Good day,

February saw several geographical areas plunge into crisis. Over here, the upturn in industrial activity since the start of the year has raised fears that inflation will soon be on the rise. In the United States, investors are already worried about the outcome of the presidential campaign, and more specifically about the negative impact of both Biden's re-election and Trump's return to the White House. In Europe, the economy is so sluggish that Germany has entered a full-blown recession. Across the Channel, stagnation looks set to continue for some time still. Finally, the International Monetary Fund (IMF) believes that China will experience a major economic decline over the next four years.

Enjoy your reading!

CAD

During the month of February, the USDCAD pair saw its value increase from 1.3384 to 1.3578. Canada's annual inflation rate fell to 2.9% in January; it was at 3.4% the previous month, according to Statistics Canada. This is good news for consumers, as price growth slowed in five of the eight components of the Consumer Price Index (CPI), including food, which fell from 4.7 % to 3.4%.

The Bank of Canada does not know exactly when it will be able to lower its key rate, which is currently at 5%. This is because it deems inflation “still too high” compared to its objective of 2%, according to the summary of its deliberations last January. Most analysts now expect interest rates to start falling from the second half of 2024. As a result, economic growth is expected to continue to stagnate over the coming months, with inflation falling little by little, which would give the central bank the opportunity to begin lowering its key rate.

However, these forecasts are undermined by the emergence of a rather worrying factor of uncertainty. In the fourth quarter, Canada's gross domestic product (GDP) returned to growth, at around 1.2%, according to initial estimates. This follows a quarter that had raised fears of a recession when GDP fell by 0.3%. The problem is that this revival largely stems from the surprising resilience of consumption in the USA: Statistics Canada noted that current Canadian economic growth was “largely attributable” to goods-producing industries like manufacturing and wholesale trade, which are “driven by American demand.” If ever the restart of the industrial engines of the Canadian economy were to be confirmed in the coming months, this could revive inflation in Canada. And therefore, prevent the Bank of Canada from lowering its key rate.

