

Weekly — January 12, 2024

## Weekly Economic & Financial Commentary

### United States: Inflation's Downward Trend Remains in Place

- Inflation continues to cool. Although rising energy prices drove a hotter-than-expected change in the headline CPI, the core CPI was up 3.9% year-over-year in December, bringing the annual change below 4% for the first time in two and a half years. A soft PPI print in December provided additional evidence that price pressures are abating.
- Next week: Retail Sales (Wed.), Industrial Production (Wed.), Existing Home Sales (Fri.)

### International: China's December Activity Data Underwhelm

- Structural issues have taken a toll on China's economy, and this sluggish economic momentum was on display this week when December activity data were released. Meanwhile, many large developing economies are still far from deflation.
- Next week: Taiwan Election (Sun.), China GDP (Wed.), Japan Inflation (Fri.)

### Interest Rate Watch: A View from the Summit

- After an arduous ascent in interest rates over the past two years, a growing enthusiasm in financial markets is building in anticipation of the coming descent. Our soft-landing scenario is partly due to an expected policy environment that is less restrictive.

### Credit Market Insights: Where Credit's Due: Credit Card Spending Surges in November

- Household borrowing rose for the third straight month in November as consumers continued to reach for their credit cards. Total consumer credit outstanding rose \$23.8 billion and surpassed \$5 trillion for the first time. The main driver of this increase was revolving consumer credit, which accounted for \$19.1 billion of the overall increase.

### Topic of the Week: Taiwan Heads to the Polls

- The 2024 global election cycle is certainly not starting off quietly. As voters across Taiwan head to the polls this weekend, the future of some of the world's most tense geopolitical relationships may hang in the balance. The world will be watching the Taiwan election outcome for signs of what 2024 and beyond may bring for relations between Taiwan, China and the United States.

Submit a question to our ["Ask Our Economists"](https://www.wellsfargo.com/askoureconomists) podcast at [askoureconomists@wellsfargo.com](mailto:askoureconomists@wellsfargo.com).

Wells Fargo U.S. Economic Forecast												
	Actual				Forecast				Actual	Forecast		
	2023				2024				2022	2023	2024	2025
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Real Gross Domestic Product <sup>1</sup>	2.2	2.1	4.9	1.7	1.4	1.1	0.5	1.0	1.9	2.4	1.7	1.7
Personal Consumption	3.8	0.8	3.1	2.2	1.0	0.5	0.5	1.1	2.5	2.2	1.3	1.4
Consumer Price Index <sup>2</sup>	5.8	4.1	3.6	3.2	2.9	2.8	2.4	2.3	8.0	4.1	2.6	2.3
"Core" Consumer Price Index <sup>2</sup>	5.6	5.2	4.4	4.0	3.6	3.2	3.0	2.7	6.1	4.8	3.1	2.4
Quarter-End Interest Rates <sup>3</sup>												
Federal Funds Target Rate <sup>4</sup>	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.25	2.02	5.23	4.81	3.63
Conventional Mortgage Rate	6.54	6.71	7.20	6.82	6.80	6.60	6.35	6.05	5.38	6.80	6.45	5.76
10 Year Note	3.48	3.81	4.59	3.88	4.00	3.85	3.70	3.60	2.95	3.96	3.79	3.51

Forecast as of: January 12, 2024

<sup>1</sup> Compound Annual Growth Rate Quarter-over-Quarter

<sup>2</sup> Year-over-Year Percentage Change

<sup>3</sup> Quarterly Data - Period End; Annual Data - Annual Averages

<sup>4</sup> Upper Bound of the Federal Funds Target Range

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, Federal Reserve Board and Wells Fargo Economics

Please see our full [U.S. Economic Forecast](#).

