WELLS FARGO

Weekly — August 18, 2023

Weekly Economic & Financial Commentary

United States: **Economic Activity Continues to Fly High**

- Data on the retail and manufacturing sectors surprised to the upside, while residential construction continued to gather momentum. The FOMC meeting minutes acknowledged the economy's resilience and continued to stress the Committee's resolve to bring inflation back down toward its 2% goal.
- Next week: Existing Home Sales (Tue), New Home Sales (Wed), Durable Goods (Thu)

International: **Persistent and Resilient: A Few More BoE Hikes Still to Come**

- Amid still persistent inflation, the latest U.K. GDP report confirmed a respectable performance from the British economy during the first half of the year. This week, we also received more insight into just how weak China's economy is; activity data, such as retail sales and industrial production, were underwhelming.
- Next week: United Kingdom PMIs (Wed), Eurozone PMIs (Wed), Central Bank of Turkey (Thu)

Interest Rate Watch: **A Higher Nominal and Real 10-Year Treasury Yield**

- The yield on the 10-year U.S. Treasury climbed to a 15-year high this week. With market expectations of inflation little changed, the move has sparked a tightening in financial conditions not entirely unwelcome by the Fed.

Credit Market Insights: **Mortgage Rates Reach Highest Level in over 20 Years**

- The housing sector has acutely felt the effect of the Federal Reserve's policy tightening. This week, Freddie Mac's 30-year fixed-rate mortgage rose to 7.09%, its highest level in over 20 years.

Topic of the Week: **England vs. Spain: The Lionesses' Share of Inflation**

- This coming Sunday, England and Spain will face off in the Women's World Cup Final in Sydney, Australia. Outside of football, however, the two countries are facing different challenges in battling soaring inflation.

Submit a question to our "Ask Our Economists" podcast at askoureconomists@wellsfargo.com.

Wells Fargo U.S. Economic Forecast

	Actual						Forecast		Actual		Forecast	
	2022				2023							
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2021	2022	2023	2024
Real Gross Domestic Product [1]	-1.6	-0.6	3.2	2.6	2.0	2.4	2.0	0.6	5.9	2.1	2.1	0.4
Personal Consumption	1.3	2.0	2.3	1.0	4.2	1.6	1.8	1.2	8.3	2.7	2.2	0.3
Consumer Price Index [2]	8.0	8.6	8.3	7.1	5.8	4.1	3.4	3.0	4.7	8.0	4.0	2.4
"Core" Consumer Price Index [2]	6.3	6.0	6.3	6.0	5.6	5.2	4.3	3.8	3.6	6.1	4.7	3.0
Quarter-End Interest Rates [3]												
Federal Funds Target Rate[4]	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	0.25	2.02	5.31	4.13
Conventional Mortgage Rate	4.27	5.58	6.01	6.36	6.54	6.71	6.80	6.55	3.03	5.38	6.65	5.88
10 Year Note	2.32	2.98	3.83	3.88	3.48	3.81	3.85	3.70	1.45	2.95	3.71	3.21

Forecast as of: August 11, 2023 [1] Compound Annual Growth Rate Quarter-over-Quarter [2] Year-over-Year Percentage Change
[3] Quarterly Data - Period End; Annual Data - Annual Averages [4] 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

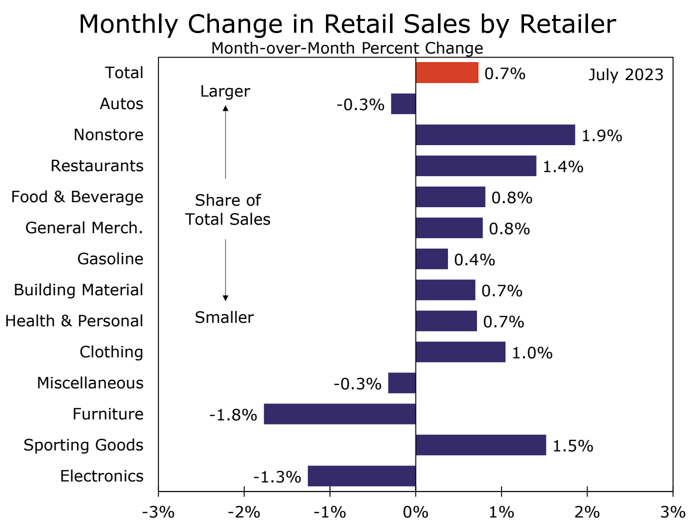
Please see our full U.S. Economic Forecast.

U.S. Review

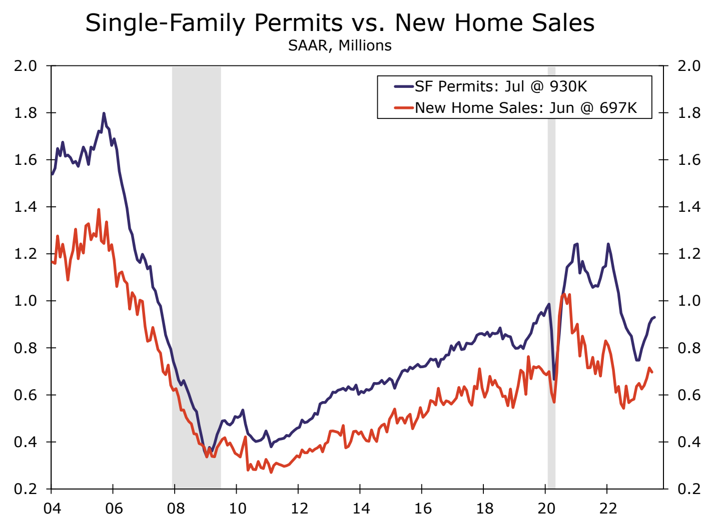
Economic Activity Continues to Fly High

Last week, consumer and producer price indices showed inflation pressures continuing to gradually ease in July. Inflation's descent has occurred alongside a streak of stronger-than-expected economic data, and this week was no exception. Retail sales surprised to the upside in July, rising 0.7% over the month. Growth was fairly broad-based, with nine of the 13 retailer categories reporting increased sales (chart). Control group sales, which feeds into the Bureau of Economic Analysis' calculation of real personal consumption expenditures, rose an even stronger 1.0%. The outturn presents some upside risk to our 2.0% (annualized) call for real GDP in the third quarter; the Atlanta Fed's GDPNow model estimate for Q3 jumped nearly a full percentage point to 5.0% on the sales data.