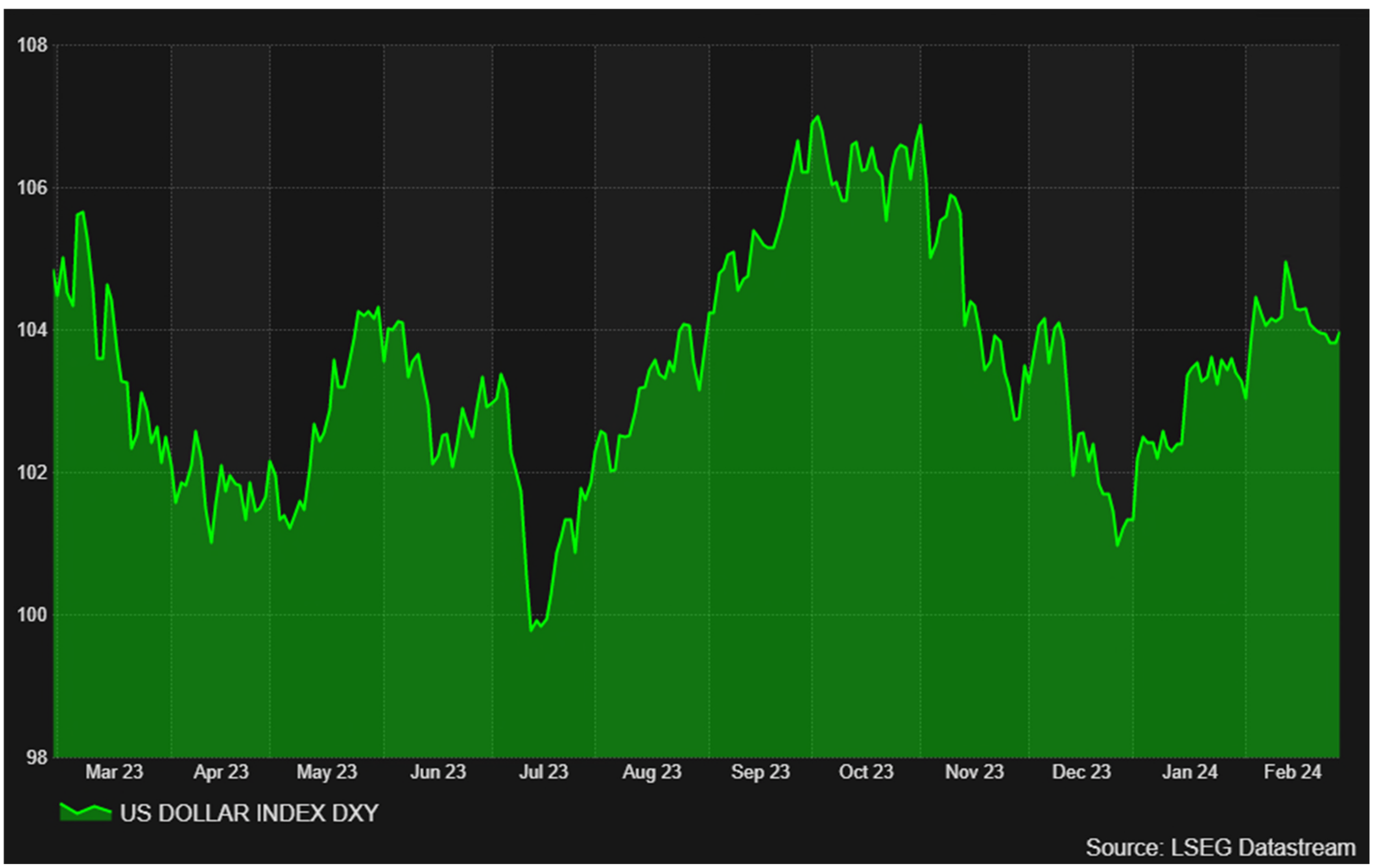
In other words, “the favorable winds coming today from south of the border seem to be giving a boost to the Canadian economy, but this is not necessarily good news, because they are coming too early,” notes Doug Porter, BMO's chief economist.

USD

The DXY index barely fluctuated in February, going from 103.05 to 104.14. The stability of the greenback against a basket of foreign currencies highlights the surprising resilience of the American economy when only a few months ago most analysts were expecting a recession. Now, experts at the National Association for Business Economics anticipate a US gross domestic product (GDP) growth of 2.2% in 2024.

How can we explain such a U-turn? Essentially by the astonishing resilience of American household spending, despite high rates which make mortgage loans and credit card bills more expensive. The increase in wages ended up exceeding inflation in May 2023, which was decreasing. “The resulting increase in purchasing power fuelled consumer spending,” says Julia Pollak, the chief economist at the job site ZipRecruiter. Added to this is another element: heavy spending by the American government. When the Federal Reserve (Fed) set out to curb inflation, “fiscal policy pushed in the opposite direction so strongly that demand did not weaken,” indicates Dan North, economist at Allianz Trade – North America.

Moreover, many investors worry about a major event that is fast approaching: the next presidential elections. Obvious and major uncertainties surround the candidacies of Joe Biden and Donald Trump. The victory of either could have considerable economic repercussions. For instance, current trade tensions between the United States and China could persist if Biden wins, but they could actually intensify if Trump returns to the White House, given that he has promised to impose 10% customs duties on all products imported into the United States. According to Xiao Cui, economist at Pictet Wealth Management, Trump's new trade and migration policies would prove “clearly inflationary.” “Opinions have rarely been so disparate,” considers Steve Crews, founder of Golden Road Reborn, a global stock trading system, noting that there are now just as many analysts who believe in a bear market in the first half of 2024 than many analysts who think the opposite. “The only certainty is that uncertainty prevails,” he says.