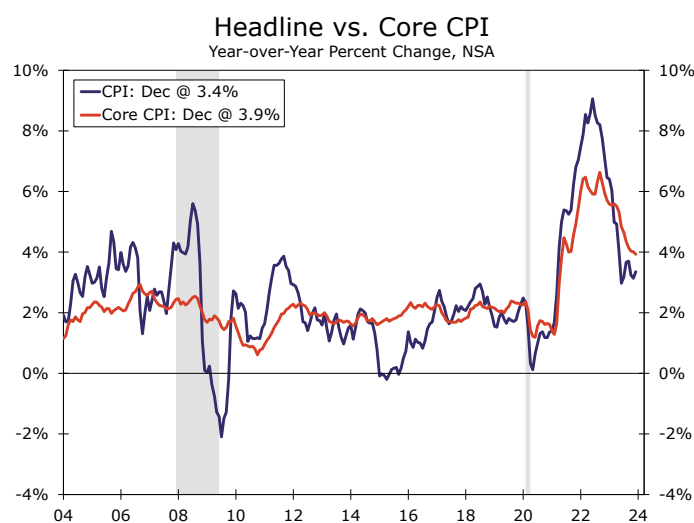
## U.S. Review

### Inflation's Downward Trend Remains in Place

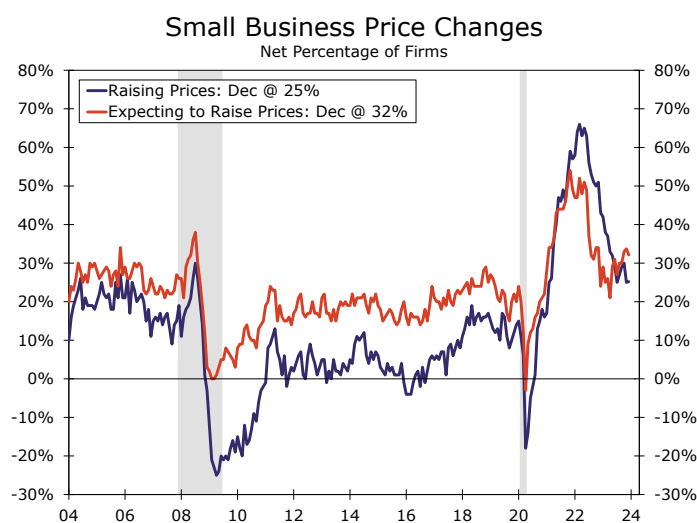
After rising rapidly in the years following the pandemic, inflation moderated considerably throughout 2023. So far, the cooldown has occurred without a material deterioration in economic growth, which has raised hopes that a soft landing is not only possible, but increasingly probable. As we wrote in our most recent January [forecast update](#), although growth still looks set to be sluggish in 2024, a mild contraction in real GDP is no longer our base case forecast. We still believe cuts to the federal funds target rate are coming this year. Yet a sturdy pace of economic growth will require less urgency on the part of the FOMC, and we now look for the descent to be more gradual. For more insight into our latest thinking on the path of monetary policy, please see the [Interest Rate Watch](#).

With the timing and magnitude of anticipated rate cuts top of mind for market participants, this week all eyes were on the inflation data covering the final month of 2023. The headline Consumer Price Index (CPI) arrived a bit hotter than expected and rose 0.3% in December, a 3.4% yearly increase. The stronger uptick in the headline CPI can be mostly attributable to a pickup in energy prices during the month. Stripping out the more volatile energy and food prices, the core CPI was in line with consensus, but also increased 0.3% during the month.

Digging into the details, core goods prices were flat in December. Core goods inflation has more or less normalized to its pre-COVID trend alongside less intense demand and better-functioning supply chains. Core services prices, which increased 0.4% in December, have yet to subside as meaningfully and continue to run above the average pace seen in 2019. The stickiness observed in services prices appears mostly due to the gradual moderation in shelter prices. That noted, airfares and motor vehicle prices both rose notably in December, which was a reminder that there are likely to be bumps in the road on the way back to 2% inflation. Through the monthly volatility, however, inflation's downward trend remains in place. December's rise in the core CPI amounted to a 3.9% year-over-year gain, which brings the annual change below 4% for the first time in two and a half years.



Source: U.S Department of Labor and Wells Fargo Economics



Source: NFIB and Wells Fargo Economics

The Producer Price Index (PPI) also showed inflation subsiding. The headline PPI declined 0.1% during December, the third straight monthly drop. The core PPI also came in on the soft side and was essentially unchanged, besting expectations for a slight increase. On balance, U.S. producer prices have eased significantly over the past year. The core PPI was up 1.8% on a year-to-year basis in December, down from 2.0% in November. Small businesses also appear to be anticipating cooler inflation down the road. According to the NFIB small business optimism index, which registered a solid improvement in December, there was no change in the prevalence of realized price hikes during the period and the net percent of small business owners planning to raise prices fell back during the month. Inflation still ranks as a top problem, but cost increases generally appear to becoming less of an issue for small firms.

The downward trend in inflation has occurred without a significant weakening in the labor market. Initial jobless claims fell to 202K during the week ending on January 6. Jobless claims began to drift slightly higher in the summer of last year, but since have dropped back to a low level not seen in roughly 40 years. Although layoffs remain subdued, there are signs that new opportunities are becoming more difficult to find for displaced workers. Continuing claims ticked down in the last week of December, but have trended higher in recent months. The relatively elevated level of continuing claims is one example of a crack forming in the still-solid labor market, a topic which we explored in a [recent report](#).

A sizable increase in household borrowing is another potential strain that is emerging. Total consumer credit rose for the third straight month in November. The main driver of the increase was revolving consumer credit, a category primarily composed of credit cards. All told, November marked the largest dollar increase in revolving consumer credit since March 2022, and the third largest on record in both dollar and percentage terms. We note that the ratio of all household debt to disposable income is still at historically low levels compared to the prior two decades—to read more please see our [Credit Market Insights](#) section below. That said, the small cracks that have come into view in the labor market and household sector are a reminder that, even though a recession is no longer our base case forecast, the risks of a recession remain highly elevated.

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## U.S. Outlook

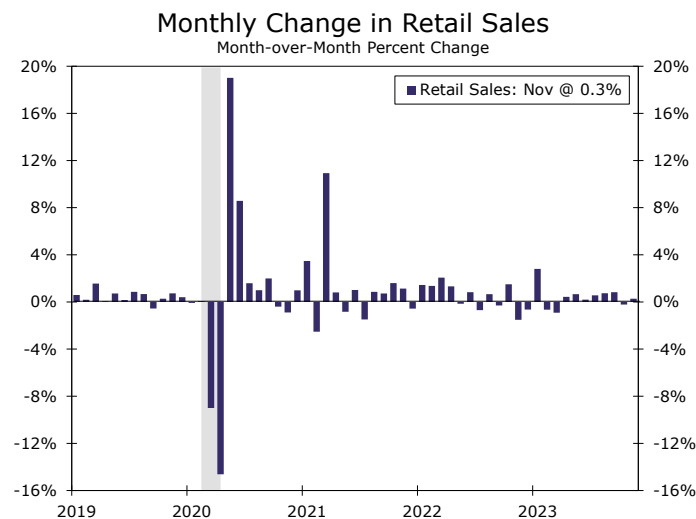
Weekly Domestic Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
17-Jan	Retail Sales (MoM)	Dec	0.4%	0.4%	0.3%
17-Jan	Retail Sales Less Autos (MoM)	Dec	0.2%	0.2%	0.2%
17-Jan	Industrial Production (MoM)	Dec	-0.1%	-0.1%	0.2%
19-Jan	Existing Home Sales	Dec	3.83M	3.83M	3.82M