The renewed strength in retail sales, if sustained, could lend some support to the factory sector in the coming months. Industrial production rose an above-consensus 1.0% in July, bolstered by a surge in utilities output and motor vehicle & parts manufacturing. While headline production came in better than expected, growth in manufacturing activity has been choppy this year—the overall level of manufacturing output stands just 0.2% above where it started 2023. Manufacturers remain broadly cautious of not overproducing and careful not to take on too much inventory in this tight credit environment.



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



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

Borrowing costs continue to rise. Freddie Mac's average 30-year fixed mortgage rate crested a 21-year high this week (see Credit Market Insights), driven in large part by the recent ascent in longer-dated Treasury yields (see Interest Rate Watch). Higher mortgage rates crimped the housing market for the better part of 2022. Still, home buying demand has found firmer footing this year, especially in the new home market where builders are offering price cuts, rate buy-downs and other incentives to move on their inventory. The trend improvement in new home sales has put some wind in the sails of residential construction (chart). Single-family building permits rose for the sixth straight month in July and are running at a 930,000-unit annual pace. Permits typically lead housing starts by one to two months, and the recent acceleration suggests that single-family home construction will continue to recover this year.

In short, activity data show the U.S. economy expanding at a solid rate. The underlying resilience has led many economists, us included, to upgrade their outlooks. The minutes from the July FOMC meeting rang with a similar tune, as the Committee noted "the economy had been showing considerable momentum." At the same time, the FOMC stressed that "inflation remained unacceptably high" and appeared resolute in holding its benchmark rate higher for longer to ensure price growth is sustainably brought down toward its 2% objective. The participants also cited upside risks to inflation that, if realized, would necessitate further policy tightening. The hawkish stance underpins our expectation that restrictive monetary policy, even in the face of strong activity, will tip the U.S. economy into a mild recession in early 2024. (Return to Summary)

U.S. Outlook

Weekly Domestic Indicator Forecasts					
Date	Indicator	Period	Consensus	Wells Fargo	Prior
22-Aug	Existing Home Sales	Jul	4.15M	4.17M	4.16M
23-Aug	New Home Sales	Jul	707K	704K	697K
24-Aug	Durable Goods Orders (MoM)	Jul	-4.0%	-4.4%	4.6%
24-Aug	Durables Ex Transportation (MoM)	Jul	0.2%	0.2%	0.5%

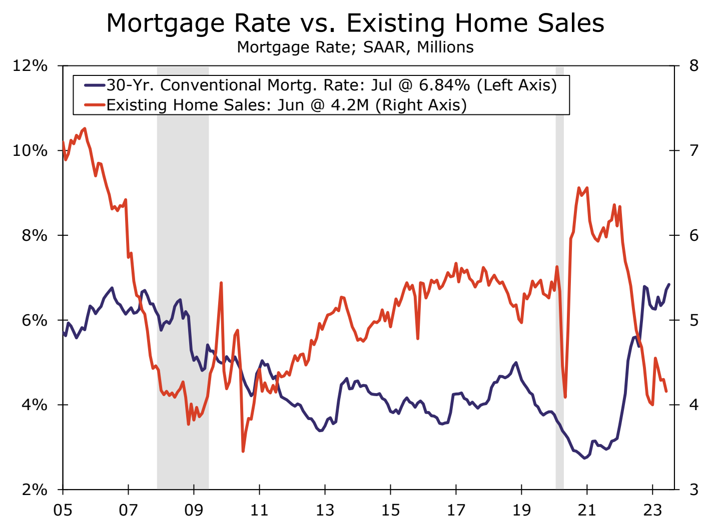
Forecast as of August 18, 2023

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

Existing Home Sales • Tuesday

Home buying took a step back in June. Resales fell 3.3% during the month as affordability conditions continued to deteriorate for prospective buyers. The challenge facing home buyers is two-pronged as both home prices and mortgage rates have risen on-trend as of late. A shortage of homes on the market is placing upward pressure on prices, which have rebounded from their recent lows early this year. Rising mortgage rates are helping keep supply scarce, as the vast majority of homeowners hold a rate well below prevailing mortgage rates and are simply less willing to trade up into a higher rate. Rising prices and financing costs both feed into increasingly burdensome mortgage payments for buyers. The average monthly mortgage payment demanded 28.5% of median household income in June, the highest proportion since 1985.

We expect worsening affordability conditions weighed on home buying activity in July. In total, we look for existing home sales to inch up slightly to a 4.17M pace.

