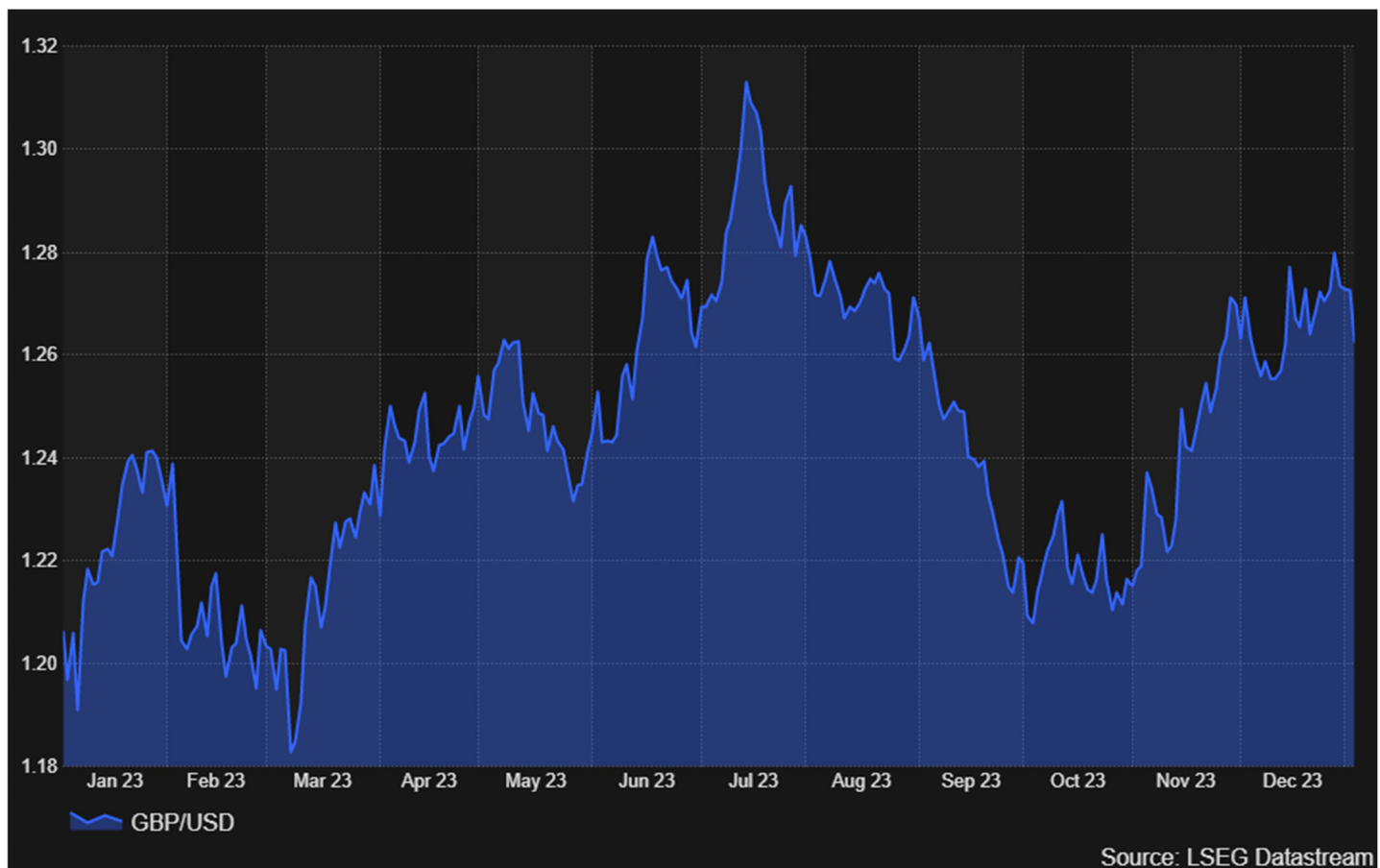


GBP

In December, the GBPUSD pair saw its value slightly increase from 1.2623 to 1.2731. Inflation experienced a drop to 3.9% in November, according to the Office for National Statistics (ONS). The previous month, it was at 4.6%; its peak had exceeded the symbolic 11% mark in October 2022, the highest in over 41 years. Jeremy Hunt, the UK Chancellor of the Exchequer, attributes this performance to lower prices in transportation, culture, food, and beverages.

However, it's worth noting that underlying inflation (excluding energy, food, alcohol, and tobacco), closely monitored by the Bank of England, has slowed down slightly: it dropped from 5.6% in October to 5.2% in November. According to Ashley Webb, Chief Economist at Capital Economics, this still elevated level of underlying inflation will "prevent the Bank of England from lowering its benchmark rates before May 2024." Yael Selfin Aizig, Vice President and Chief Economist at KPMG UK, agrees: "The Bank of England will keep its rates unchanged until the second half of 2024, as inflationary pressures gradually fade in the coming months," she predicts. The downside is that the British economy is contracting. Its Gross Domestic Product (GDP) decreased by 0.1% in October, according to the ONS. The country's economic activity saw a decline in the services sector but especially a "major slowdown in construction and manufacturing," said Darren Morgan, Director of Economic Statistics at the ONS.

In the labor market, job offers are becoming scarcer, while wage increases have significantly slowed down. Meanwhile, the unemployment rate remains stable at 4.2%. All of this leads the government forecasting body, the OBR, to now consider that the British economy will still grow by 0.6% in 2023, an improvement from the official projections in March, which anticipated a 0.2% decline for the whole year. However, it now estimates that in 2024, Britain will only experience a growth of 0.7%, compared to the previously predicted 1.8%.



