**Note: Below are extracts from an article published by The Financial Times (24th September 2023) and as referenced below.**

# How fast is eurozone inflation falling?

According to The Financial Times, Arnold, Duguid, McDougall (2023), inflation is on a downward trend after the ECB rate -raising cycle of the last 18 months or so. But the rising cost of oil in recent months will reduce the overall disinflationary impact in the eurozone:

> Oil prices are rising, and retailers' summer sales are ending, yet most economists expect inflation in the eurozone to fall to nearly a two-year low in September when official data is released on Friday. The harmonised index of consumer prices for the 20-country bloc is expected to drop from 5.2 per cent in August to 4.6 per cent in September, the slowest annual price growth in the region since October 2021, according to a Reuters poll of economists. If inflation falls as much, or even more, than expected it would support investors' hopes that the European Central Bank has reached the end of its interest rate raising cycle after lifting borrowing costs for a 10th time this month. A sharp slowdown in transport services inflation is expected owing to last year's German €9 monthly travel ticket dropping out of the annual comparison from this month. Mark Cus Babic, an economist at Barclays, also predicted "weaker year-over-year inflation in other categories, helped by base effects and soft momentum in food, alcohol, and tobacco." However, economists at Oxford Economics warned that the 30 per cent rise in oil prices in euro terms since July meant "the disinflationary impact from energy prices will be significantly smaller than previously expected". The ECB is particularly focused on core inflation — excluding energy and food — to get a better handle on underlying price pressures. Anna Titareva, an economist at UBS, predicted this measure would drop from 5.3 per cent to 4.6 per cent, its lowest in over a year.

Arnold, Duguid, McDougall (2023)

Arnold, Duguid, McDougall (2023) in their Financial Times article, report that recent Treasury yields, and a hawkish Federal Reserve could see interest rates stay higher for longer. What will this mean for inflation and in particular equity markets?

> **Does the rise in Treasury yields have further to run?** US Treasury yields have risen to their highest levels in a decade and a half after strong data and a hawkish Federal Reserve pushed investors to bet that interest rates would stay higher for longer. A continued surge in the coming week could ricochet into other markets, hurting riskier assets such as stocks. The 10-year Treasury yield, which serves as the benchmark for borrowing costs around the world, on Friday briefly touched its highest level since 2007. The two-year yield, which moves with interest rate expectations, on Thursday reached its highest level since 2006. Both jumped on Wednesday after the Fed signaled that its fight against inflation was not yet over and added to those gains on Thursday after weekly jobless claims fell to their lowest level since January. Economic figures scheduled to be published next week — including Case-Shiller house prices for July on Tuesday and personal consumption expenditure data on Friday — could move markets as investors scrutinise any evidence that may support another Fed increase. "We feel the room for policy rates to rise further is running out as [economic] headwinds are accumulating, but until markets see an actual smoking gun they remain more cautious," said Padhraic Garvey, a strategist at ING. Any further weakness in Treasuries could drag down stock markets, as higher borrowing costs hurt equity valuations. The S&P 500 on Thursday hit its lowest level since June and the tech-heavy Nasdaq Composite fell to its lowest since August.
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> Arnold, Duguid, McDougall (2023)

The Financial Times, Arnold, Duguid, McDougall (2023), reminds us of the two-way impact of monetary and economic policy on both sides of the Atlantic and how a resilient US economy is one attributable factor to pushing £sterling lower :

> **Will sterling keep falling?** Sterling hit a six-month low against the dollar this week as investors position for an end to the Bank of England's cycle of interest rate rises, and it may not have hit the floor yet. The BoE surprised many economists when it held rates at 5.25 per cent on Sept 21st, in what had been a knife edge decision among its monetary policy committee, pushing the pound lower. The move followed official figures which showed the UK's August inflation rate was much weaker than expected and figures on Friday showed economic activity in September slipped at the fastest pace since January 2021. Pressure on sterling comes as the dollar has been rising following a "hawkish pause" from the Federal Reserve this week and figures that US unemployment had dropped to its lowest level since January, reflecting continued resilience of the US economy. The pound was trading at $1.2244 on Friday, 6.7 per cent lower than its peak in July. It had been the best performing G10 currency leading into the summer and is now up only 1.2 per cent against the dollar since the start of the year. On Friday, investment banks HSBC and Nomura both predicted that the pound could fall to $1.18 before the end of the year. "If incoming data continues to support the view that the US economy is holding its own better than the UK, then it

should keep the pressure on the sterling for a while yet," said Fawad Razaqzada, market analyst at trading platform City Index.

Salman Ahmed, global head of macro and strategic asset allocation at Fidelity International, said sterling must be a "carry currency" to stay supported, meaning its strength is dependent on the level of UK interest rates.

Arnold, Duguid, McDougall (2023)

**References**

Arnold, M. Duguid, K .and McDougall, M. (2023) 'How fast is eurozone inflation falling?', *Financial Times*, 24 September. Available at: https://www.ft.com/content/f6399c1f- 5c0e-47fe-8a56-7138b9cb0099?accessToken=zwAGBrnTmGQAkdP2OZwfXA5H_tOKVnE4ucsAmQ.MEQCIG2kKQEXaU332zVv6GjKitSWsvudCN9KH3rBDq92a8UoAiBxbEsn3j4XESvNRHhDn6jDcCULVOI8ucdRjFFBpAYl9g&sharetype=gift&token=f0443a7a-2ffc-4c32-a12f-1e7d3134a393.

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