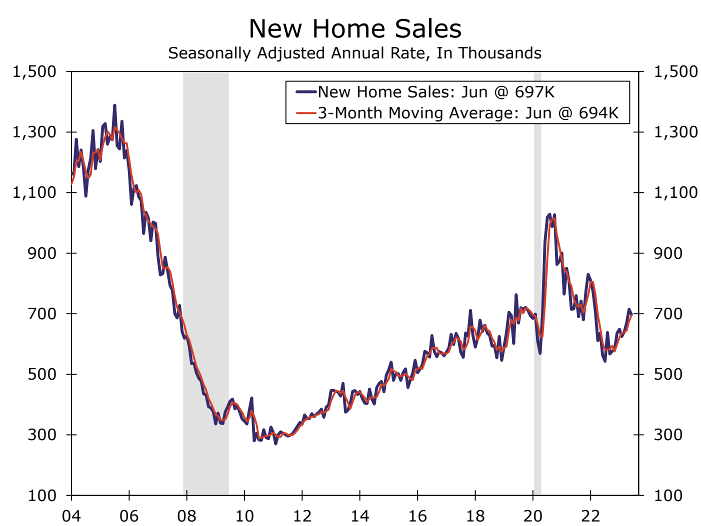


Source: NAR, Freddie Mac and Wells Fargo Economics

New Home Sales • Wednesday

Despite some payback in June, new home sales rose in four of the first six months of 2023 and are now up 23.8% year-over-year. The rebound in new home sales has been supported by tight supply and rising prices in the resale market, conditions which have redirected potential homebuyers toward new construction. Builders have rushed to meet demand, evident by a trend improvement in single-family permits and starts. That said, the rise in mortgage rates threatens to pour water on the resurgence in single-family activity. In August, the NAHB builder sentiment survey fell for the first time in seven months in response to the recent leg-up in mortgage rates as both the present and future sales outlook diminished.

Builders are increasingly offering incentives to bridge the widening affordability gap for buyers. The use of price cuts, rate buydowns and other incentives offer several avenues for builders to attract buyers and firm up demand in the near term. Overall, we expect new home sales rose just 1.0% to a 704K pace in July as the rise in financing costs over the month took their toll on homebuyers.



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

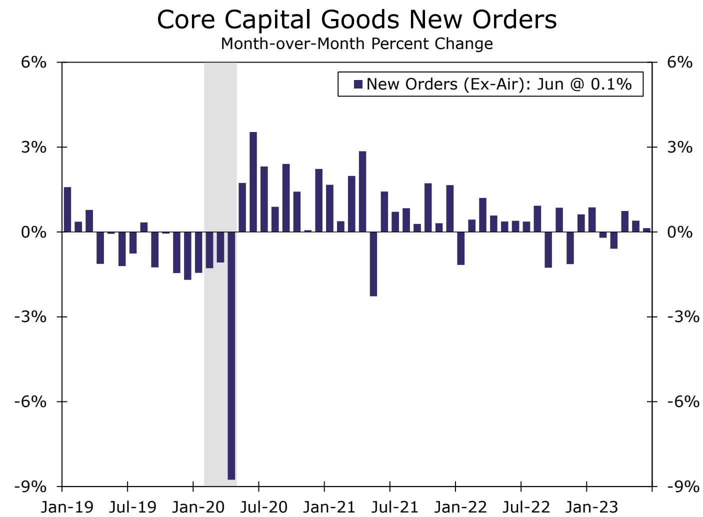
Durable Goods • Thursday

Durable goods surprised to the upside in June, jumping 4.6% to mark the fourth consecutive monthly improvement. Transportation was the primary driver, with a surge in non-defense aircraft and parts orders contributing heavily to the headline. Stripped down to just core capital goods (excluding defense and aircraft), however, orders rose a more modest 0.1% over the month (chart).

The slower growth on this front is more in line with the morose mood in the manufacturing sector. The ISM manufacturing index notched its ninth straight month in contraction territory in July. The new orders subcomponent still signaled contraction over the month but has risen two months in a row. That said, we expect tighter credit conditions to continue to weigh on capex.

There was likely some give back in the headline number from June's surge in non-defense aircraft orders. As such, we expect headline orders pulled back 4.4% in July. Excluding transportation, we estimate a 0.2% bump over the month.

(Return to Summary)



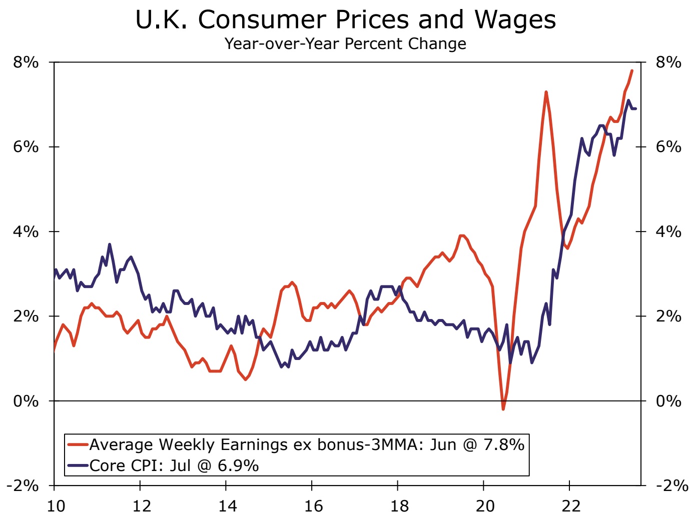
Source: U.S. Department of Commerce and Wells Fargo Economics

International Review

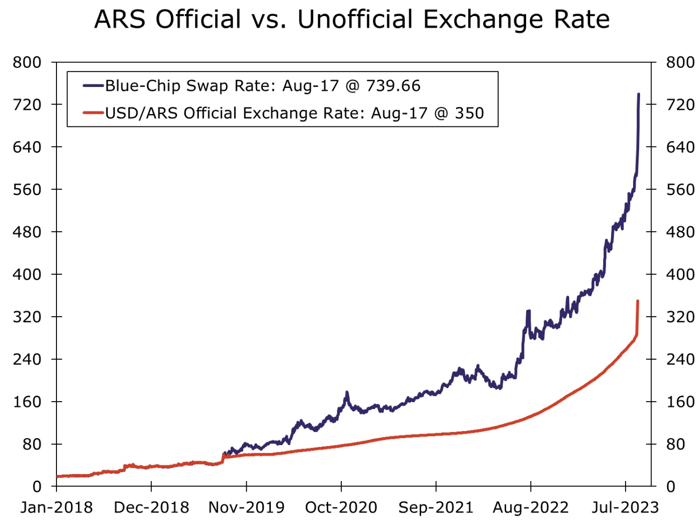
Persistent and Resilient: A Few More BoE Hikes Still to Come