CNY

The USDCNY pair hardly changed in December, going from 7.1386 to 7.1391. This apparent stability conceals major upheavals in the Chinese economy, threatened by deflation (sustainable and self-sustaining decline in the general price level). Indeed, companies and retailers have embarked on a price war so fierce that it risks leaving serious consequences. "Companies are lowering their prices to maintain their market share and avoid being squeezed out by competition," said Wang Dan, an economist at Hang Seng Bank, adding that the big question is how long will this "harmful strategy for the economy" last, as it pushes the country's activity towards stagnation. For instance, Haidilao, the largest hot pot restaurant chain known for its attentive and high-end service, recently opened two outlets of a cheaper brand, Haidilao Huoguo. Its beef dishes are offered for as little as 28 yuan (5.22 CAD) while the lowest price of the competition is 70 yuan (13 CAD).

The deflationary climate is conducive to the appearance of low-cost stores, a relatively new phenomenon for China, the emergence of which may end up encouraging the entire sector to lower its prices. For instance, the low-cost food store chain Lingshi Henmang, whose slogan is "The People's Snack", plans to have 10,000 stores in China by the end of 2025, while it now has 4,000. Bestore, one of its main competitors, responded by reducing its prices by an average of 22% on 300 products, with the largest reduction being up to 45%. So, the Consumer Price Index (CPI) fell in November by 0.5% compared to the previous month, according to the National Bureau of Statistics (NBS). This decline is more pronounced than what analysts had anticipated, who had expected a decline of 0.1%. Worse, such a decline had not been seen since November 2020. This is worsening the slowdown in China's economic activity. The Producer Price Index (PPI) fell by 3% in November, following a drop of 2.6% in October, marking the 14th consecutive month of decline. These worrying signs prompted Pan Gongsheng, the governor of the central bank of China, to publicly declare that he would now attack deflation "without respite".



COFFEE

In December, coffee was trading around 1.8830 USD per pound at the end of the month, up by 13.13% since the beginning of the year, according to Trading Economics data. The upward trend is expected to continue: most analysts believe that the price of coffee should be around 2.2686 USD per pound by the end of 2024.

The price of coffee is rising partly due to the dry weather in Brazil, damaging crops. The Minas Gerais region has received 35% less precipitation than normal. This region accounts for about 30% of the country's arabica harvest. Brazil alone is responsible for 40% of the world's coffee production. Similarly, the Vietnamese Ministry of Agriculture warned in November that its coffee production for the 2023/24 season was likely to fall by 10%, due to drought; this would result in the smallest harvest in four years. Vietnam is currently the world's second-largest coffee producer.

In addition to weather conditions, another phenomenon is driving prices upward: low coffee stocks. As is well known, scarcity leads to higher prices. Thus, arabica stocks monitored by ICE were only 224,066 lots at the end of November, the lowest in 24 years. As for robusta stocks, they amounted to only 3,418 lots, close to the previous record of 3,374 lots recorded on August 31. If Canadians find that their favorite latte is expensive today, they should expect to pay even more for it in the future. This is not good news for their wallets, as they are the sixth-largest consumers of coffee in the world, with an average of 5.7 kg per person annually. The top spot goes to the Finns, with an average of 7.4 kg, followed by the Dutch (7.3 kg) and the Swedes (6.9 kg).



SEEN IN OUR PERISCOPE

SHIPPING GIANTS AVOID THE RED SEA

Maersk, CMA CGM, Hapag-Lloyd... Several shipping giants have decided to avoid the Red Sea, due to the increasing number of attacks by Yemen's Houthi rebels. The Red Sea is a veritable highway of the sea, linking the Mediterranean to the Indian Ocean via the Suez Canal: some 20,000 ships, particularly oil tankers, transit it every year.

Source: Le Figaro

<https://www.lefigaro.fr/conjoncture/mer-rouge-le-petrole-grimpe-face-aux-difficultes-d-approvisionnement-20231218>

THE BRITISH RETURN TO THE BOOZE RUN

Inflation is driving Britons back into French supermarkets, lured by lower prices than in Britain. These cross-border shopping sprees, popular in the 1990s, lost their appeal with the introduction of the euro. But with inflation soaring on the English side of the Channel, the "booze run" has become profitable again, especially when it comes to stocking up for holiday meals: the British buy bread, wine, cheese and pastries in France.

Source: Le Figaro

<https://www.lefigaro.fr/conso/booze-run-l-inflation-fait-revenir-les-anglais-dans-les-supermarches-francais-20231216>

AMQ / FINMETRIX PROJECT - Steel

Also, we are pleased to announce a project in collaboration with Alliance Métal Québec. This initiative, facilitated by financial support from the Quebec government, enables companies in the metal fabrication sector to obtain a grant to analyze the impact of fluctuations in metal and currency markets, and to establish risk management strategies. The process includes the following steps: diagnostic of metal, currency, and interest rate risks; development of a formal policy for managing these financial risks; staff training; and individualized support for strategy implementation. Are you affected by volatile metal prices? Contact FINMETRIX to find out more about the possibilities offered by this collaboration!

Duration: 30-minutes videoconference session

To register, please send an e-mail: strategie@finmetrix.com

If you have any questions, please contact us.

Have a great day.

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