

Inflation battles continue ...

A 'coming of age' for our year in review article

The epic disruptions of the COVID period ...

... cast a long shadow ...

... 2023 again focused on dealing with the inflation consequences.

A tricky policy cycle for markets.

Inflation was by no means the only theme ...

... with developments around generative AI especially eye-catching.

Our 21st 'year in review' looks back on a year that has again been dominated by the legacies of COVID. For developed economies, dealing with the nasty flare-up in inflation has continued to be front and centre for policymakers and markets.

As per tradition, we start by recapping the lead-in to 2023. The year was coming off a tumultuous start to the decade that now makes the previous decade look much more benign. Growth in the 2010s was fitful at times, with legacy issues from the GFC featuring in the first half and political uncertainty in the second but resulting in a relatively mild economic cycle overall. That gave way to an almost unprecedented period of upheaval as the COVID-19 pandemic struck. Economies convulsed as countries entered hard lockdowns in order to contain a rapidly-spreading virus that was quickly overwhelming health systems. Remarkably, over half of the world's population were in some form of lockdown by April 2020, mere months after the virus was first detected. The disruptions exacted a heavy toll through much of 2020, monetary and fiscal authorities moving to provide extraordinary support. The situation started to improve in 2021 as the emergence of effective vaccines and their mass roll-out reduced the incidence of severe illness and the pressures bearing down on health systems. But it was far from plain sailing with several large waves of virus outbreaks still seeing intermittent restrictions and disruptions to workforce availability.

A key development emerged in late-2021 that has gone on to dominate the economic situation in 2022 and 2023: a major surge in inflation. The initial flare-up came from the collision of post-pandemic disruptions and resurgent demand. Russia's invasion of Ukraine provided added an accelerant in the form of sharply higher energy prices, especially across Europe. After lifting to 5%yr in 2021, CPI inflation across the G7 hit 8%yr in mid-2022, reaching double-digit rates in several countries. Central banks scrambled to tighten policy in response, the FOMC leading the way with 425bps in hikes in just seven meetings, four of which involved super-sized 75bp moves. Most other central banks followed suit, albeit to varying degrees and with the Bank of Japan a notable exception. Needless to say, the moves made for a wild ride in financial markets, with both the speed and extent of required monetary tightening proving hard to judge.

The inflation theme remained front and centre in 2023. Thankfully though, the focus has been a little different. Rather than sizing the scale of the surge and the policy tightening it would require, the key questions have been more about the speed at which inflation would subside and how much impact inflation and policy tightening would have on wider economies. As we head into year-end, inflation has dropped to around 3% in the US and most other G7 economies. Growth-wise, slowdowns are evident but relatively soft landings still look achievable.

The uncertain inflation and policy path has made financial markets jumpy at times. Ostensibly good news has been difficult to parse, with signs of economic resilience in particular often seen as a 'double-edged sword' that would also see high inflation persist for longer. This was most evident in September-October when markets briefly toyed with the idea of a 'no landing' in the US. This, coupled with an upsized issuance profile for US Federal debt sent 10yr bond yields surging to 5%, a move that has still only been partially unwound. Earlier on in the year we saw the other extreme, a 'mini-bank-run' set off by the Silicon Valley Bank failure in the US, leading markets to price in a rapid series of rate cuts. In the end, the year has walked a 'middle line' with central banks delivering a little more tightening than the market had anticipated at the start of 2023, but an expected pivot to a 2024 easing in the US still intact. In currencies, that pivot already looks to be playing out as a clear multi-year peak in the USD cycle.

It should be noted that these themes did not apply everywhere in the same way. In China for example, deflation rather than inflation has been the story of 2023, with a later and slower exit from COVID and challenges in its property sector a much bigger issue. In the backdrop, trade and technology tensions continue to hang over US-China relations. Despite some tentative signs of a diplomatic thaw – China's Xi visiting the US for the first time in six years – these issues look set to come back to the fore next year with a US Presidential election due in November 2024.

