

World shares off record highs ahead of inflation tests

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World shares stalled just below record highs on Monday, 26 February 2024, as investors awaited inflation data from the United States and euro zone that could further refine interest-rate expectations.



Source: Reuters.

The data will provide the next test for investors, who have had to rethink their bets on central-bank rate cuts in recent weeks, surprised by strong US job growth and inflation.

MSCI's global equity index <.MIWO000000PUS> was trading flat in early London trade, after rising to a record high last week when US stocks touched new highs helped by huge gains for AI diva Nvidia.

In European markets, shares slipped with the STOXX 600 index down 0.3% by 0930 GMT, while US stock futures were also lower.

The US Federal Reserve's favoured measure of inflation - the core personal consumption expenditures (PCE) price index - is due on Thursday with a poll expecting a rise of 0.4%, up from 0.2% in December.

Markets have pushed out the likely timing of a first Fed easing to June, from May earlier in February. Futures imply a little more than three quarter-point cuts this year, compared to five at the start of the month.

Euro zone inflation data follows on Friday, with the core figure seen slowing to the lowest since early 2022 at 2.9%, nearing the bank's 2% overall inflation target.

Traders have also pushed back their bets on when the European Central Bank will start cutting, to June, versus April when the ECB met in January.

Evaluating potential impacts

"While potentially causing a knee-jerk hawkish repricing, the implications of such a surprise on the Fed policy outlook seem relatively limited, hence (a higher-than-expected) print may not pose too significant a risk to the ongoing global equity rally," said Michael Brown, analyst at broker Pepperstone.

Brown added that the euro zone print was of more interest, with a sub-3% core inflation reading meaning "significant scope for a dovish repricing".

Comments from ECB policymakers prompted optimism over rate cuts on Friday and a broad bond market rally.

On Monday, 26 February 2024, global bond yields were little moved. The benchmark 10-year US Treasury yields were down 2 basis points to 4.24%, having hit three-month highs last week before Friday's rally.

The market faces a tough test with the Treasury selling \$127bn of two- and five-year notes on Monday, with another \$42bn in seven-year paper due on Tuesday. [US/]

Investors were also watching the risk that some US government agencies could be shut down if Congress cannot agree on a borrowing extension by Friday.

Central bank spotlight

Alongside inflation, focus is also on monetary policymakers, with ECB president Christine Lagarde and the Bank of England's chief economist scheduled on Monday. At least 10 Fed speakers are on the agenda this week, and are likely to repeat their mantra of staying cautious on rates.

Elsewhere, the Reserve Bank of New Zealand (RBNZ) holds its first policy meeting of the year on Wednesday. Markets see a chance it could hike rates given stubborn inflation, though the country likely slipped into recession in the fourth quarter.

In currency markets, the US dollar was a touch lower against a basket of currencies.

The yen was marginally lower against the dollar ahead of Japanese inflation data on Tuesday, forecast to slow to 1.8%. That could add to the case against policy tightening by the Bank of Japan, the holdout dove among developed market central banks.

Japan's Nikkei share average touched a fresh record high on Monday.

In commodity markets, gold was a fraction softer at \$2,032 an ounce, having rallied 1.4% last week.

Oil prices drifted lower, with both Brent and US crude down 0.5% to \$81.21 and \$76.12 per barrel respectively.