Forecast as of January 12, 2024

Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Retail Sales • Wednesday

The consumer's staying power remains intact. Retail sales surprised to the upside in November, rising 0.3% over the month. The control group measure, which aligns with the personal consumption expenditures component of the GDP accounts, expanded 0.9% after we adjust for price fluctuation. The outturn signaled that consumer spending will post another solid increase in the final quarter of 2023, and December looks to be in line with that notion. Real-time data on credit card usage from the Bureau of Economic Analysis show spending in total retail and food services strengthened in December relative to the prior month, and a recent [report](#) from Adobe Analytics estimates that online holiday shopping increased 4.9% over the year. In view of the strength, we forecast retail sales rose 0.4% in December. Excluding autos, we expect a more modest 0.2% uptick. Should our point estimate come to fruition, our estimate of [holiday sales](#) will come in over 4% on a year-over-year basis, which is a respectable but muted gain relative to the past few years of exceptional spending growth.



Source: U.S. Department of Commerce and Wells Fargo Economics

**Industrial Production • Wednesday**

Unlike households, the factory sector has seen activity falter over the past year. Industrial production was down 0.4% on a year-over-year basis in November. Elevated interest rates have crimped demand and production.

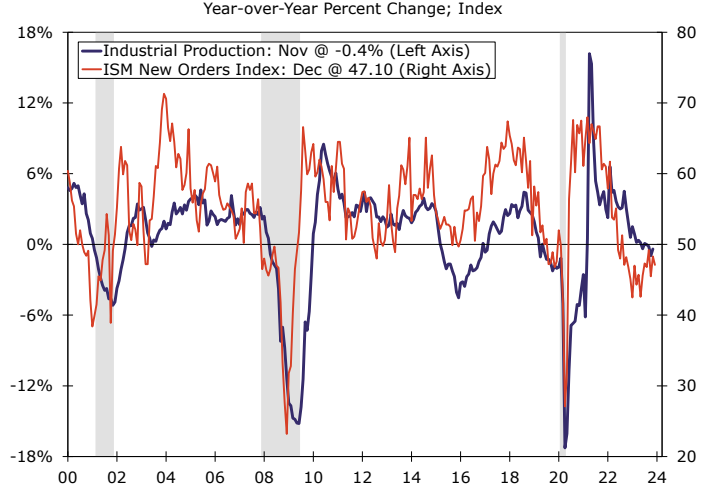
The ISM Manufacturing Index, which has been in contraction territory for 14 consecutive months, showed new orders contracting in December. The ISM data are corroborated with regional Federal Reserve Bank manufacturing surveys that show new orders softening across the New York, Philadelphia and Richmond Fed districts in the final month of 2023. Manufacturers' order backlogs have also thinned when accounting for inflation, which, taken together with weak new demand, suggests production ended the year on a soft note. We forecast industrial production fell 0.1% in December.

**Existing Home Sales • Friday**

Real estate is another sector of the economy that has acutely felt the effects of elevated interest rates. Existing home sales were running at a 3.82 million-unit annual pace in November, down 7% over the year. Since the existing home sales data reflect closed contracts, pending home sales—which track open contracts—are widely considered a solid leading indicator with a lead time of 1-2 months. Pending home sales were flat in November and fell 1% in October. The average 30-year fixed mortgage rate has descended around one percentage point since mid-October, suggesting there is some upside to sales in the coming months. We suspect existing home sales were essentially flat in December, clocking a 3.83 million-unit annual pace.

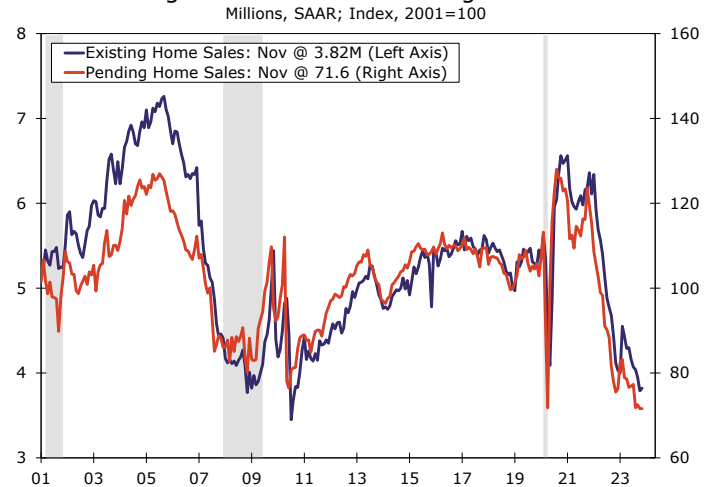
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**Industrial Production vs. ISM Manuf. New Orders**



Source: Institute for Supply Management, Federal Reserve Board and Wells Fargo Economics

