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# Prices Keep Spiking

It's not just a Stateside affair
Inflation worldwide is a bear
As prices keep spiking
More central bank hiking
Is slated just 'bout everywhere

Today twas the Norwegian's turn
While ECB's Schnabel was stern
'As nothing has changed
A half point's arranged
With more ere we finally adjourn'

It seems like the market narrative is having a hard time deciding which issue is more important, inflation or recession. So, some days the discussion is about how recession is coming and central banks will halt their policy tightening thus its time to buy stocks. Of course, the other days, when inflation is the topic du jour, it seems the mindset is the central banks are going to squelch inflation with these rate hikes which will be long-term beneficial for growth so its time to buy stocks. The underlying theme, though, is clear; it's always time to buy stocks, at least according to Wall Street analysts. (Of course, they make more money that way, which is why that is always the theme.)

Turning back, though, to the two issues at hand, yesterday and today the discussion was back on the inflation track. After yesterday's surprisingly high 10.1% CPI print from the UK, this morning we saw the Eurozone CPI print at 8.9%, the highest level in the Eurozone's history. Comments from the ECB's Isabel Schnabel explained that the inflation outlook hasn't "changed fundamentally" since the last ECB meeting with the implication that another 50 basis point rate hike is coming in September. That is exactly in line with the OIS curve's pricing, so merely serves as confirmation. At the same time, the Norgesbank raised its Deposit Rate to 1.75%, a 50bp hike as expected, although that remains far below that country's 6.8% inflation rate.

Perhaps this is a good time to highlight the inflation situation around the world, or at least in the G20, as well as their respective current base interest rates

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| Country | Inflation | Interest Rate | Real Rate |
| --- | --- | --- | --- |
| Japan | 2.40 | (0.10) | (2.50) |
| China | 2.70 | 3.70 | 1.00 |
| Saudi Arabia | 2.70 | 3.00 | 0.30 |
| Switzerland | 3.40 | (0.25) | (3.65) |
| Indonesia | 4.94 | 3.50 | (1.44) |
| Australia | 6.10 | 1.85 | (4.25) |
| France | 6.10 | 0.50 | (5.60) |
| South Korea | 6.30 | 2.25 | (4.05) |
| Singapore | 6.70 | 1.56 | (5.14) |
| India | 6.71 | 5.40 | (1.31) |
| South Africa | 7.40 | 5.50 | (1.90) |
| Germany | 7.50 | 0.50 | (7.00) |
| Canada | 7.60 | 2.50 | (5.10) |
| Italy | 7.90 | 0.50 | (7.40) |
| Mexico | 8.15 | 8.50 | 0.35 |
| United States | 8.50 | 2.50 | (6.00) |
| Euro Area | 8.90 | 0.50 | (8.40) |
| Brazil | 10.07 | 13.75 | 3.68 |
| United Kingdom | 10.10 | 1.75 | (8.35) |
| Netherlands | 10.30 | 0.50 | (9.80) |
| Spain | 10.80 | 0.50 | (10.30) |
| Russia | 15.10 | 8.00 | (7.10) |
| Argentina | 71.00 | 69.50 | (1.50) |
| Turkey | 79.60 | 14.00 | (65.60) |

Source: Tradingeconomics.com

I think this table highlights just how remarkably easy monetary policy continues to be virtually around the world. There are only four nations within the G20 that have positive real interest rates; Brazil, Mexico, Saudi Arabia and China, with the rest of the bloc still claiming they are fighting inflation while dragging their feet.

Even if inflation has peaked in some of these countries, although the evidence for that remains sketchy at best, the idea that it will fall so dramatically as to raise real interest rates close to zero, let alone positive, seems highly unrealistic. And if real interest rates remain deeply negative, there is no reason to believe that inflation will ebb. Perhaps there is no greater irony than the fact that the G10 nation with the highest real interest rate is Japan at -2.5%, while there are eight emerging market nations, those countries which are routinely chastised for policy failures, who are addressing the scourge of inflation more seriously. In fact, it is European nations that dominate the list when observing the most deeply negative real interest rates. It seems like the ECB should be considering 100bp rate hikes if they truly plan on addressing inflation. As if!

