December 23 – January 24 Economic Update

Inflation Reaccelerates as Expected – No More Rate Hike

1. CPI Overview – Reacceleration in Dec, back to the downward trajectory in Q1

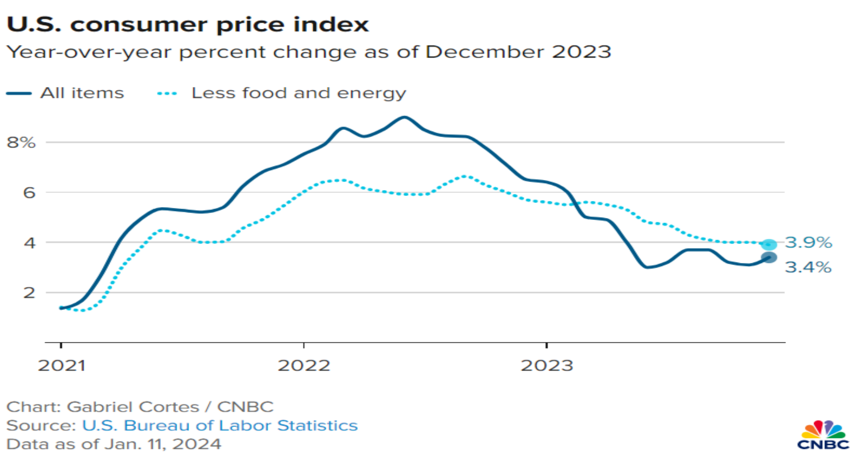
	Feb-24		For reference only	
	MoM CPI	**CPI YoY**	**High**	**Low**
Sensitivity Forecast	-0.10%	2.78%	2.99%	2.44%
	0.00%	2.89%	3.09%	2.55%
	0.10%	2.99%	3.19%	2.65%
	0.20%	3.09%	3.30%	2.75%
	0.30%	3.19%	3.40%	2.86%
	0.40%	3.30%	3.50%	2.96%
	0.50%	3.40%	3.60%	3.06%
Base-case Scenario	**0.20%**	**3.09%**		

The Bureau of Labour Statistics released the inflation data for December 2023 on 11th Jan 2024. Year-on-year inflation was at 3.4%. This was slightly higher than 3.1% from the Nov data, which was the current low in this cycle (3.0% - 3.1%).

Most of the key price indexes witnessed notable jumps over the December. Besides the crude oil as critical evidence for inflation control, Officials from the Federal Reserve are closely monitoring the prices of services to determine if inflation is steadily moving towards the central bank's desired target of 2%. Services, excluding energy costs, experienced a significant increase of 0.4% during the month.

The core Consumer Price Index (CPI) increased by 0.3% for the month and by 3.9% compared to the same time last year. However, it is worth noting that the year-over-year core reading is the lowest it has been since May 2021.

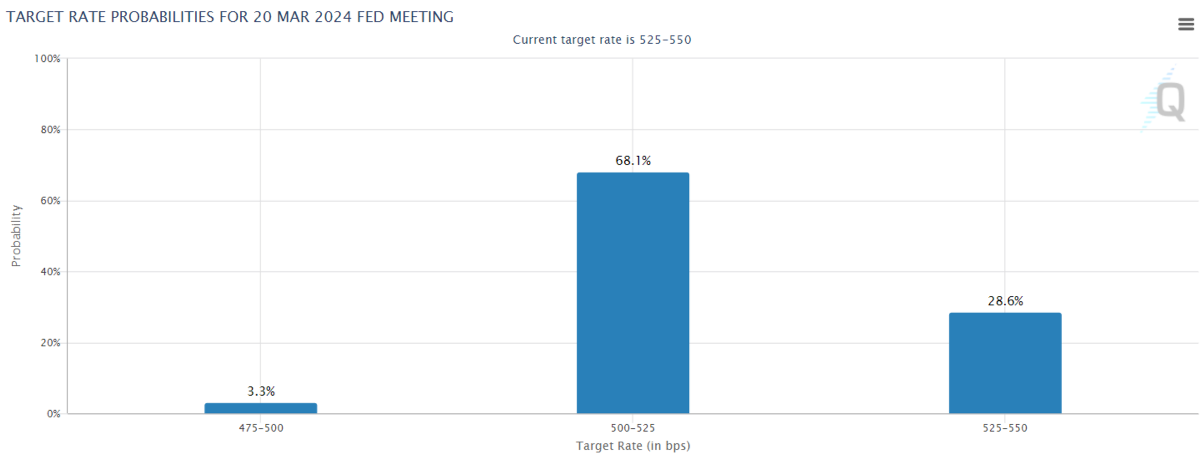
Despite the unfavourable rise in CPI, we expect the brighter scenario for inflation control over the next 2 months. Specifically, 3.1% and below 3% are two projections for Feb and March data.