When raising its policy interest rate by 25 bps to 5.25% in early August, the Bank of England said it will "continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labor market conditions and the behavior of wage growth and services price inflation. If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required." The Bank of England incorporated some of those elevated wages and services inflation trends in the updated economic projections in its August inflation report. Those forecasts were conditioned on a market-implied path for policy interest rates that peaked at just over 6% and saw CPI inflation return to the 2% target by Q2-2025. Those projections also indicated a much higher near-term path for services inflation than previously, reaching 7.3% in July 2023 and receding only gradually to 6.9% by December 2023. Even so, the latest wage and price readings from the U.K. were likely disconcerting for policymakers. For the three months to June, average weekly earnings excluding bonuses rose 7.8% year-over-year, a perceptible acceleration from the 7.5% gain seen in May. Meanwhile, although the July U.K. CPI slowed sharply to 6.8% year-over-year, the core CPI held steady at 6.9% and services firmed further (and more than the central bank forecast) to 7.4%. Overall, these wage and price readings could be evidence of the more "persistent pressures" that Bank of England policymakers have indicated they are worried about.

In addition to still persistent inflation, the latest GDP report released last week confirmed a respectable performance from the British economy during the first half of the year. Q2 GDP rose 0.2% quarter-over-quarter, beating the consensus forecast and building on the modest 0.1% gain in Q1. The underlying details of the report were also encouraging and showed some resilience in domestic demand, as consumer spending rose 0.7% and business fixed investment gained 3.4%. To be sure, recent economic figures have been distorted by strike activity in the health sector and the holiday in early May to observe the coronation of King Charles III. That additional holiday, in particular, likely depressed May economic activity and boosted June activity. Thus, while these distortions probably had limited impact on the overall Q2 GDP figures, it does suggest that the momentum reflected in the June monthly GDP data was somewhat deceiving. For June, GDP rose 0.5% month-over-month, as industrial output jumped 1.8% and services activity rose a more moderate 0.2%. In our view, the underlying momentum of the U.K. economy is not as strong as the June GDP report would suggest. We do, however, believe the growth and inflation trends should be enough to prompt another 25 bps BoE rate hike in September, to 5.50%. And given the still concerning wage and price trends, we believe a final 25 bps rate hike in November to 5.75% is also more likely than not. Beyond November, we believe economic activity will slow sufficiently, sentiment soften, and wage and inflation trends finally start to show more convincing improvement, for the Bank of England to pause, bringing its monetary tightening cycle to an end. Moreover, should wage and inflation trends show unexpected improvement, we think the risks are tilted toward less tightening rather than more tightening. In other words, while we view a peak policy rate of 5.75% as the most likely outcome, around that base case we view the probability of rates peaking at 5.50% as more likely than a peak of 6.00%.



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



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

China and Argentina Shake Emerging Markets

Toward the end of last week, we laid out our scenarios for Argentina's primary elections (PASO). Heading into the PASO this past weekend, we believed voters would reject traditional Peronism, given poor and deteriorating local economic conditions, and favor a return to market- and business-friendly policies. While voters did indeed reject the Peronist coalition, support was directed toward the unorthodox policy platform of Javier Milei rather than the investor-preferred Juntos por el Cambio (JxC) coalition. Milei's outperformance has already prompted volatility in local financial markets including an 18% peso devaluation on Monday, local equity market selloff as well as a downturn in government debt markets and renewed risks of a sovereign debt default. In contrast to the mixed performance of political opinion polls, PASO elections tend to be very predictive of voter intentions for official elections. Given Milei's outperformance this past weekend, we are revising our base case scenario for Argentina and now expect a Milei victory in official elections later this year. In our Milei victory scenario, we expect local financial markets to remain under pressure and for another sizable peso devaluation to materialize in the immediate aftermath despite Milei's policy platform being unlikely to be fully implemented. As typical, the economic and financial market outlook for Argentina is not particularly bright at the moment due to elevated political risk and an uncertain policy outlook. Broader Latin American currencies came under pressure for most of this week, and while contagion from Argentina was probably limited, the second-largest economy in Latin America under pressure again certainty does not bode well for regional stability.

On the other hand, developments in China are more influential for broader financial markets, but particularly local EM markets. This week, we received more insight into just how weak China's economy is as activity data such as retail sales and industrial production were underwhelming. Combined with additional trouble at large property developers, China's economic outlook is deteriorating rapidly. In response, the People's Bank of China unexpectedly lowered its one-year medium-term lending facility interest rate. Easier monetary policy prompted a sharp selloff of China's currency; depreciation policymakers have attempted to contain using their policy levers. We have noted downside risks to our China GDP forecasts in multiple publications. After the latest batch of activity data received this week, downside risks appear to be materializing. In the near future, we will be performing a full review of our economic and FX forecasts, a process that will likely result in a downward revision to our China growth forecast.

