



Good day,

The month of January 2024 has not been an easy one. Many analysts agree that Canadians should expect a "significant" economic slowdown in the months ahead. In the United States, home sales have fallen to their lowest level in almost 30 years. European consumers are sinking into a state of pessimism. Several warning signs indicate that Great Britain is on the brink of recession. In China, exports fell last year for the first time since 2016.

Enjoy your reading!



CAD

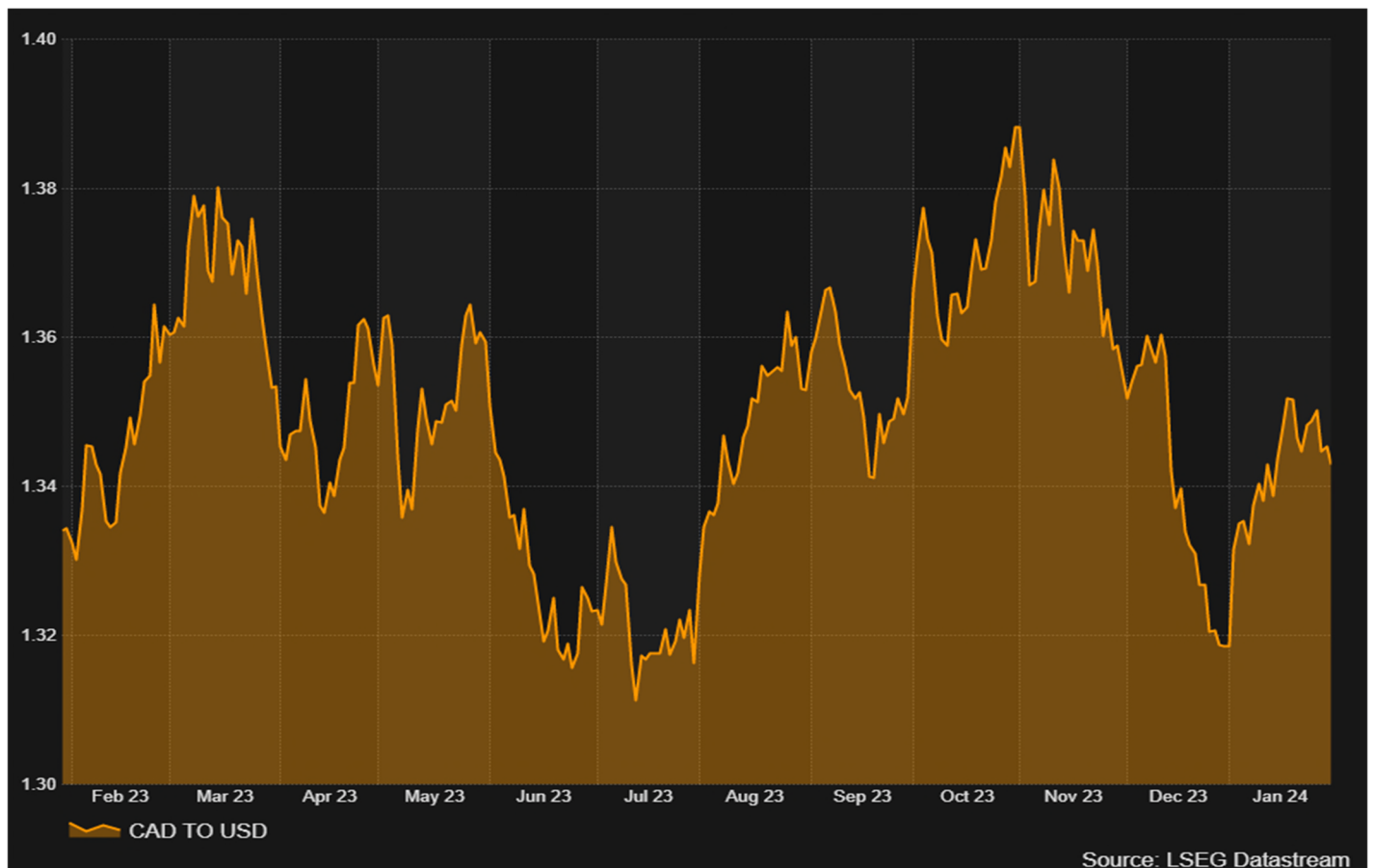
In January 2024, the USDCAD currency pair saw its value rise from 1.3226 to 1.3434. The Bank of Canada (BoC) left its key rate unchanged at 5%, stressing that it would not consider lowering it until inflation gave a clear sign that it was approaching the 2% target on a sustainable basis. In December, the Consumer Price Index (CPI) edged up to 3.4%, according to Statistics Canada.