EUR

The EURUSD currency pair saw its value moving from 1.0872 to 1.0804 in February. In 2023, the Eurozone gross domestic product (GDP) grew by just 0.5%, while the one of the United States grew by 2.5%. The 20 countries that use the euro have not shown significant growth since the third quarter of 2022, Eurostat data shows. The anti-inflationary medicine applied by the European Central Bank (ECB) through repeated increases in its key rate has slowed, among other things, business investment and real estate activity. And this was enough to bring economic activity to a halt here and there, particularly in Germany, a country known to be the engine of Europe. German GDP fell 0.3% in the fourth quarter as its economy was bogged down by high energy prices, a shortage of skilled labor and chronic government underinvestment in infrastructure and digital technology, in favor of a balanced budget.

The International Monetary Fund (IMF) has revised upwards its outlook for the global economy this year, forecasting overall growth of 3.1% driven mainly by the United States. On the other hand, it lowered its expectations for the Eurozone to a meager 0.9% expansion. Serious threats are looming on the horizon. French President Emmanuel Macron has declared his readiness to send ground forces into Ukraine to push Russia back. This potential widening of the armed conflict which has lasted for two years now would obviously have serious consequences for the European economy.

In addition, attacks on ships in the Red Sea by Yemen's Houthi rebels continue. This increases transport costs for some 12% of goods traded worldwide - primarily in Europe - as shipping companies prefer to route their ships around the southern tip of Africa rather than via the Suez Canal. “The trade disruption could add up to 0.5 percentage points to European core inflation, which excludes fuel and food prices,” says a note from Oxford Economics. “Such an increase in core inflation would be sufficient to prevent the ECB from lowering its key rate before the second half of 2024,” they believe.

GBP

GBPUSD fell in February from 1.2742 to 1.2624. The UK economy officially entered recession in the second half of 2023, after the fourth quarter saw gross domestic product (GDP) decline by 0.3%. The contraction was greater than the estimates of economists polled by Reuters, who had anticipated a decline of 0.1%, like that experienced in the third quarter. The UK economy is up just 1% from where it was at the end of 2019, before the COVID-19 pandemic hit. And stagnation seems set to continue: the Bank of England (BoE) only forecasts a tiny increase in GDP, of around 0.25%, in 2024.

So, British households should soon experience their first “significant and generalized” drop in living standards, many analysts estimate. This would be unheard of since World War II. With the purchasing power of the British at half mast, inflationary pressures should ease. This is why investment bank Goldman Sachs is now forecasting five consecutive 25 basis point cuts in the Bank of England's key rate this year, taking it from its current level of 5.25% to 4%. It subsequently forecasts that the central bank will set its key rate at 3% by June 2025.

For his part, Andrew Bailey, the governor of the BoE, said investors' bets on interest rate cuts this year were "not unreasonable," but he stopped short of giving a timetable on this point. Indeed, inflation remained stable at 4% in January and now appears to be under control, and price pressures seem to be easing, with the Consumer Price Index (CPI) having fallen by 0.6% in January.

More good news for Britain: Canada is reportedly close to ratifying Britain's membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which aims to foster free trade between economies from the Asia-Pacific and America regions. Canadian support should make it possible to speed up the procedure, and therefore the opening of entirely new international markets to the British economy. Sunak's government hopes the trade deal will come into force in the second half of this year.

CNY

In February, the value of the USDCNY pair increased from 7.1799 to 7.1887. A strong renminbi poses a serious problem for China, which David Lubin, researcher, global economics and finance, at the British think tank Chatham House, describes as the "trap of renminbi." Consumer prices in China have fallen in five of the last seven months, and the inflation rate fell to -0.8% in January. So, there is a high risk that deflation and weak economic activity will aggravate each other, creating a sort of "infernal spiral": prices fall because demand is weak, and demand remains weak because Chinese households find it better to delay spending in the hope that goods and services will become even cheaper.

The International Monetary Fund (IMF) wants Beijing to weaken the renminbi. In its latest report on the Chinese economy, published earlier this month, it suggested that “greater exchange rate flexibility would help counter deflationary pressures.” And it cites Japan as an example, which by strategically weakening the yen (JPY) managed to increase its inflation from -1% to +3%. However, a weaker Chinese currency would surely provoke a strong reaction from China's trading partners: imports from China would therefore be less expensive, and therefore more competitive for local producers.