(Return to Summary)

International Outlook

Weekly International Indicator Forecasts					
Date	**Indicator**	**Period**	**Consensus**	**Wells Fargo**	**Prior**
23-Aug	U.K. Manufacturing PMI	Aug	45.0	--	45.3
23-Aug	U.K. Services PMI	Aug	50.8	--	51.5
23-Aug	Eurozone Manufacturing PMI	Aug	42.7	--	42.7
23-Aug	Eurozone Services PMI	Aug	50.5	--	50.9
24-Aug	Central Bank of Turkey Rate Decision	24-Aug	20.00%	--	17.50%

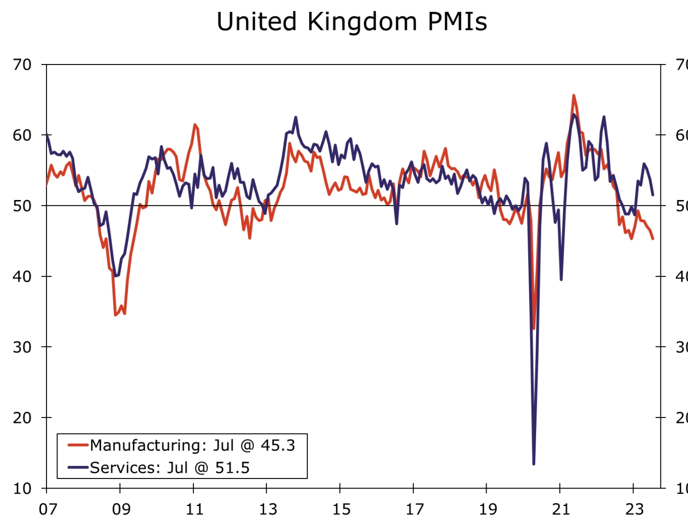
Forecast as of August 18, 2023

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

United Kingdom PMIs • Wednesday

We commented on the state of the U.K. economy above, and to reiterate, we are not overly optimistic on the prospects for U.K. growth. While latest monthly GDP data have held up, we believe these data are distorted and mask underlying weaknesses in the U.K. economy. Next week, we will get additional evidence of how sluggish activity in the European country is when August PMI data are released. Similar to many countries around the world, the manufacturing sector is likely in recession currently. Services, however, have held up slightly better as inflation has cooled and commodity prices move lower.

August PMIs are likely to show the manufacturing sector slipped further into recession and the services sector softened. These trends again are consistent with how the rest of the world's economies have performed; however, we expect U.K. economic trends to underperform going forward. The U.K. still has one of the more acute inflation problems in the developed world, which has weighed on consumer spending and overall activity more than the rest of the G10. Due to still elevated inflation, the Bank of England likely has more work to do tightening monetary policy. This combination should result in an overall U.K. recession that should essentially see the U.K. economy experience no growth in 2023.

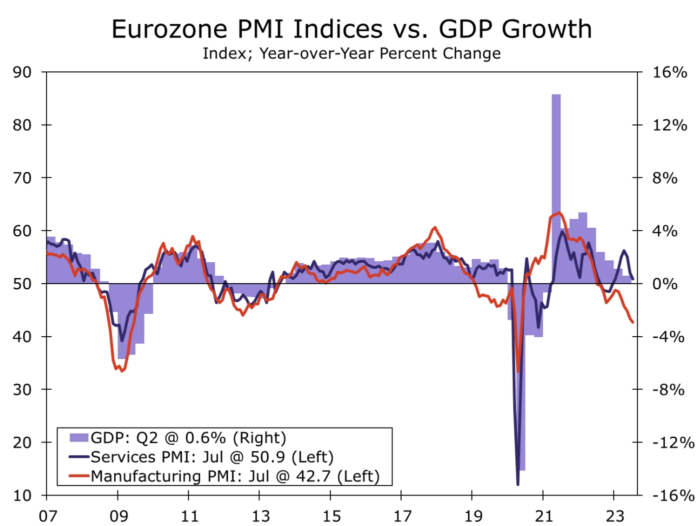


Source: Datastream and Wells Fargo Economics

Eurozone PMIs • Wednesday

Eurozone economic activity has been sluggish over the prior few months. In fact, the Eurozone slipped into recession in Q1, and while growth resumed in Q2, sluggish activity has been a common theme recently. Monthly PMI indices tell this story quite well. Both the manufacturing and services PMIs have slipped from recent highs, with the manufacturing PMI currently in contraction territory. While the services PMI remains in expansion territory for the time being, consumer activity has slowed notably over the past few months.

August PMIs are likely to show a further softening in both the manufacturing and services sectors. The manufacturing PMI is likely to fall further into contraction territory, while the services PMI is expected to creep closer to falling into contraction territory as well. The combination of slower manufacturing and more cautious consumer activity should weigh on overall Eurozone growth going forward. Recently, we revised our Eurozone GDP forecast lower and only expect the Eurozone economy to grow 0.6% in 2023. Despite slower growth, the ECB is still likely to deliver more rate cuts, which can also contribute to softer activity in the future.



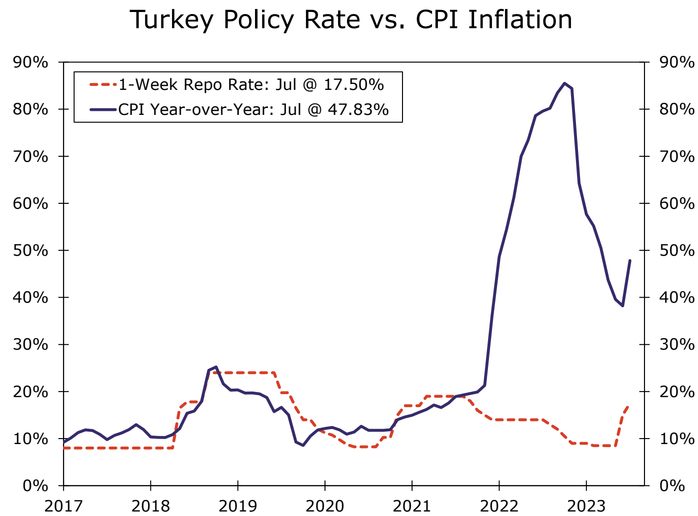
Source: Datastream and Wells Fargo Economics

Central Bank of Turkey • Thursday

Turkey's economy has struggled with elevated inflation and poor economic policy for many years now. Recently, President Erdogan has appointed new technocratic policymakers to head Turkey's central bank and economic policymaking in an attempt to correct imbalances. While new cabinet members have moved monetary policy in a more orthodox direction, the shift has been gradual and Turkey's economy has probably fallen deeper into distress. Lira depreciation has continued, while currency weakness is set to flow through to inflation and push the CPI sharply higher going forward.