**Existing Home Sales vs. Pending Home Sales**

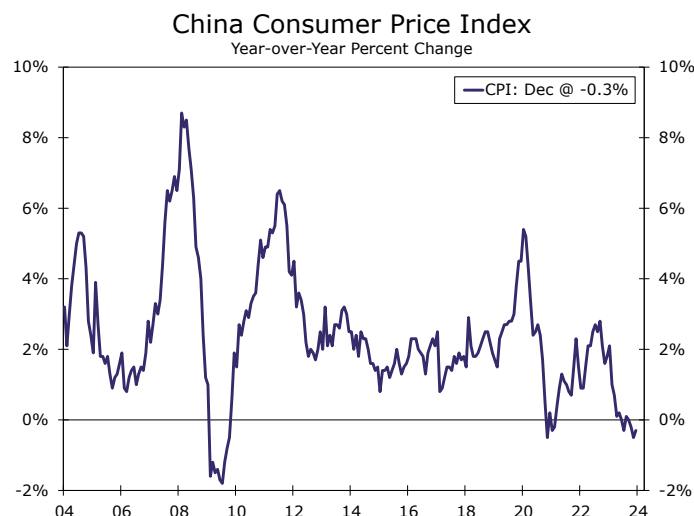


Source: National Association of Realtors and Wells Fargo Economics

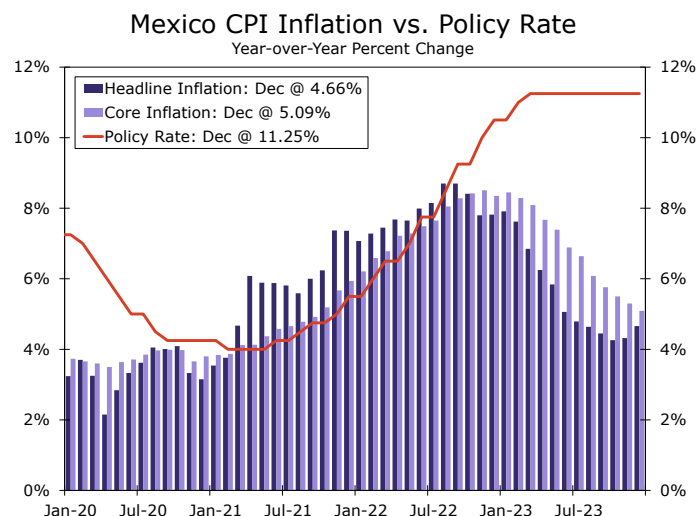
## International Review

### China's December Activity Data Underwhelm

For most of 2023, China's economy underwhelmed. Structural issues have taken a toll on China's economy, and with no easy fixes in sight, we expect China's economic deceleration to pick up pace in 2024. This sluggish economic momentum was on display this week when December activity data were released. The latest batch of data offers another uninspiring take on China's growth prospects for this year. While the December trade balance improved, aggregate financing and new loans missed expectations. M2 money supply also came in below expectations, while December price data also revealed that China is still experiencing deflation. Deflation is one of the larger concerns percolating across China's economy. Households already have a tendency to save rather than spend, and as prices trend lower, Chinese consumers may turn more cautious and opt for a higher savings rate. China's economy is not necessarily driven by consumption at this point, but local authorities have stated a preference to shift China's economic model more toward domestic consumption rather than exports. This shift has already run into roadblocks, and should deflationary conditions persist for an extended period of time, changing China's economic model will be an even bigger obstacle to overcome. In our view, China's challenges should be on display for most of 2024. We also have a particular eye on how geopolitical developments evolve, given that China is a stakeholder in most current geopolitical events as well as events on the horizon.



Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Mixed Inflation Data and Upside Risks from Oil

Not too many other emerging market economies are experiencing deflation at this time. Just this week, multiple large developing economies printed CPI data that showed inflation is softening, but their respective economies are still far from deflation. In Chile, the CPI fell more than consensus expectations, with year-over-year price growth slowing to 3.9%. Rapid disinflation in December should prompt further Chilean Central Bank (BCCh) rate cuts, even making a case for BCCh policymakers to pick up the pace of easing at their next meeting. Brazilian inflation also slowed relative to November data, and while price growth did not soften as much as consensus economists forecast, the CPI ended in the Brazilian Central Bank's (BCB) target range for 2023. Contained inflationary pressures in Brazil should also allow BCB policymakers the opportunity to continue easing monetary policy, although we believe the BCB will still operate gradually and will not pick up the pace of interest rate cuts. Overall, Mexico's inflation has come down rather quickly; however, December data revealed a bit of a hiccup in the disinflation process. In December, Mexico's headline CPI rose to 4.66% from 4.32% in November. In our view, risks are still tilted toward higher inflation, which should keep Mexico's central bank on the sidelines and prevent easing for the time being. In that sense, we believe Mexico's easing cycle will not begin until March of this year. Even when Banxico policymakers do start cutting interest rates, we believe they will ease gradually and begin with a 25 bps rate cut. Our view for March easing is slightly at odds with financial market pricing, which could represent upside for the Mexican peso should an easing cycle be pushed out.

Upside risks to inflation have risen this week as oil prices have spiked. Geopolitical developments in the Middle East and Red Sea are the cause of higher oil prices as oil supply has been disrupted due to hostilities in the region. Many emerging and developed nations are sensitive to rising oil prices, especially in the context of inflation. While predicting the evolution of short-term geopolitical developments is a challenge, we can say that further oil price spikes can disrupt disinflation processes around the world. Central banks that are already easing monetary policy or considering a pivot to rate cuts, may be forced to consider higher energy prices and how those could filter through to real economies.