Added to this is the fact that China has had bad experiences in the past, during which the weakness of its currency led to a loss of confidence on the part of the Chinese, who massively attempted to transfer their wealth elsewhere. Last time it happened, China's foreign exchange reserves decreased from 4,000 billion USD to 3,000 billion USD. IMF experts estimate that China's economic decline is likely to continue over the next four years, as the world's second-largest economy faces a series of challenges such as a rapidly aging population, high unemployment, especially among young people, and a serious real estate crisis. After growing by 5.3% in 2023, the Chinese economy is expected to grow by 4.6% this year and only 3.4% by 2028. A striking example of the seriousness of the situation is that the IMF predicts that real estate investments in China will plummet “by 30 to 60% over the next ten years” compared to their 2022 level. Nothing less.

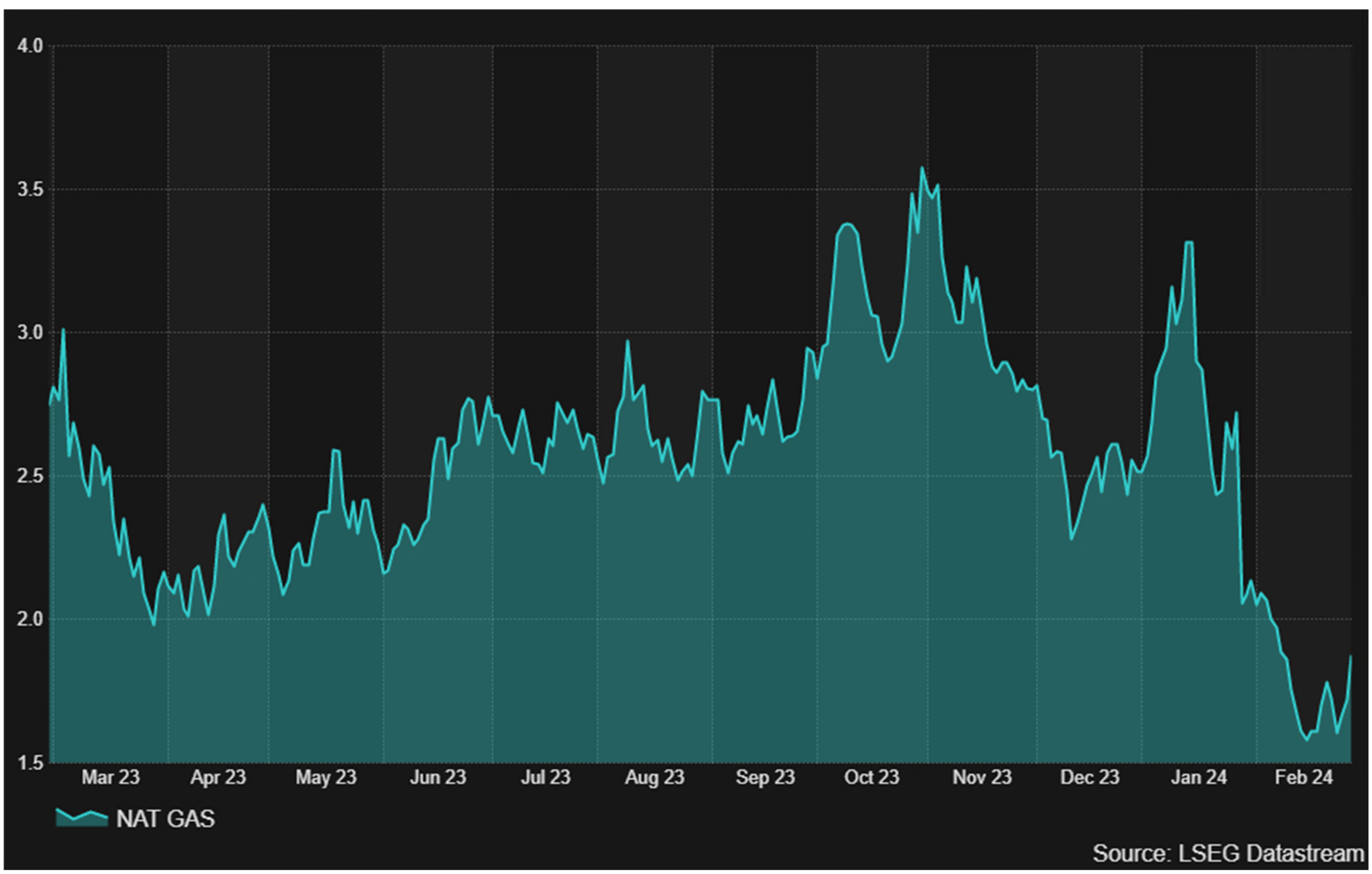
NATURAL GAS

The price of natural gas is currently 1.85 USD/MMBtu (the unit used for the price of gas on the stock market in the United States), and therefore up from the low of 1.54 USD/MMBtu reached on February 19, a low which had not been seen since June 2020. Since the beginning of the year, the price has fallen by nearly 21%. Its all-time high was 15.78 USD/MMBtu, in December 2005.

The mild winter caused a notable drop in global demand, catching producers off guard as they didn't decrease their production levels accordingly. Inventories are now 22.3% higher than normal. This level is so high that many major producers have decided to change their strategy for 2024: Chesapeake Energy recently announced that it intended to reduce its production targets for the current year by 30%; and others have followed suit, notably Antero Resources, Comstock Resources and EQT. Chesapeake Energy's announcement immediately led to a notable 13% increase in US natural gas futures prices, suggesting a possible change in market direction. However, opposing forces can halt this emerging trend.

Thus, since the shale gas boom in the United States, the situation has become complex because oil producers have started to collect gas as a by-product and are now important players in the American market. The problem is that they are not on the same wavelength as the major gas producers when it comes to production: for them, the more they produce, the more income they pocket.