Next week, these same policy members will assess monetary policy and most likely lift interest rates again. To date, the tightening delivered by Erdogan's new cabinet has been underwhelming and financial markets have punished Turkish policymakers by placing depreciation pressure on the lira. A modest rate hike is likely next week, but should policymakers underdeliver relative to market expectations, we would expect further lira downside to materialize. Currency weakness and elevated inflation may prompt President Erdogan to double-down on his unorthodox view that higher interest rates lead to higher inflation. In this scenario, Erdogan could look to replace market-friendly policymakers, which could exacerbate Turkey's crisis conditions.

(Return to Summary)



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

Interest Rate Watch

The 10-Year Treasury Hits a Fresh Cycle High, Real Yield Climbs

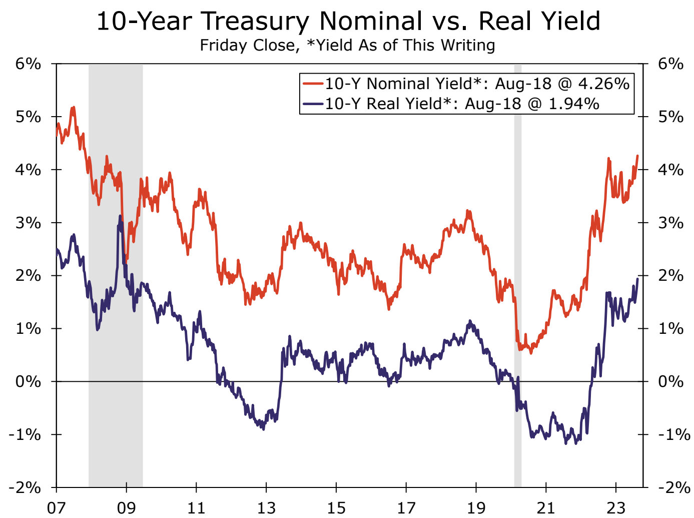
Markets were abuzz this week due to the the yield on the 10-year U.S. Treasury briefly trading above 4.30% and closing on Thursday at 4.27%—the hightest rate since late 2007. The ascent of longer-term benchmark yields (this week the yield on the 30-year Treasury also edged out its earlier cycle high reached in October) seems due to a confluence of factors. Recession fears sparked by the FOMC's aggressive tightening campaign have been tamped down over the past month or two by inflation receding back toward 2% and economic activity continuing to hold up better than expected. Indeed, the Bloomberg U.S. Economic Surprise Index remains close to a two-year high. Part of that growing optimism around the United States side-stepping a recession stems from the Fed hiking cycle likely having ended (markets price the chance of another 25 bps hike at less than 50%). Yet, the flip side of the economy's resilience is that the fed funds rate is likely to stay higher for longer as it takes more time for inflation to return all the way back to target on a sustained basis, pushing up the average interest rate over the life of even longer-dated Treasuries.

The notion that the Fed's key policy rate is likely to remain higher for longer was reinforced with the release of the minutes from the FOMC's July meeting earlier this week. The Committee maintained a hawkish bias, as "most participants continued to see significant upside risk to inflation, which could require further tightening of monetary policy." The minutes also revealed that some Fed officials would be open to letting quantitative tightening (QT) continue even as the Committee reduced the fed funds target range, raising the prospect that any upward pressure on longer-term yields stemming from balance sheet normalization could persist somewhat longer.

Fiscal policy has also contributed to the climb in the 10-year yield in recent weeks, with the sharp deterioration in the federal deficit this year leading to larger-than-expected supply of new issuance. Furthermore, the Treasury market is a global market. The Bank of Japan's more flexible take on Yield Curve Control policy, in which it has capped 10-year Japanese Government Bond (JGB) yields a bit higher, has eroded some demand for Treasuries and further helped support yields.

Given the use of the 10-year Treasury yield as a financial benchmark, the climb in yields has had ripple effects across other borrowing rates. Yields on corporate debt climbed this week, and more notably, the 30-year mortgage rate according to Freddie Mac jumped back above 7% to land at a 21-year high.

One factor that has not seemed to be pushing nominal yields higher is market expectations of inflation. The 10-year breakeven rate of inflation, or the difference between yields on nominal and inflation-protected Treasuries of the same duration, has fallen since the start of August. With the outlook for inflation little change in recent weeks, the *real* yield on the 10-year climbedto 1.95% this week, its highest level since 2009 and a far cry from its level a year ago (chart). The result of higher real yields has been tightening financial conditions—not a wholly unwelcome development for the FOMC, given its ongoing efforts to rein in inflation, and one that suggests growth is still likely to slow in the months ahead.