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## International Outlook

### Weekly International Indicator Forecasts

Date	Indicator	Period	Consensus	Wells Fargo	Prior
17-Jan	China GDP (YoY)	Q4	5.2%	--	4.9%
19-Jan	Japan Natl CPI (YoY)	Dec	2.6%	2.6%	2.8%

Forecast as of January 12, 2024

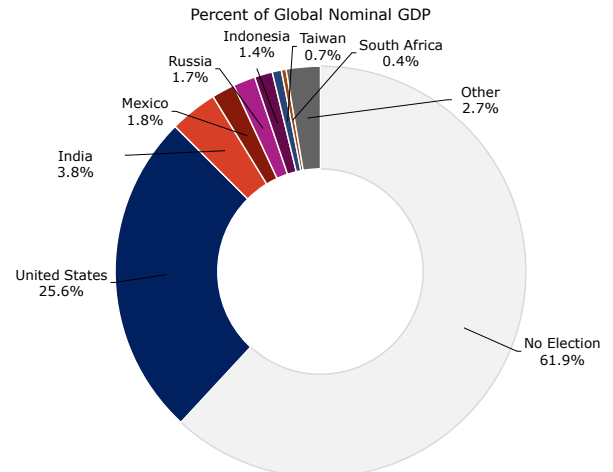
Source: Bloomberg Finance L.P. and Wells Fargo Economics

### Taiwan Presidential Election • Sunday

2024 is a year packed with elections, with many having geopolitical undertones associated with them. Elections are being held around the world, with close to 40% of the world's nominal GDP voting to elect new leadership this year. The first election, and arguably the one with the greatest potential geopolitical ramifications, is Taiwan's presidential election. At stake is Taiwan's relationship with China, where tensions have been elevated due to Taiwan's pursuit of independence and stronger relationship with the United States in recent years.

Candidates from all sides of the political spectrum are running this year. Earlier this week, we published a report focused on the candidates and their policy platforms, as well as geopolitical implications of each potential outcome. Please refer to the [Topic of the Week](#) section for an in-depth overview of the election, which again is the first of many consequential elections set to take place this year. Obviously, the United States will head to the polls in November, where geopolitical developments should play a role in voting intentions. Mexico, Russia, South Africa, India and Indonesia will all head to the polls as well, and while geopolitics may play a role in Russia's "election" and Mexico's next president, we expect domestic issues to be the focal point of other major democratic votes in 2024.

### Nations With General Elections In 2024



Source: International Monetary Fund and Wells Fargo Economics

### China GDP • Wednesday

China's economy stumbled to end 2023 after struggling to maintain positive momentum over the entire course of last year. Following an initial burst of activity after “zero-COVID” policies were lifted, China faced subdued consumer demand and wrestled with a still-deteriorating real estate sector. China's domestic demand problem was compounded by periods of deflation, an issue still present in early 2024. In our view, China's economy closed 2023 on the relative back foot and experienced subpar growth in Q4.

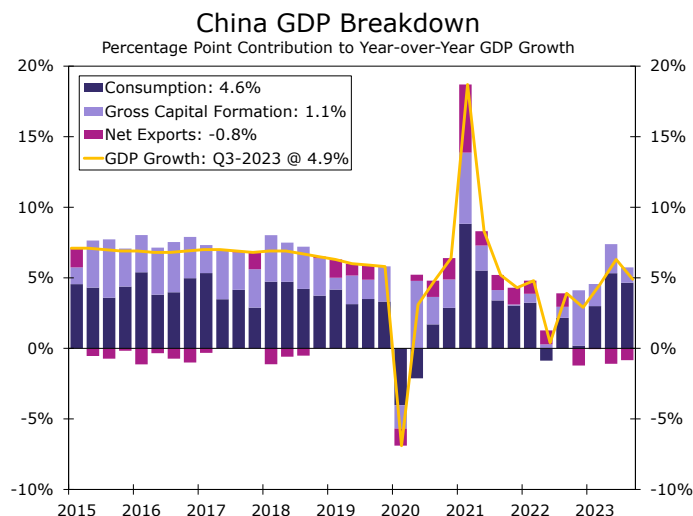
To that point, we believe China's economy grew just under 5% in the last quarter of 2023. All the reasons previously mentioned weighed on growth, while persistent geopolitical tensions and an unclear direction for local policy exacerbated China's economic issues. Following subpar growth in Q4, we believe China's growth prospects will dwindle in 2024. We forecast 4.5% growth this year, which is well below China's long-run historical growth rate. With a working population in decline and other hurdles to growth not easily solvable, China has likely experienced peak growth rates and should contend with slower expansion for years to come.

### Japan Inflation • Friday

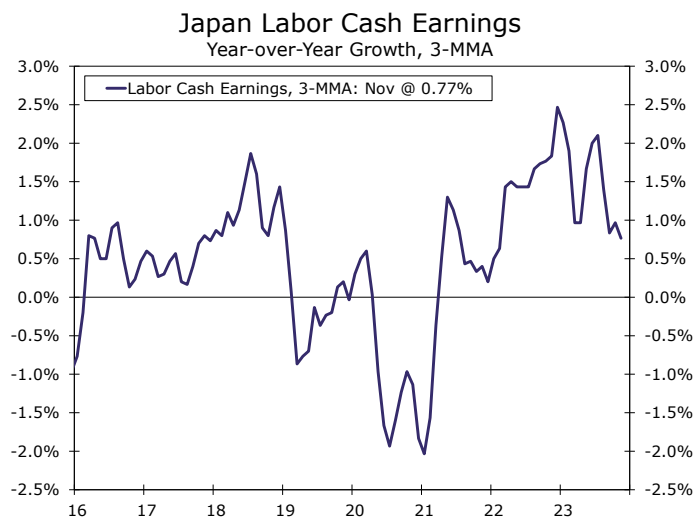
Is Japan's rising inflation sustainable? In our view, it's not fully sustainable, but Japan is likely to experience inflation pressures that it hasn't seen for some time. The rise in global inflation has pushed local prices higher; however, labor earnings have also been on the rise in Japan. While wages have dropped recently, labor earnings are still in positive territory on a year-over-year basis. Wage negotiations are also set to occur in the next few months, which could play a role in the sustainability of inflation. For now, the Bank of Japan (BoJ) is questioning whether current price pressures are here to stay.