The Canadian economy is slowing down, and this is set to continue: the BoC expects economic growth to remain below 1% "at least until the first quarter of 2024". In the third quarter of last year, it recorded a 0.3% decline in gross domestic product (GDP), according to the latest data from Statistics Canada.

Is Canada already in recession? Has GDP fallen for two consecutive quarters, the third and fourth of 2023? No official data can confirm it at this time, but Jimmy Jean and Randall Bartlett, economists at Desjardins, consider that conditions are ripe for the country to be in recession "until the first half of 2024".

As a result, Canadians can expect a "considerable economic drag", according to the two experts: lower investment, declining exports - caused in large part by the weakening US economy - and rising unemployment. With interest rates remaining high, consumers will continue to cut back on spending, further weighing on the economy.

That said, there's no real reason to panic. In fact, Jimmy Jean and Randall Bartlett predict that the slowdown will be "short-lived and mild". It could even allow inflation to fall significantly, enough to trigger a first interest rate cut "as early as this spring".



USD

The DXY index, which measures the value of the US dollar against a basket of foreign currencies, rose from 102.20 to 103.53 in January. In fact, US gross domestic product (GDP) grew by 3.3% in the fourth quarter of 2023, according to the Commerce Department. This is better than most analysts were expecting, with consensus hovering around 2%. But it is also considerably less than the 4.9% increase recorded in the third quarter. So much uncertainty is prompting Thomas Simons, economist at investment bank Jefferies, to consider that the Fed will not cut its key rates "before next March". For their part, economists at financial consultancy Evercore ISI estimate that the downturn will occur "in mid-2024" and extend "into 2025".

Nonetheless, the services PMI hit a seven-month high in January, at 52.9, up from 51.4 the previous month, according to S&P. As for the manufacturing PMI, it jumped this month to 50.3, its highest level in 15 months, from 48.2 in December; this is the first time the index has been positive in over a year. (Scores above 50 signal growth.) In addition, new orders placed with US companies, a sign of future sales, rose in January for both goods and services. Business confidence in the future also rose to its highest level in 20 months. The result? January's employment figures amply exceeded analysts' expectations.

However, not all sectors are yet benefiting from this upturn. Home sales, for example, fell to their lowest level in almost 30 years, as potential buyers anxiously await a drop in interest rates, expected sometime in 2024. Only 4.09 million homes were purchased last year, the lowest number since 1995, according to the National Association of Realtors. In addition to high rates, it's also a question of costs: the median price of housing in the US has jumped by more than 40% since 2019, due to the surge in prices recorded during the pandemic.



EUR

In January, the EURUSD pair fell from 1.1044 to 1.0816. According to forecasts by the European Commission, the 20 countries that use the euro should see growth of just 0.8% this year, instead of the 1.1% projected last spring. For 2025, growth expectations have also been lowered, from 1.6% to 1.3%. Inflation and high interest rates are weighing "heavily" on consumer spending, and this is likely to persist over the coming quarters.

Meanwhile, the European Central Bank (ECB) left its key interest rate unchanged at 4% at its January meeting. ECB President Christine Lagarde stressed that the rate would remain at this level until inflationary pressures abated. And for the time being, they seem to be on the rise: in December, the inflation rate was 2.9% in the eurozone, up 0.5 percentage points on the previous month, according to Eurostat.

The result? European consumers are sinking into pessimism. The indicator of consumer economic sentiment in the eurozone posted a score of -16.1 in January, down 0.9 points on the previous month (this indicator has a scale of -100 to +100, zero being the tipping point between pessimism and optimism).

Similarly, most European companies are hardly optimistic about the future. "Business owners expect economic activity to stagnate, or even contract slightly, for the six months covering the fourth quarter of 2023 and the first quarter of 2024," said the ECB following a survey conducted in the eurozone.

One sign proves them right: the composite PMI index, which combines manufacturing and services PMI data to provide a comprehensive view of economic activity, stood at 47.9 in the eurozone in January, compared with 47.6 in December. (A score below 50 indicates a contraction in activity).



