



R&R Weekly Column
By Brunello Rosa



“High(er) for Long(er)”: The Buzzwords of the Latest IMF Meetings

Last week, the annual meetings of the International Monetary Fund (IMF) and the World Bank [took place in Marrakech, Morocco](#). The mood of the meeting was sober to begin with, as the meetings took place just over a month after [the country was shaken by a devastating earthquake](#) less than 100 km away from Marrakech. Additionally, during the weekend before the meetings began, the news broke of [the attack by Hamas to Israel](#), which left thousands of people dead, and many wounded or captured as hostages.

It is within this very sombre environment that the IMF released its latest forecasts, which did not bring much better news. [The latest estimates of the IMF's World Economic Outlook](#) show a downward revision to the 2024 growth forecast, from 3.0% previously down to 2.9%, marking a further deceleration from the 3.0% that had been expected in 2023, and well below the 3.8% average of the last few years pre-pandemic. The projection would have been even worse if it wasn't for an upward revision to the US growth forecasts for 2023 and 2024 (by 0.3% to 2.1% and by 0.5% to 1.5%, respectively). The projections for other key countries and regions such as China and the Eurozone were revised lower, however. This is why the IMF says that the “*resilient global economy is limping along, with growing divergences.*”

Inflation is expected to remain well above the targets of central banks; for example at 4.1% and 2.8% in 2023 and 2024 in the US, at 5.6% and 3.3% respectively in the Eurozone, and 5.0% and 2.9% in other advanced economies. The IMF says that “*global inflation is forecast to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024, due to tighter monetary policy aided by lower international commodity prices. Core inflation is generally projected to decline more gradually, and inflation is not expected to return to target until 2025 in most cases.*” So, a sort of stagflationary scenario of weakening growth, coupled with persistent inflation, continues to characterize large segments of the global economy.

What can policy do to address this? The IMF says that “*monetary policy actions and frameworks are key at the current juncture to keep inflation expectations anchored [...] Chapter 2...emphasizes the complementary role of monetary policy frameworks, including communication strategies, in helping achieve disinflation at a lower cost to output through managing agents' inflation expectations.*” All this has been translated by the world's major central banks with the formula “higher for longer,” referring to policy rates being set at higher levels, for longer than the market expects.

But the question has emerged as to whether central banks should actually raise their policy rates further, given the ongoing slowdown in economic activity and the increased uncertainty due to the recent terrorist attacks in Israel, [which are leading the country to conduct a land campaign in the Gaza Strip](#). If central banks were to come to the conclusion that rates won't need to be raised further, then the formula should be changed to “high for longer” than the market expects. But since, when economists meet, all possibilities must be explored, two additional combinations can be considered. One would be “higher for long”, implying that central banks would be prepared to continue increasing rates for a prolonged period of time. The other would be “high for long,” in which case rates would be kept at current levels for a protracted period of time.

The policy meetings of the Federal Reserve, Bank of England and the European Central Bank that will take place in coming weeks will tell which of these four combinations will be chosen by each central bank.

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Looking Ahead

The Week Ahead: Headline And Core Inflation To Fall In EZ And UK; Retail Sales To Decelerate In US And Stall In the UK

In the US, in September, retail sales are likely to decelerate to 0.3% m-o-m (*p*: 0.6%).

In the EZ, in September, both headline and core inflation are expected to decrease to 4.3% y-o-y (*p*: 5.2%) and 4.5% y-o-y (*p*: 5.3%).

In the UK, in September, both headline and core inflation are seen falling to 6.5% y-o-y (*p*: 6.7%) and 6.0% y-o-y (*p*: 6.2%). In August, unemployment rate is expected to stay the same at 4.3%. In October, Gfk Consumer Confidence is seen shrinking to -20 (*p*: -21). In September, retail sales are likely to stall y-o-y (*p*: -1.4%) and shrink 0.4% m-o-m (*p*: 0.4%).

The Quarter Ahead: The Annual World Bank And IMF Meetings; Israel-Hamas War; New Zealand General Elections

The World Bank and IMF held their annual meetings in Marrakech on 9-15 October. The talks covered topics like the global economy facing challenges such as debt, inflation, and conflict. They also delved into the increasing wealth inequality between wealthy and less affluent nations and the struggles to address climate change. The latest IMF outlook predicts that the global economy will grow more slowly, going from 3.5% last year to 3% this year and 2.9% next year, a 0.1% point downgrade from a previous 2024 estimate. Global inflation is expected to edge down from 6.9% to a still-high 5.8% next year. IMF countries did not agree on a US-backed plan to increase funding without giving more shares to China and others, but they pledged a significant lending increase by year-end.

Israel-Hamas war rages, as Palestinian death toll increases in Gaza. Israel was getting ready on Saturday to send troops into the Gaza Strip, which is controlled by Hamas. They had informed the people living in this crowded area to head south towards a closed border with Egypt. The largest and most crowded area in Gaza is being told to evacuate.

2023 New Zealand general elections was held on 14 October. Chris Luxon is set to build a coalition with his center-right supporters as Chris Hipkins, the Labour Party's Prime Minister, admits the defeat.

Last Week's Review

Real Economy: US Headline Inflation Stood Unchanged, While Core Fell; Inflation Fell In Germany, And Was Unchanged In France

In the US, in September, headline inflation rate stood unchanged at 3.7% y-o-y (*c*: 3.6%), while core inflation eased off to 4.1% y-o-y (*c*: 4.1%; *p*: 4.3%). In October, Michigan Consumer Sentiment fell to 63.0 (*c*: 67.2; *p*: 68.1).

In the EZ, in August, IP shrank by -5.1% y-o-y (*c*: -3.5%; *p*: -2.2%).

Among the largest EZ economies, in September, the headline inflation rate: *i*) decreased to 4.5% y-o-y (*p*: 6.1%) in Germany as expected; and *ii*) stayed the same at 4.9% y-o-y in France as expected.

In the UK, in August, IP rose by 1.3% y-o-y (*c*: 1.7%; *p*: 1.0%).

Financial Markets: Stock Prices Increased Globally, While Fell in EZ; Bond Yields Fell; Dollar Index, Oil And Gold Prices Increased

Market Drivers: In the US, The main stock indicators had different outcomes because investors were thinking about inflation numbers and dovish comments from Fed officials. European stock prices drop due to concerns about a possible increase in conflict in the Middle East. European government bond yields went down due demand for safe-haven assets after the recent events in the Middle East.

Global Equities: increased w-o-w (MSCI ACWI, +1.9%, to 666.63). The US S&P 500 index edged up (+0.4% w-o-w, to 4,327.78). In the EZ, share prices were down (Eurostoxx 50, -0.2% w-o-w, to 4,145.45). In EMs, equity prices moved up (MSCI EMs, +2.1%, to 956.84) Volatility rose to 19.35 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields edged down (-18 bps to 4.62%). The 2-year US Treasury yields edged down (-2 bps to 5.06%). The German 10-year bund yield fell (-15 bps to 2.74%).

FX: w-o-w, the US Dollar Index edged up (DXY, +0.6%, to 106.67; EUR/USD -0.7%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +0.7% w-o-w, to 1,672.49).

Commodities: w-o-w, oil prices rose (Brent, 7.4% to 90.80 USD/b). Gold prices increased w-o-w (+5.5% to 1,945.90 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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