The BoJ has kept monetary policy accommodative for an extended period of time; however, we believe the BoJ is heading toward tighter policy. The local economy has performed well enough to handle a modest rate hike, while elevated inflation has created space for BoJ officials to begin normalizing interest rates. In addition, the functioning of the Japanese Government Bond market is less than ideal, giving the BoJ an opportunity to make adjustments. We believe the policy pivot will come in April, with BoJ officials delivering a 10 bps rate hike to bring policy interest rates in Japan out of negative territory. We also believe an end to Yield Curve Control is imminent come April.

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Source: Bloomberg Finance L.P. and Wells Fargo Economics



Source: Bloomberg Finance L.P. and Wells Fargo Economics

## Interest Rate Watch

### Hitting the Slopes

Downhill snow skiing takes only a day or two to learn but a lifetime to master. Along the journey, universal color and shape signposts tell skiers the difficulty of each trail: Green circles are easy, blue squares are intermediate difficulty, black diamonds are for the highly advanced skiers and double diamonds are best left to the experts. The ride down the hill tends to be shorter and a lot more fun than the ride up. The same today might be said about interest rates and Fed policy. From the current summit of interest rates, expectations of monetary easing by market participants have led to a relaxation in financial conditions, which are exerting less restraint on the economy than they were a just few months ago. Corporate bond spreads have tightened and the stock market has rallied.

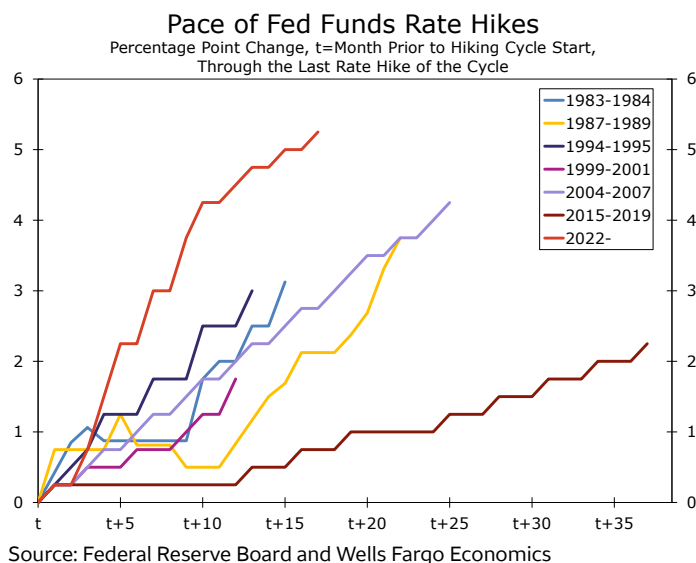
While it is not an absolute rule, it tends to be the case that the higher on the mountain you ascend, the more difficult the trail options are to get down. It is a rare thing to find a green circle run available to get down from the summit.

We find ourselves at quite a summit today. As the nearby [chart](#) shows, the Fed has raised rates faster over a shorter period of time in this tightening cycle than it has in any other over the past 40 years. Since last summer, we have been saying that the last rate hike was in, and there is today a growing consensus that the next rate move from the Fed will be to guide rates lower. On the way up, policymakers cited the need to be data dependent and the importance of forward guidance. Both will be equally critical on the way down. Inflation is cooling, but a possible flare-up cannot be ruled out.

The dot plot from the December FOMC meeting showed that 17 of the 19 Committee members think rates will be lower at the end of this year than they were at year-end 2023. We also look for the Federal Reserve to ease policy this year, but we think the 75 bps worth of rate cuts indicated by the median Fed forecast this year is perhaps too conservative. Instead, we expect policymakers to cut rates by 125 bps by the end of 2024, commencing with a 25 bps reduction at the May 1 meeting. We look for a total of 225 bps of rate cuts by the end of 2025, which would put the target range for the fed funds rate at 3.00%-3.25% in Q4-2025. Rate cuts at the short end of the yield curve should offer a lifeline to households and businesses with exposure to floating rate debt.

For skiing, the ride down the hill does indeed tend to be shorter and a lot more fun than the ride up. This was even more true in the days of rope-tows and T-bars, but it still holds even in today's era of high-speed chairlifts. If you are old enough to remember rope-tows and the extra tough mittens required to get a good grip without tearing fancy ski gloves, you might remember mortgage rates above 15% in the early 1980s. That was an even higher rate environment than today, perhaps a double diamond. Just the same, policymakers today will need to manage this descent with care.