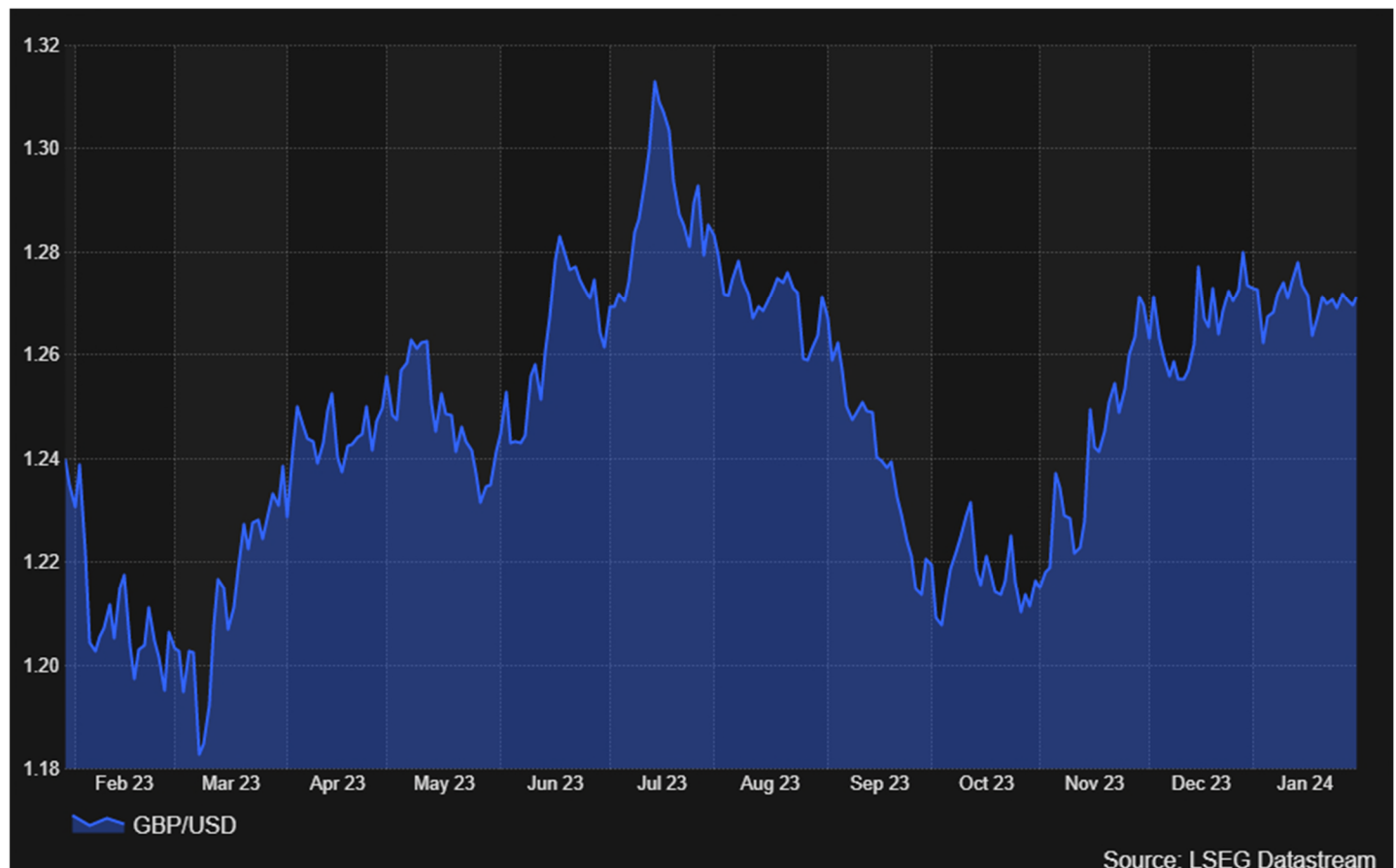
GBP

The GBPUSD fell in January from 1.2723 to 1.2685. The Bank of England has maintained its key rate at 5.25% since last August and does not appear ready to change its strategy any time soon: most analysts consider that there is virtually no chance of a cut between now and next May, and that the Bank of England will only seriously consider it once the Federal Reserve and the European Central Bank have moved in this direction.

It's important to point out that inflation is still high in Great Britain, with the latest data putting it at 4%, a long way from the Bank of England's 2% target. This higher cost of living has an inevitable impact on consumption: Britons made early purchases in November, resulting in December sales falling by 3.2%. According to Ashley Webb, economist at Capital Economics, "consumer spending will fall overall in the fourth quarter of 2023 and the first quarter of 2024", and this will eventually drag the country into "a mild recession".

Another harbinger of a coming recession is the fact that the UK labor market is becoming increasingly tight. The number of job vacancies fell by almost 7% in December, to less than 1 million, according to job search engine Adzuna. The last time such a dramatic fall occurred was in June 2020, when companies were struggling to cope with the economic impact of the pandemic. The biggest declines in job offers in December were recorded in the retail (-18%), manufacturing (-17%), hospitality (-14%) and construction (-13.5%) sectors. The situation is unlikely to improve, quite the contrary: initial data from Adzuna suggest that January will be just as difficult as December for jobseekers, with the number of openings down overall by "between 6% and 8%".