Our 'calendar of events' table highlights many other notable developments this year. Geopolitically, the war that erupted between Israel and Hamas in October is most notable, with a wider regional conflict still posing a threat. On the environment, it has been another confronting year with global temperatures taking out new records, much of North America, East Asia and Europe also hit by extreme wildfires. More positively on this front, global investment in renewable energy hit a new record in the first half of the year, hitting an annualised pace of over US\$700bn, the mammoth *Inflation Reduction Act* starting to spur activity in the US but China still clearly leading the way.

Thematically, the other major development this year looks to have been around AI. Indeed, 2023 may go down as a watershed year for generative AI. After launching in November 2022, OpenAI's ChatGPT now reportedly has over 180 million users that are collectively making over 1.7 billion visits a month to the site. How this plays out may ultimately be much more important than the ebb and flow of inflation and interest rates.

Matthew Hassan, Senior Economist, with contributions from the global team

... but war looks to have turned without too many casualties

January	February	March
<p>Croatia changes from kuna to euro, becoming the 20th member of the eurozone</p> <p>NZ PM Jacinda Ardern steps down, Chris Hipkins takes office</p> <p>Canada bans foreign buying of housing</p> <p>US Congress elects McCarthy as speaker after 15 votes; US hits debt ceiling</p> <p>Bolsonaro supporters storm National Congress in Brazil</p> <p>China reopens borders to travel</p> <p>Sweden's LKAB discovers largest known deposit of rare-earth elements</p> <p>China records first population fall since 1960</p> <p>Japanese inflation hits 4%, a 42yr high</p>	<p>RBA, US FOMC raise rates by 25bps; ECB, BoE and RBNZ raise rates by 50bps</p> <p>US downs alleged Chinese spy balloons</p> <p>EU bans new ICE vehicle sales from 2035</p> <p>Russia suspends participation in New START nuclear arms reduction treaty with US</p> <p>UK and EU agree to modified Northern Ireland Protocol</p> <p>ANSTO finds caesium-137 capsule lost in WA</p> <p>Cyclone Gabrielle hits NZ's North Island</p> <p>AUD/USD hits 0.715, ASX200 hits 7558, both highs for the year.</p> <p>Gold falls to US\$1819/oz, the low for 2023</p>	<p>RBA, US FOMC and BE raise rates by 25bps, ECB raises rates by 50bps</p> <p>Silicon Valley and Signature Bank collapses</p> <p>UBS buyout of struggling Credit Suisse</p> <p>France lifts pension age from 62 to 64 amid protests and strikes</p> <p>'einstein' tile discovered - a single shape that can tile the plane aperiodically</p> <p>OpenAI launches GPT-4</p> <p>IPCC completes Sixth Assessment Report</p> <p>Brazil and China agree to trade in their own currencies instead of USD</p> <p>RBA Review released</p>
April	May	June
<p>RBNZ raises rates by 50bps</p> <p>Finland becomes 31st member of NATO</p> <p>Germany shuts its last nuclear power plant</p> <p>Fox News pays US\$787mn settlement in Dominion Voting Systems defamation case</p> <p>Tucker Carlson leaves Fox News</p> <p>US Congress raises debt ceiling by \$1.5trn</p> <p>SpaceX launches Starship, the largest and most powerful launch vehicle to ever fly</p> <p>Twitter rebranded as X</p> <p>US 10yr bond yield down to 3.31%, Aus 10yr bond yield down to 3.19%, both 2023 lows</p>	<p>US FOMC, ECB, BoE, RBA and RBNZ raises rates by 25bps</p> <p>First Republic fails, becoming second largest bank failure in US history</p> <p>WHO ends its declaration of COVID-19 being a global health emergency</p> <p>Germany records technical recession</p> <p>Coronation of King Charles III</p> <p>US FDA approves Neuralink's