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## Credit Market Insights

### Where Credit's Due: Credit Card Spending Surges in November

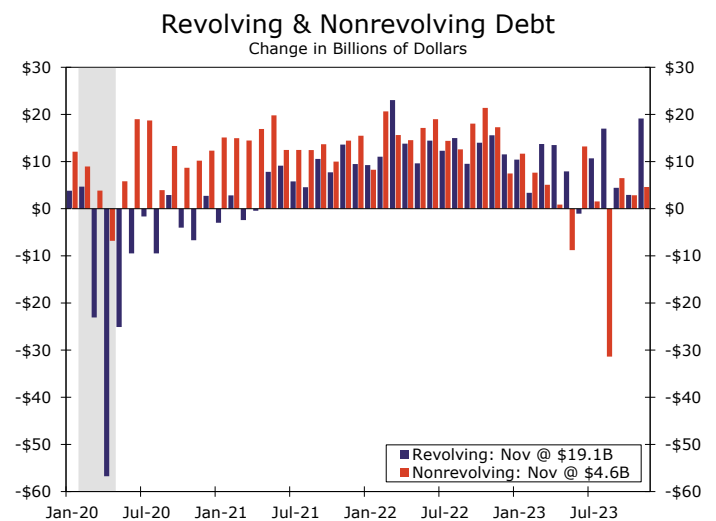
Household borrowing rose for the third straight month in November as consumers continued to reach for their credit cards. Total consumer credit outstanding rose \$23.8 billion and surpassed \$5 trillion for the first time. The main driver of this increase was revolving consumer credit, a category primarily composed of credit cards, which accounted for \$19.1 billion of the overall increase ([chart](#)). This is the category of consumer credit that households often tap when financing everything from household essentials to holiday purchases. Nonrevolving debt also contributed to the headline increase in November, though it was a more muted \$4.6 billion gain and in line with the pace of increases in the two months prior.

As discussed in a [recent note](#), November marked the largest dollar increase in revolving consumer credit since March 2022, and the third largest ever. On a month-over-month basis, the increase amounted to a 1.5% seasonally-adjusted gain, which means that in both dollar and percentage terms the monthly jump is among the largest on record. After averaging 1.2% in 2022, the monthly rate slowed to just 0.7% in the first nine months of 2023. That makes the 1.5% gain impressive compared to recent momentum, not to mention it also marks the fourth-highest monthly rise in the past 20 years.

Separately released estimates of monthly credit card spending from the BEA also showed consumers swiping their plastic more in November. These data showed consumers spent more at electronic and appliance stores, health and personal care stores, clothing stores and at building material stores. For December, the credit card estimates showed a slight decline in spending. However, these estimates can be subject to large month-to-month revisions and thus should be taken with a grain of salt in regard to their implications for next week's retail sales report and next month's release of December consumer credit data.

In any case, the increase in consumer credit is particularly striking, as higher rates have yet to deter consumer spending. Despite interest rates on credit cards sitting north of 21% through Q4-2023, the highest annual percentage rate (APR) in over 30 years, revolving consumer credit has continued to march higher. Rates for other purchases that can comprise large monthly payments for consumers, such as auto purchases, are also much higher. These mounting vulnerabilities are already evident: Data from the New York Fed show transitions into delinquency for credit cards have risen on trend for the past two years. With interest rates on credit cards moving even higher in Q4-2023, delinquencies likely further ticked up, particularly for credit cards and auto loans. These two categories have seen the most troubling rise in delinquencies from the pandemic-related lows of late 2021. Going forward, the outlook for consumer credit will depend on the ever-increasing cost of this credit for consumers as well as the pace of consumer spending throughout 2024.

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Source: Federal Reserve Board and Wells Fargo Economics

## Topic of the Week

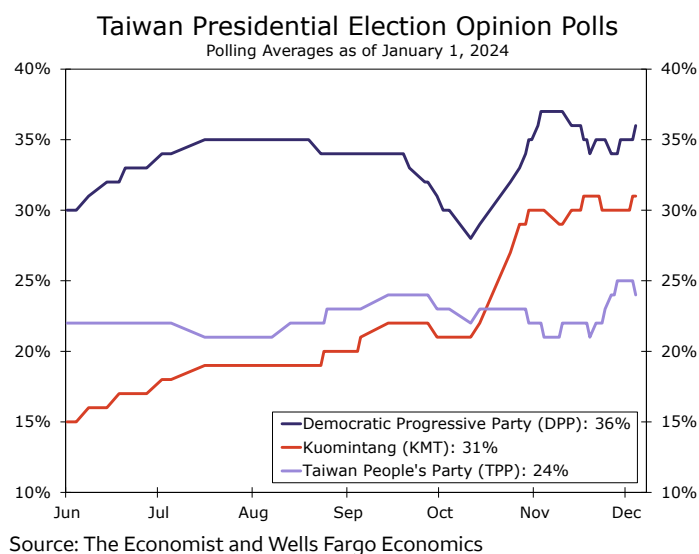
### Taiwan Heads to the Polls

As voters across Taiwan head to the polls this weekend, the future of some of the world's most tense geopolitical relationships may hang in the balance. Relations between China and Taiwan have become increasingly fraught in recent years, and the U.S.'s ties to both complicate the situation. The election outcome can provide us with a window into the potential path for geopolitical and economic relations, with possibilities ranging from a mellowing of frictions to a buildup of strain that could run the risk of a confrontation between major global powers. The global election cycle for 2024 is certainly not starting off quietly.

Three candidates are vying for the presidency, each offering their own approach to relations with China. The current front-runner—according to the latest polls published before the mandatory polling blackout period—is Lai Ching-te, candidate of the Democratic Progressive Party (DPP) and current vice president. The DPP has won four of the previous seven elections and has been in power since 2016, with current President Tsai Ing-wen about to leave office after serving the maximum two terms. Lai has promised policy continuity, which includes reducing economic and political ties with China and strengthening ties with countries such as the U.S. and Japan. Tsai never met face-to-face with Chinese President Xi Jinping, as the two leaders maintained fundamental differences in their views of Taiwan's relationship to China. The former maintains that Taiwan does not need to declare independence, as it is already an independent nation; the latter asserts that Taiwan is part of China's territory. This halt in communication would likely continue under Lai's leadership, as he shares Tsai's view on Taiwan's diplomatic status. Overall, a Lai presidency would likely involve efforts to enhance U.S.-Taiwan relations, but not necessarily a blatantly confrontational approach to China. Chinese authorities have taken a strong stance against the possibility of a Lai victory. In an election that Beijing has framed as a choice between "peace and war," it seems that a Lai presidency would risk a worsening in China-Taiwan and China-U.S. tensions. As we published in a [recent analysis](#), we view a Lai win as the most likely outcome, albeit not a certainty, and assign a 55% likelihood to a DPP victory.