"Normally, we'd expect recruitment to pick up fairly strongly after Christmas, but the fact that it hasn't happened this time around suggests that many companies are holding back due to growing economic uncertainty," notes Tony Wilson, director of the human resources consultancy Institute for Employment Studies, stressing that "this doesn't bode well for 2024".



CNY

Over the month of January, the USDCNY rose from 7.1426 to 7.1677. At the end of the month, a Hong Kong court ordered the liquidation of property developer China Evergrande Group, a decision likely to cause major tremors in the already fragile financial and property markets, and hamper Beijing's efforts to revive the country's economic growth. Immediately after the announcement, Evergrande shares plunged by over 20% on the Hong Kong Stock Exchange, before being delisted. Evergrande, long China's largest property developer, has accumulated debts of 328 billion USD. It defaulted for the first time in 2021 and was declared bankrupt in the US last year. Its financial problems began in 2020, when the Chinese authorities gradually restricted property developers' access to credit, triggering a wave of defaults.

With the construction and real estate sectors accounting for almost a quarter of China's gross domestic product (GDP), turbulence is to be expected in the world's second-largest economy as a whole. All the more so as the Chinese economy is not in great shape: it grew by 5.2% in 2023, barely reaching the official target set by Xi Jinping's government for 2022, which was "around 5%". Kang Yi, head of the National Bureau of Statistics (NBS), said growth had been "hard-earned" and warned that China's economy faced a "complex external environment" and "insufficient demand" going into 2024.

As a result, exports - historically a lever of Chinese growth - fell last year, for the first time since 2016. According to the customs agency, they fell by 4.6% in 2023, compared with a 7% rise the previous year.

Trade between China and the USA followed the same trend, experiencing its first contraction since 2019, against a backdrop of geopolitical tensions between Beijing and Washington. In 2023, the world's two leading economies traded goods and services worth 664.4 billion USD, down 11.6% year-on-year.



COCOA

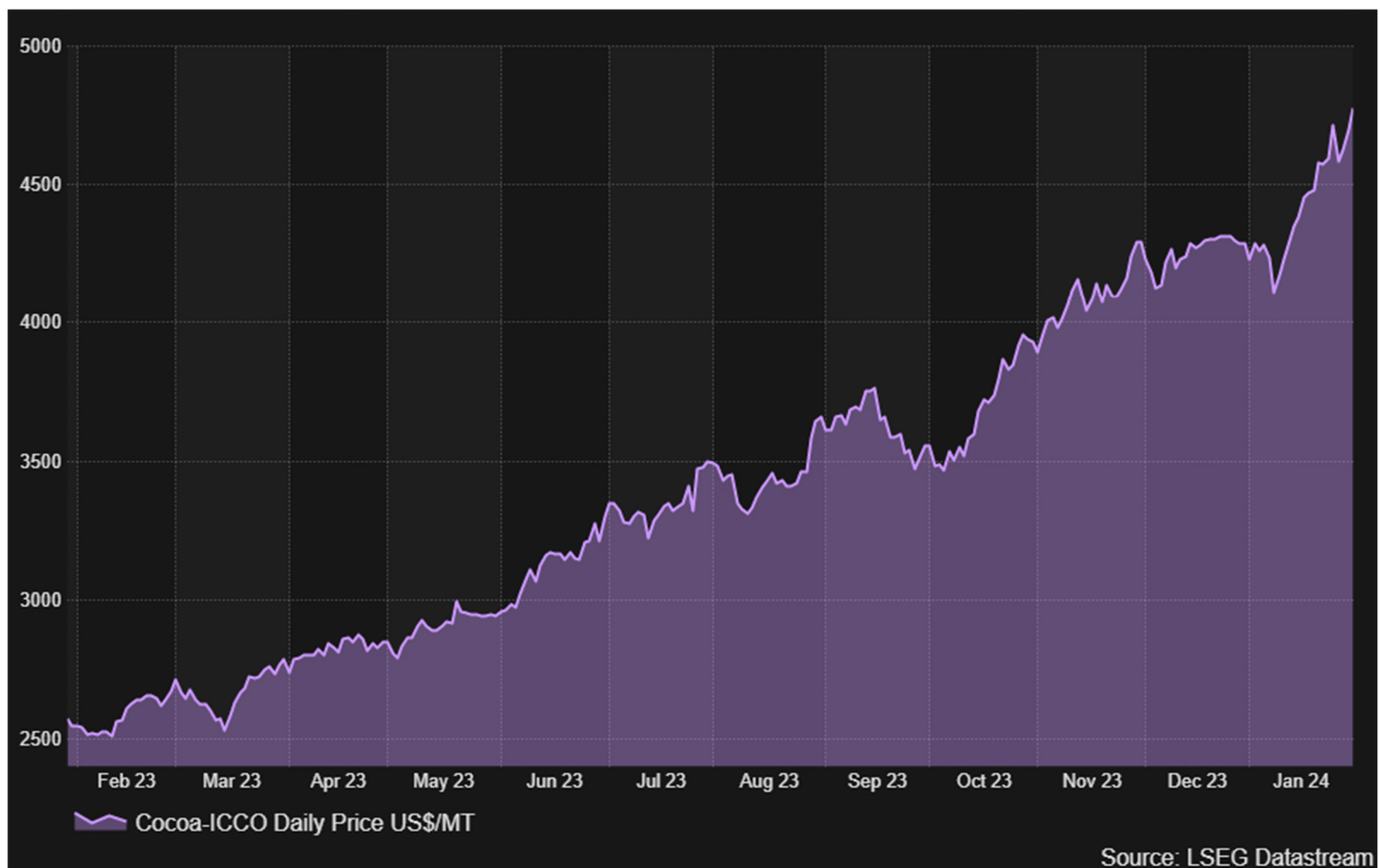
Cocoa futures traded in New York surged by more than 60% last year, the biggest increase since 2001. In January, prices even reached a 46-year high of USD 4,811 per metric ton.