A key factor in our projected decline was from the higher relative base for month-on-month CPI calculation. However, as the crude oil has hit the range of US$70, there will not be many catalysts from this factor.

Coming to the story of Fed Rate projection, the discussion of rate hike has been outdated in 2023. The market prices in the rate cut from March 2024, which is much sooner what we expect (68.1% with 25bps rate cut). Although we all expect inflation will ease in Feb and March 2024, 2.8%-3% in March data is still a high range for rate cut consideration, compared to the 2% target. 6 cuts are expected to take place in 2024 by the market, while the Officials believe there will 3 rate cuts.

The most likely outcome is for the Federal Funds Rate to remain at 5.25-5.5% after the Jan meeting, but we believe the Rate stays flat till June 2024.



2. **Outlook on Gold and Crude Oil – 2024 January performance should improve as conditions are more favourable for gold mining companies.**

Here is our commentary regarding the recent performance and outlook on gold and crude oil, and how this will affect gold mining companies:

- **Gold**. Technically, gold remains one of the strongest hedge to inflation over the past year. The 200-day moving average currently sits at US$1,930 an ounce. The good news is that gold has managed to trade above this level consistently in the past half a year.

  For the this quarter, we project that gold will likely trade above $2,000 level. We expect a strong bull run for gold mining companies to occur once gold price breaks $2,100. This will likely happen even before the Federal Reserve cuts rates earlier than expected or a market panic sparks a flight to safety to gold, and the rate-cut event will become the key catalyst to reaccelerate the bull run.

- **Crude Oil**. With oil trading now in the US$75-80 range, operating conditions are likely to improve for gold producers this quarter. We do not expect that oil will fall below US$70 at this stage, and at the current price level, December quarter performance report will be promising. However, we forecast a gradual rise in crude oil price, driven by OPEC+ production cuts leading to global stock draws of 810,000 barrels per day in January and February.

  The average annual crude oil prices in 2024 will remain near their 2023 average because we expect that global supply and demand for petroleum liquids will be relatively balanced over the next two years. This means that price will fluctuate in the range of US$70-90.

- **Gold-Oil Ratio.** We base our predictions on how gold producers will perform in the next two quarters using this ratio. Our research has proven this is an effective leading indicator. At such levels, we are expecting gold producers to operate more profitably and will report this in the 2023 December quarter. If this trend continues, it might even flow through to the 2024 March quarter.

3. ASX Gold Index – Our recommendation is to ACCUMULATE

- **ASX Gold Index**. Favourable moves in both the price of gold and crude oil are setting up gold producers to deliver better results in the coming quarters. This will help bring about a rally in this space, which has experienced a bearish trend since April.

  In December, the index reached 7,500 points, which clearly priced in the gold-oil ratio movement. The ASX Gold Index currently trades at around 6,800-7,100 points, which is around 15% higher from its recent lows. We still set the scene for the ASX Gold Index to consistently rise above the 7,200-point resistance level. The target for after December quarter performance report release will be 7,700-8,000 points, considering the gold-oil ratio sitting at 28.

To conclude, here are our key findings and recommendations:

- **February year-on-year headline CPI figures – 3.0%-3.1% (70% probability) and 3.2% (30% probability). We will witness the easing inflation over the next two months.**
- **No more rate hike, with the first rate cut expected in June.**
- **Gold likely to trade above $2,000 an ounce in the coming months. A break above US$2,100 could spark a major gold stock bull market.**
- **Crude oil trading at current levels of US$70-80 a barrel is favourable to gold producers. However, we do not expect the price to drop below US$70 at this stage.**
- **Accumulate ASX gold producers given current favourable conditions, which the market has not fully priced in.**