Closely trailing Lai is candidate Hou Yu-ih, member of the Kuomintang (KMT) and mayor of New Taipei City. Hou offers an alternative to Lai's stance on China, one that is more centered around reopening dialogue with Beijing. He wants to firm up Taiwan's military through an increase in defense spending, which he believes will help Taiwan be better prepared for discussions with China. His overarching goal is for de-escalation and greater stability in the Taiwan-China relationship. And while the KMT supports eventual unification with China, he has stated that he "will not address the issue of unification" during his hypothetical presidential term, likely in an appeal to voters who are wary of China. A KMT victory would be the preferred outcome for China, as eventual unification would become more likely, even if not in the immediate future. Military incursions into the Air Defense Identification Zone and Taiwan Strait would likely be scaled back and possibly paused, and China-Taiwan relations could mend. Having a China-friendly government in power in Taiwan could also improve U.S.-China relations by avoiding a scenario where China-Taiwan tensions escalate to a point that could necessitate U.S. involvement. We view a Hou victory as the second-most likely outcome, at a roughly 45% likelihood.

Last, and perhaps least in terms of likeliness to win, is Taiwan People's Party (TPP) candidate Ko Wen-je. He has offered himself as an alternative to the two other candidates. His stance on China is supposedly different from the DPP and the KMT, but it generally leans more toward KMT, with Ko desiring dialogue between Taiwan and China. He has also placed focus on the domestic elements of his policy platform, such as his aims to tackle issues such as a lack of housing affordability, inflation and low wages. His supporters tend to be young and well-educated. We suspect there is a very low possibility of a Ko victory, roughly a 5% chance. If a TPP victory does materialize, however, we do not think that there will be any meaningful changes to geopolitical relations of major stakeholders. Come this weekend, the world will be watching the Taiwan election outcome for signs of what 2024 and beyond may bring for relations between Taiwan, China and the U.S. ([Return to Summary](#))



## Market Data • Mid-Day Friday

U.S. Interest Rates			
	Friday 1/12/2024	1 Week Ago	1 Year Ago
SOFR	5.31	5.32	4.30
Effective Fed Funds Rate	5.33	5.33	4.33
3-Month T-Bill	5.34	5.37	4.58
1-Year Treasury	4.44	4.55	4.61
2-Year Treasury	4.16	4.38	4.14
5-Year Treasury	3.84	4.01	3.54
10-Year Treasury	3.95	4.05	3.44
30-Year Treasury	4.19	4.20	3.58
Bond Buyer Index	3.31	3.31	3.45

Foreign Exchange Rates			
	Friday 1/12/2024	1 Week Ago	1 Year Ago
Euro (\$/€)	1.097	1.094	1.085
British Pound (\$/£)	1.276	1.272	1.221
British Pound (£/€)	0.860	0.860	0.889
Japanese Yen (¥/\$)	144.770	144.630	129.250
Canadian Dollar (C\$/\\$)	1.338	1.336	1.337
Swiss Franc (CHF/\\$)	0.851	0.850	0.928
Australian Dollar (US\$/A\\$)	0.670	0.671	0.697
Mexican Peso (MXN/\\$)	16.838	16.879	18.840
Chinese Yuan (CNY/\\$)	7.168	7.147	6.730
Indian Rupee (INR/\\$)	82.920	83.163	81.553
Brazilian Real (BRL/\\$)	4.854	4.876	5.101
U.S. Dollar Index	102.286	102.412	102.246

Foreign Interest Rates			
	Friday 1/12/2024	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.77	3.66	2.08
3-Month U.K. Govt Bill Yield	5.22	5.23	3.54
3-Month Canadian Govt Bill Yield	5.02	5.03	4.37
3-Month Japanese Govt Bill Yield	-0.01	-0.06	-0.12
2-Year German Note Yield	2.52	2.57	2.56
2-Year U.K. Note Yield	4.18	4.24	3.44
2-Year Canadian Note Yield	3.78	4.05	3.80
2-Year Japanese Note Yield	0.01	0.04	0.05
10-Year German Bond Yield	2.20	2.16	2.16
10-Year U.K. Bond Yield	3.80	3.79	3.33
10-Year Canadian Bond Yield	3.24	3.26	2.90
10-Year Japanese Bond Yield	0.61	0.61	0.51

Commodity Prices			
	Friday 1/12/2024	1 Week Ago	1 Year Ago
WTI Crude (\\$/Barrel)	73.62	73.81	78.39
Brent Crude (\\$/Barrel)	79.11	78.76	84.03
Gold (\\$/Ounce)	2053.28	2045.45	1897.09
Hot-Rolled Steel (\\$/S.Ton)	1073.00	1090.00	728.00
Copper (¢/Pound)	376.95	380.60	419.65
Soybeans (\\$/Bushel)	12.37	12.50	14.71
Natural Gas (\\$/MMBTU)	3.24	2.89	3.70
Nickel (\\$/Metric Ton)	16,179	15,835	26,836
CRB Spot Inds.	537.59	541.08	575.94

Source: Bloomberg Finance L.P. and Wells Fargo Economics

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