first-in-human clinical study of brain implants</p> <p>AI creates antibiotic capable of treating WHO-identified 'critical threat' superbug</p> <p>China's first domestically-built passenger jet completes first commercial flight</p> <p>iron ore hits low of US\$97.30/t</p>	<p>RBA, ECB, BoC raise rates by 25bps, BoE raises rates by 50bps</p> <p>Canadian wildfires intensify, becoming the biggest recorded in North America</p> <p>Scientists report creation of first synthetic human embryo from stem cells</p> <p><i>Titan</i> submersible implodes near <i>Titanic</i></p> <p>UN adopts High Seas Treaty aimed at protecting 30% of world's oceans by 2030</p> <p>Prigozhin-led Wagner group attacks Russia</p> <p>US debt ceiling raised</p> <p>NASA's JWST detects methyl cation carbon compound Orion nebula</p> <p>India passes China as most populous nation</p> <p>NZ records shallow technical recession</p>
July	August	September
<p>US FOMC raises rates by 25bps</p> <p>NZ signs FTA with EU</p> <p>'Barbenheimer' clash of blockbuster movies (Barbie 'wins', grossing >\$1.4bn globally)</p> <p>New global temperature records set for oceans and monthly avg surface air</p> <p>Wildfires rage across Greece, Italy & Hawaii</p> <p>Wagner Group leader Prigozhin killed</p> <p>Australia retains Ashes series with 2-2 draw</p> <p>US declares the complete destruction of its chemical weapons stockpile</p> <p>Victoria withdraws as host of 2026 Commonwealth Games due to rising costs</p> <p>US DXY briefly dips below 100</p>	<p>ECB, BoE raise rates by 25bps</p> <p>Spain wins FIFA Women's World Cup</p> <p>Fitch downgrades US credit rating to AA+</p> <p>India's Chandrayaan-3 becomes 1st spacecraft to land near lunar south pole</p> <p>Virgin Galactic's 1st space tourism flight</p> <p>China's Evergrande files for bankruptcy in US</p> <p>Japan begins discharging treated waste water from Fukushima Nuclear Power Plant</p> <p>Crude oil peaks at US\$94.44/bbl</p>	<p>ECB raises rates by 25bps</p> <p>Bullock takes over as RBA Governor</p> <p>Annual maximum extent of Antarctic sea ice hits record low since 1979</p> <p>China bans use of iPhones by govt officials</p> <p>Tupac murder suspect arrested</p> <p>Crude oil hits peak of US\$94.40/bbl, broad CRB index of commodities also peaks</p>
October	November	December
<p>Hamas launches surprise attacks on Israel from Gaza Strip; conflict escalates to war</p> <p>Australians vote against indigenous Voice referendum proposal</p> <p>National wins NZ election, forming coalition govt, Chris Luxon becomes PM</p> <p>Aus Q3 CPI delivers 'material upside surprise'</p> <p>Kenya's Kiptum sets new marathon record of 2:00:35</p> <p>South Africa wins Rugby World Cup</p> <p>US inflation</p> <p>US 10yr bond yield hits 5% on govt debt issuance, stronger than expected</p> <p>US GDP</p>	<p>RBA raises rates by 25bps</p> <p>China's Xi Jinping visits US for first time since 2017; PM Albanese visits China, first Australian PM to visit since 2016</p> <p>Australia wins 2023 Cricket World Cup</p> <p>Brazil announces it will join OPEC+</p> <p>Crypto exchange Binance fined \$4bn for money laundering and sanctions violations;</p> <p>FTX's Bankman-Fried convicted of fraud</p> <p>Optus outage hits 10m users</p> <p>Cyber attack suspends operator of 40% of freight through Syd, Melb and Bris ports</p> <p>Altman dismissed then reappointed again as CEO of OpenAI</p>	<p>Gold hits US\$2135/oz, new all-time high.</p> <p>US inflation drops to 3.1%yr</p> <p>Year to date:</p> <p>S&P500 +19.9%; ASX +2.2%; gold +9.4%; crude oil -11.3%; nickel -44%; Bitcoin +164%; US 10yr +35bps to 4.23%; Aus 10yr +25bps to 4.30%; AUD/USD -2.3%; USD TWI +0.5%; Australian dwelling prices +10%</p>

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