Climatic hazards largely explain this extraordinary surge in cocoa prices. In 2023, abnormally constant and abundant precipitation in West Africa prevented farmers from accessing their fields and encouraged crop disease; rainfall was more than double the average for the last 30 years. This has particularly affected Côte d'Ivoire and Ghana, two West African countries which together account for almost 60% of world supply.

According to Ghana's cocoa regulator, many of its cocoa farmers will be unable to fulfill their cocoa contracts for the second year running. The result? Ghana's cocoa harvest for 2022/23 is set to fall by 24%, to 683,000 tonnes, its lowest level in 13 years.

Unsurprisingly, this unusual shortage of cocoa is already having a direct impact on the market. The National Confectioners Association (NCA) reported that cocoa grinding activity in the USA, Canada and Mexico fell by 18% in the third quarter of 2023 compared to the same period in 2022.

Where there's scarcity, there's high price. We can therefore expect the cost of chocolate to rise in the near future, which is likely to leave a bitter taste in the mouths of many consumers.



SEEN IN OUR PERISCOPE

TESLA OVERTAKEN BY CHINESE MANUFACTURER BYD

The biggest seller of electric vehicles is no longer the American Tesla, but the Chinese BYD. For the first time, in the last quarter of 2023, the latter sold a record 526,000 100% electric vehicles, while Tesla sold 484,507. BYD, acronym for Build Your Dreams, recorded a jump of 62% of its sales in 2023, which allowed it to triple its profits to 1.5 billion USD for the first half of 2023. For the current year, the Chinese Automobile Manufacturers Association forecasts domestic sales growth of 3%. To continue its strong growth, BYD will therefore have to focus on exports, particularly to Western countries. But this might be complex, given the tendency of these same countries to depend less and less on Chinese products.

Source: The Financial Times

<https://www.ft.com/content/716c9b0b-d8cd-491a-a91b-d70c1e540797>

TRUMP, BAD NEWS FOR EUROPE

After two victories in the Republican campaign, Donald Trump, the former occupant of the White House, continues on his way to a new presidency of the United States. Along the way, he has unveiled several elements of his economic program, and they don't seem to be appealing to Europe. For example, he has proposed the introduction of a universal minimum tariff of 10% on imports into the USA. This protectionist measure would make European products less competitive than their American competitors. Faced with rising protectionism, some countries may decide to implement retaliatory measures against the United States. However, the US Chamber of Commerce has already warned that such measures would lead to further retaliation by the United States, which would only increase the "pain" of all involved. In short, the "good understanding" between the USA and Europe on trade issues would quickly be put to the test if Donald Trump ever returned to the Oval Office.

Source: Capital

<https://www.capital.fr/economie-politique/presidentielle-americaine-pourquoi-le-programme-economique-de-trump-nest-pas-une-bonne-nouvelle-pour-leurope-et-la-france-1491032>

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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