So, the United States is expected to ultimately produce 105 billion cubic feet of gas per day this year, an increase of 2.5 billion cubic feet per day on an annual basis, Reuters data shows. In other words, American production would not decrease, despite efforts in this direction by major natural gas producers. And this should prevent a real rise in prices in the future: according to Trading Economics, natural gas is expected to trade at 1.89 USD/MMBtu at the end of the first quarter of 2024 and at 2.07 USD/MMBtu in 12 months.



SEEN IN OUR PERISCOPE

FOREIGN INVESTORS FLEE CHINA

In 2023, the amount of foreign capital invested directly in China fell by 82% from the previous year, according to data from the State Administration of Foreign Exchange. While they had been USD 400 billion in 2022, they were only USD 33 billion last year. This is unheard of since the 1990s. This phenomenon is largely explained by the current weakness of the Chinese economy, particularly affected by deflation, high unemployment, and a serious real estate crisis. Added to this is the fact that geopolitical tensions between China and Western countries, particularly the United States, are not helping: last year, three strategy consulting firms, including Bain & Company, were the target of Chinese police investigations. Something to seriously worry investors.

Source: The Financial Times
https://www.ft.com/content/bcb1d331-5d8e-4cac-811e-eac7d9448486

SHARP RISE IN CUBAN CIGAR EXPORTS

Sales of Cuban cigars grew abroad by 31% last year, according to official Cuban data, which explains this craze by the renewed global interest in luxury products. The turnover generated by international sales thus stood at 721 million USD. The cigar is one of the island's main export products. Its main foreign buyers are the Chinese, followed by the Spanish and the Swiss. By region and value, Europe is the leading market for Cuban cigars (56%), followed by Asia-Pacific (21%), the Americas (13%), and Africa and the Middle East (10%). Cuban cigars do not have access to the North American market due to the embargo imposed by Washington on the communist island since 1962.

Source: Les Échos
https://www.lesechos.fr/monde/ameriques/cuba-les-exportations-de-cigares-ont-bondi-en-2023-2078807

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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