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

(Return to Summary)

Credit Market Insights

Mortgage Rates Reach Highest Level in over 20 Years

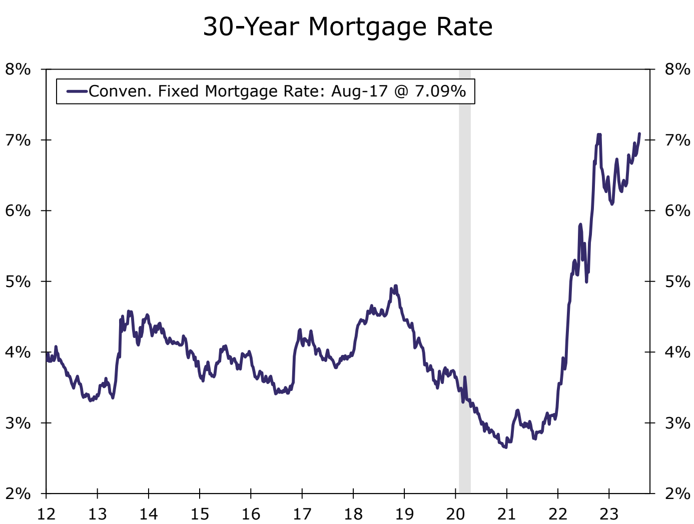
The housing sector has acutely felt the effect of the Federal Reserve's policy tightening. This week, Freddie Mac's 30-year fixed-rate mortgage rose to 7.09%, its highest level in over 20 years. Other mortgage rate surveys posted similar records. The Mortgage Bankers Association (MBA) data show the 30-year fixed mortgage rate rose to 7.16% last week, matching its highest level since 2001. Just last year, Freddie Mac's 30-year fixed-rate mortgage stood at 5.13%. With the 10-year Treasury yield hitting record highs, as discussed in Interest Rate Watch, and the Fed weighing the possibility of further rate hikes amid a still-strong economy, elevated mortgage rates are likely to keep the housing market under pressure in the coming months.

High mortgage rates present serious challenges to the housing sector by restraining home buying demand and discouraging potential sellers with lower mortgage rates from listing their homes. Recent data have reflected these challenges. The National Association of Home Builders (NAHB) Housing Market Index fell for the first time in seven months in August, led lower by thinning prospective buyer traffic. In addition, NAHB gauges for present and future sales both declined, while the MBA's overall measure of mortgage applications ticked down. Such conditions appear to be compelling builders to offer incentives to potential buyers. The August NAHB survey found that the share of builders offering price cuts increased, as did the share of builders offering incentives, such as rate buydowns or covering closing costs.

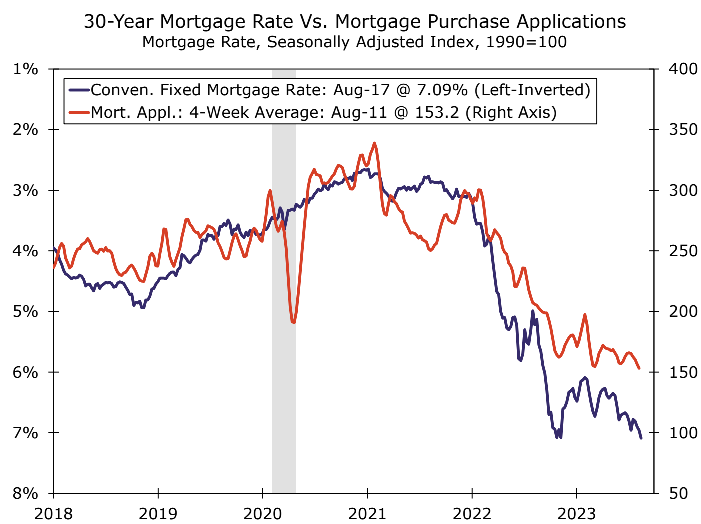
While higher mortgage rates present serious headwinds to affordability, limited supply and elevated home prices have played integral roles as well. In June, existing home sales slid 3.3% over the month. The decline brought sales to the slowest pace since January, with sales down 18.9% from a year earlier. Limited inventory has weighed on sales and kept the heat turned up on home prices. According to the National Association of Realtors (NAR), the $410,200 median existing home price was the second highest on record in over 20 years. Tight existing home availability has also propelled movement to new construction. Housing starts rose 3.9% over the month in July. As discussed in our recent report, single-family construction has excelled due to unimpressed buyers shopping in the resale market where inventory is low and prices are high.

Ultimately, high mortgage rates and the dearth of inventory present serious challenges to the housing sector. While we forecast the Fed to hold rates at 5.25%-5.50% through the end of this year and begin cutting in early 2024, the Fed has acknowledged the possibility of more hikes, which could send mortgage rates higher. Stay tuned.

(Return to Summary)



Source: Freddie Mac and Wells Fargo Economics



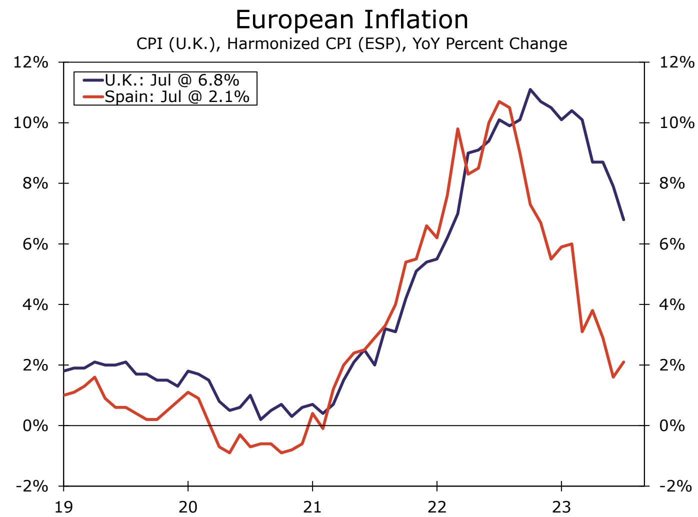
Source: Freddie Mac, Mortgage Bankers Association and Wells Fargo Economics

Topic of the Week

England vs. Spain: The Lionesses' Share of Inflation

This coming Sunday, England and Spain will face off in the Women's World Cup Final in Sydney, Australia. Both teams battled their way to the finals, with Spain punching its ticket in a 2-1 victory over Sweden and England punching its ticket in a 3-1 victory over Australia in the semifinals. Spain is the slight favorite when the two sides face off on the pitch Sunday, but England has demonstrated an impressive ability to come up big when it counts on the heels of its Euro 2022 championship. Outside of football, however, the two countries are facing different challenges in battling soaring inflation.