Before moving on to the day's activities, which in truth have not been that exciting, a quick word on the FOMC Minutes, which, true to form, repeated everything said at the press conference and were quickly seen as dovish. While I don't understand why the clearly obvious statement that they will reduce the pace of rate increases at some point in the future is seen as dovish (after all, there was never any belief they would raise rates forever), that continues to be highlighted as

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proof that a pivot is coming. Of more interest (at least to me) was the difference in their description of potential policy errors, either tightening too much or not enough. [emphasis added]

*"Participants judged that a **significant** risk facing the Committee was that elevated inflation could become entrenched if the public began to question the Committee's resolve to adjust the stance of policy sufficiently."* Compare this to, "…*there was also a risk that the Committee could tighten the stance of policy by more than necessary to restore price stability*." This could certainly be read as they are far more willing to err on the side of too tight than not tight enough. And that does not bode well for a pivot in early 2023.

OK, let's recap how markets behaved overnight. After the weak US equity performance, Asia fell as well (Nikkei -1.0%, Hang Seng -0.8%, Shanghai -0.5%) but Europe seems to think high inflation is a good thing, or perhaps high energy prices because most markets there are higher this morning (DAX +0.7%, CAC +0.4%, FTSE 100 0.0%). I am hard pressed to find positive news, but perhaps the fact that Schnabel didn't start talking about 75bps was enough to encourage investors. As to US futures, at this hour (7:20am) they are higher by a modest 0.1%.

Treasury yields are lower by 3.3bps this morning although catalysts are not clear here. Yesterday's Retail Sales data was basically on target, but perhaps this is the inherent dovishness of the Minutes. European government bonds, meanwhile, are all selling off slightly, with yields edging higher (Bunds +1.4bps, OATs +0.9bps, Gilts +0.7bps) as there are still concerns that central banks there will not be able to tackle inflation successfully.

Oil prices (+1.1%) are continuing their rebound after both EIA and OPEC forecasts indicated a tightening of supply in the oil market for 2023. NatGas (+0.4% in the US, +1.7% in Europe) continues to rise as Europeans scramble to fill their reserves as quickly as possible before the weather turns colder. Surprisingly, gold (+0.5%) is rallying despite the dollar's modest strength while copper (+1.3%), too, is firmer this morning.

Versus its G10 counterparts, the dollar is mixed this morning with NOK (+0.4%) leading the way higher on the back of both oil's rally and the Norgesbank rate hike. AUD (+0.25%) is next in line after a decline in the Unemployment Rate there to 3.4%. However, the full employment situation was far less clear with job losses and a lower participation rate adding to the mix. On the downside, SEK (-0.25%) is the G10 laggard, although there are no stories here of note. EMG currencies are mostly softer led by KRW (-0.8%) responding to concerns over weakening chip demand and TRY (-0.7%) which just **cut** their base rate by 100bps, as President Erdogan's monetary policy remains a mystery to one and all. However, there is weakness throughout the bloc, albeit not as significant as those two, and this continues to look like a broad-based dollar move rather than anything necessarily to do with a particular country.

On the data front today, Initial (exp 264K) and Continuing (1455K) Claims lead us off alongside Philly Fed (-5.0). The latter will be carefully watched after Monday's disastrous Empire Manufacturing print. Then at 10:00 we get Existing Home Sales (4.87M) and Leading Indicators (-0.5%) with both of these indicators trending lower over the past 6 months and definitely calling into question any economic strength.

Two Fed speakers are on tap this afternoon, KC's Esther George and Minneapolis's Neel Kashkari, both of whom have been calling for more action by the Fed. However, the market does

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not seem willing to take these comments to heart and are clearly waiting for Chairman Powell next week in Jackson Hole.

It feels very much like we are going to continue to bide our time at current levels until Powell gives the signal of either more tightening than priced, or the market has it right. Add this to the fact it is late August, when many trading staffs are quite light due to vacations, and I think the ranges continue for now.

Good luck and stay safe
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