As many central banks across the world wrestle with the question of the future path of their tightening cycles, inflation's trajectory has become increasingly a topic of focus. Inflation has now rolled over in both Spain and England, though to different extents. Price growth began to take off in both economies in early 2021 as strained global supply chains put pressure on prices and continued as energy prices began to rise in late 2021. Year-over-year price growth in the two countries peaked in 2022 and continued to abate in the following months. The Bank of England and the European Central Bank both responded in force, with the BOE becoming the first major central bank in the world to raise its target interest rate in 2022. A bitter winter across the European continent did not materialize in late 2022 and early 2023, allowing the continent to avoid "a worst case scenario" energy crisis that would have placed additional upward pressure on price levels.



Source: U.K. Office for National Statistics, Spanish National Institute of Statistics and Wells Fargo Economics

Even with favorable weather this past winter, the U.K. is still contending with what many have deemed a "cost of living crisis." In the U.K., July's CPI came in at 6.8% year-over-year. Prices across the country are indeed being driven by many consumer essentials. Food and non-alcoholic beverages have been a major driver of inflation recently, up 14.8% on the year. Clothing and footwear, as well as healthcare costs, have also put additional pressure on households, rising 6.6% and 8.9% over the year, respectively.

Spain, on the other hand, was the first Eurozone country to initially get inflation back below target, with its June harmonized CPI print coming in at 1.6% year-over-year before increasing to 2.1% in July. Food and non-alcoholic beverages were also a major driver of inflation in Spain, coming in at 10.8% year-over-year in July. In contrast, housing costs exhibited negative price growth and pulled down the headline number, falling 14.8% over the past year. Transport costs were also deflationary, falling 5.6% over the past year. By and large, Spain's consumer prices have been reined in, due in part to price controls on housing and other necessities imposed by the Spanish government. Thus, while it may be too early to declare a resounding victory on the pitch for La Roja, they have a convincing lead on the U.K. in the fight to rein in inflation. For more analysis on the FIFA Women's World Cup, see our recent special report.

(Return to Summary)

Market Data • Mid-Day Friday

U.S. Interest Rates

	Friday 8/18/2023	1 Week Ago	1 Year Ago
SOFR	5.30	5.30	2.29
Effective Fed Funds Rate	5.33	5.33	2.33
3-Month T-Bill	5.44	5.42	2.62
1-Year Treasury	5.17	5.18	3.07
2-Year Treasury	4.91	4.89	3.20
5-Year Treasury	4.35	4.30	3.03
10-Year Treasury	4.23	4.15	2.88
30-Year Treasury	4.36	4.26	3.14
Bond Buyer Index	3.75	3.71	3.44

Foreign Exchange Rates

	Friday 8/18/2023	1 Week Ago	1 Year Ago
Euro ($/€)	1.087	1.095	1.009
British Pound ($/£)	1.274	1.270	1.193
British Pound (£/€)	0.854	0.863	0.846
Japanese Yen (¥/$)	145.140	144.960	135.890
Canadian Dollar (C$/$)	1.355	1.344	1.295
Swiss Franc (CHF/$)	0.882	0.877	0.957
Australian Dollar (US$/A$)	0.641	0.650	0.692
Mexican Peso (MXN/$)	17.062	17.008	20.119
Chinese Yuan (CNY/$)	7.281	7.240	6.786
Indian Rupee (INR/$)	83.106	82.839	79.681
Brazilian Real (BRL/$)	4.966	4.908	5.169
U.S. Dollar Index	103.383	102.842	107.484

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

Foreign Interest Rates

	Friday 8/18/2023	1 Week Ago	1 Year Ago
3-Month German Govt Bill Yield	3.58	3.50	0.07
3-Month U.K. Govt Bill Yield	5.45	5.37	1.92
3-Month Canadian Govt Bill Yield	5.14	5.07	3.01
3-Month Japanese Govt Bill Yield	-0.12	-0.11	-0.13
2-Year German Note Yield	3.06	3.04	0.74
2-Year U.K. Note Yield	5.20	5.03	2.45
2-Year Canadian Note Yield	4.75	4.67	3.39
2-Year Japanese Note Yield	0.02	0.02	-0.08
10-Year German Bond Yield	2.62	2.62	1.10
10-Year U.K. Bond Yield	4.68	4.53	2.31
10-Year Canadian Bond Yield	3.72	3.64	2.84
10-Year Japanese Bond Yield	0.64	0.58	0.20

Commodity Prices

	Friday 8/18/2023	1 Week Ago	1 Year Ago
WTI Crude ($/Barrel)	80.64	83.19	90.50
Brent Crude ($/Barrel)	84.29	86.81	96.59
Gold ($/Ounce)	1891.88	1913.76	1758.61
Hot-Rolled Steel ($/S.Ton)	807.00	806.00	790.00
Copper (¢/Pound)	369.95	371.90	363.15
Soybeans ($/Bushel)	13.95	13.90	14.73
Natural Gas ($/MMBTU)	2.56	2.77	9.19
Nickel ($/Metric Ton)	20,027	20,173	21,807
CRB Spot Inds.	552.19	558.94	609.79

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	704-410-0369	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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